POLICY BRIEF

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DEVELOPMENT REIMAGINED

FINANCING AFRICA'S FUTURE: THE UNTAPPED POTENTIAL OF NON-TRADITIONAL BONDS

1. Introduction

Africa's growth and development is currently anchored on two key frameworks: the United Nations Sustainable Development Goals (SDGs) and the African Union's Agenda 2063, designed to foster inclusive growth and development through the structural transformation of African economies. In this context, finance remains a major constraint to their achievement as the need for substantial investments in infrastructure, human capital, and climate change mitigation and adaptation far outstrips available resources. According to the United Nations Conference on Trade and Development (UNCTAD), developing countries face an annual investment gap of US$4 trillion to achieve the SDGs, with a significant portion of that gap concentrated on the African continent. The African Development Bank (AfDB) estimates that Africa requires approximately US$170 billion annually for infrastructure development, with an estimated financing gap between US$68 to US$108 billion a year.

Traditional sources of funding, such as Official Development Assistance (ODA) and traditional debt instruments, are often insufficient, unpredictable, and come with strict conditions, including high interest rates and structural adjustment programs that hinder long-term development. For instance, traditional Eurobonds, predominantly USD or EUR denominated, once a lifeline, now expose sovereign issuers to heightened currency risk and fluctuating yields that can destabilize public finance management, amplified by international credit rating agencies.

A case in point is South Africa's 2024 international bond issuance that raised US$3.5 billion across two tranches – a 12-year bond at 7.1% and a 30-year bond at 7.95%. Other traditional funding mechanisms – such as bilateral aid or concessional funds from the World Bank - are often tied to specific projects or sectors, limiting the flexibility of African governments to allocate resources according to their national priorities.

Yet, there are strong investor demands. In fact, recent Eurobond issuances by African countries such as Benin and Cote D'Ivoire have been oversubscribed by up to six times, signaling a robust appetite for African sovereign debt among global investors. This reality, therefore, compels African countries to explore alternative financing sources to mobilize more resources and diversify debt risk. According to the African Development Bank (AfDB), innovative finance can potentially unlock US$169.4 billion, which represents 42% of the estimated annual structural transformation financing gap of US$402.2 billion required for the continent's development needs through 2030.

This policy brief introduces five alternative instruments as practical and often relatively more concessional options to diversify Africa's financial toolbox, increase finance and align with sustainable development objectives:

- **Panda Bonds** (RMB-denominated bonds issued in China)
- **Samurai Bonds** (Yen-denominated bonds issued in Japan)
- **Diaspora Bonds** (Country-specific bonds)
- **Masala Bonds** (Rupee-denominated bonds issued in India)
- **Sukuk Bonds** (Sharia-compliant)

With rising institutional interest both on the continent and abroad as well as strategic backing from multilateral development banks, these instruments offer viable, structured entry points into Chinese, Japanese, Indian, Islamic, and diaspora capital markets.

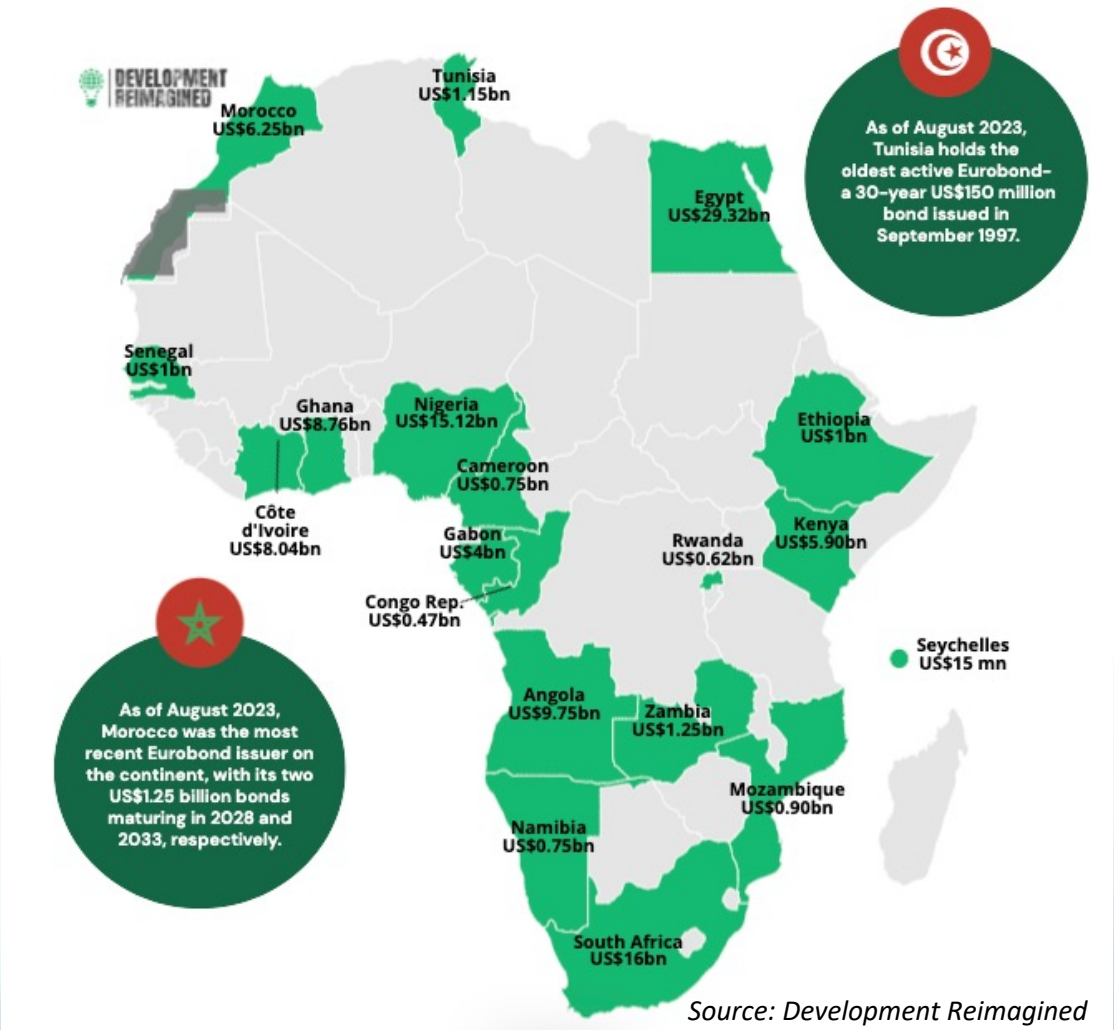
This policy brief is primarily targeted at African policy makers seeking to benchmark their bond issuance against best practices already negotiated or achieved on the continent. It also serves as a practical guide to understanding the processes for applying for innovative bonds, while offering insights that can inform future strategies for diversifying funding and supporting sustainable growth and development.

2. Context

2.1 Challenges with Eurobonds

African countries have increasingly turned to Eurobonds to finance their development, issuing over US$111 billion in face value from 1997-2023, with 19 countries issuing a total of 91 bonds. These bonds, denominated in USD or EUR, and issued in international markets, have become a vital tool in bridging the continent's annual financing gap to achieve the SDGs by 2030, which is estimated at US$1.3 trillion according to the AfDB. However, Eurobonds, a primary financing tool, present significant challenges that exacerbate debt vulnerabilities and hinder sustainable development.

Figure 1: Africa map highlighting Eurobond issuance from 1997-2023



Source: Development Reimagined

These challenges, rooted in structural and systemic issues, underscore the need for alternative financing instruments such as those mentioned above that offer better lending terms, access to new markets, and alignment with development priorities. The challenges include:

a. **High Borrowing Costs**: Due to perceived credit risks, often amplified by international credit rating agencies' conservative assessments, Africa's Eurobonds typically carry returns between 5-10% which is significantly higher than the 4-6% of other emerging markets like Argentina, costing African countries an estimated US$4.2 billion annually in higher interest payments. This pricing disparity limits fiscal space for development projects and increases debt servicing burdens.

b. **Unfair Lending Terms**: African issuers face unfavorable terms despite strong investor demand, as evidenced by oversubscribed bonds such as Kenya's 2024 Eurobond attracting US$5 billion in orders for a US$1.5 billion issue. Short maturities typically 5-10 years and high interest rates are a common characteristic, driven by bond-issuing syndicates prioritizing profits over issuer interests. Nigeria's 2017 Eurobond, for example, oversubscribed 7.8 times still carried a 7.8% return, reflecting lost opportunities to secure lower rates.

c. **Currency Risk Exposure**: As most Eurobonds are denominated in foreign currencies – USD, EUR – African issuers are exposed to significant exchange rate volatility. Currency depreciation, common in many African economies, inflates debt servicing costs in local terms, straining fiscal budgets and diverting critical funds from development countries. For instance, Ghana's Cedi depreciated by 30% against the USD from 2020 to 2023 increasing the cost of servicing it's US$3 billion Eurobond issued in 2020.

d. **Credit Rating Bias**: The "Big 3" credit rating agencies often undervalue African countries, relying on outdated methodologies and biased systemic narratives that leads to high borrowing costs. According to a United Nations Development Program (UNDP) report, subjective credit ratings have cost African countries over US$24 billion in excess interest and more than US$46 billion in forgone lending, totaling an estimated US$75 billion in losses over the life of various bonds. An example is Kenya's 2023 Eurobond buyback that was misclassified as a default by Moody's, further inflating risk premiums despite warnings from the African Peer Review Mechanism (APRM).

2.2 Overview of Innovative Financing Instruments

Innovative financing instruments refer to non-traditional debt and equity mechanisms designed to mobilize capital for development by accessing diverse investor pools, reducing borrowing costs, and aligning with specific economic or social objectives, such as the African Union's Agenda 2063.

Unlike traditional instruments, such as Eurobonds, that are issued in USD or EUR on international markets, innovative bonds are often denominated in local or regional currencies, and/or are tailored to specific investor groups. They aim to address the structural limitations of traditional financing, offering a pathway to diversify funding sources and enhance fiscal sustainability.

In Africa, the adoption of innovative financing instruments has been gaining traction. In 2025, a few countries and institutions like, Egypt, Ethiopia, Nigeria, Tunisia, Kenya, and the African Export-Import Bank (Afreximbank), have issued Panda, Samurai, Sukuk or Diaspora bonds, with **cumulative issuances under US$20 billion,** a small fraction of the US$111 billion in Eurobonds. Nevertheless, over the last few years, innovative financing instruments have started to match Eurobond issuances, as seen in Figure 2 below.

Figure 2: The Year-by-Year Comparison of Eurobond Issuance vis a vis Innovative Bonds by African Countries between 2000-2025, (US$ Bn)

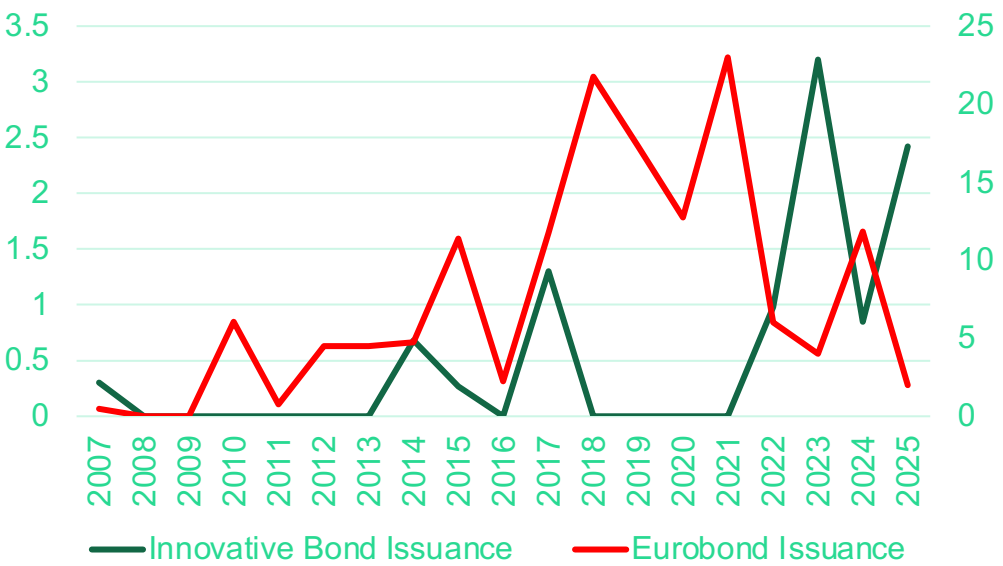
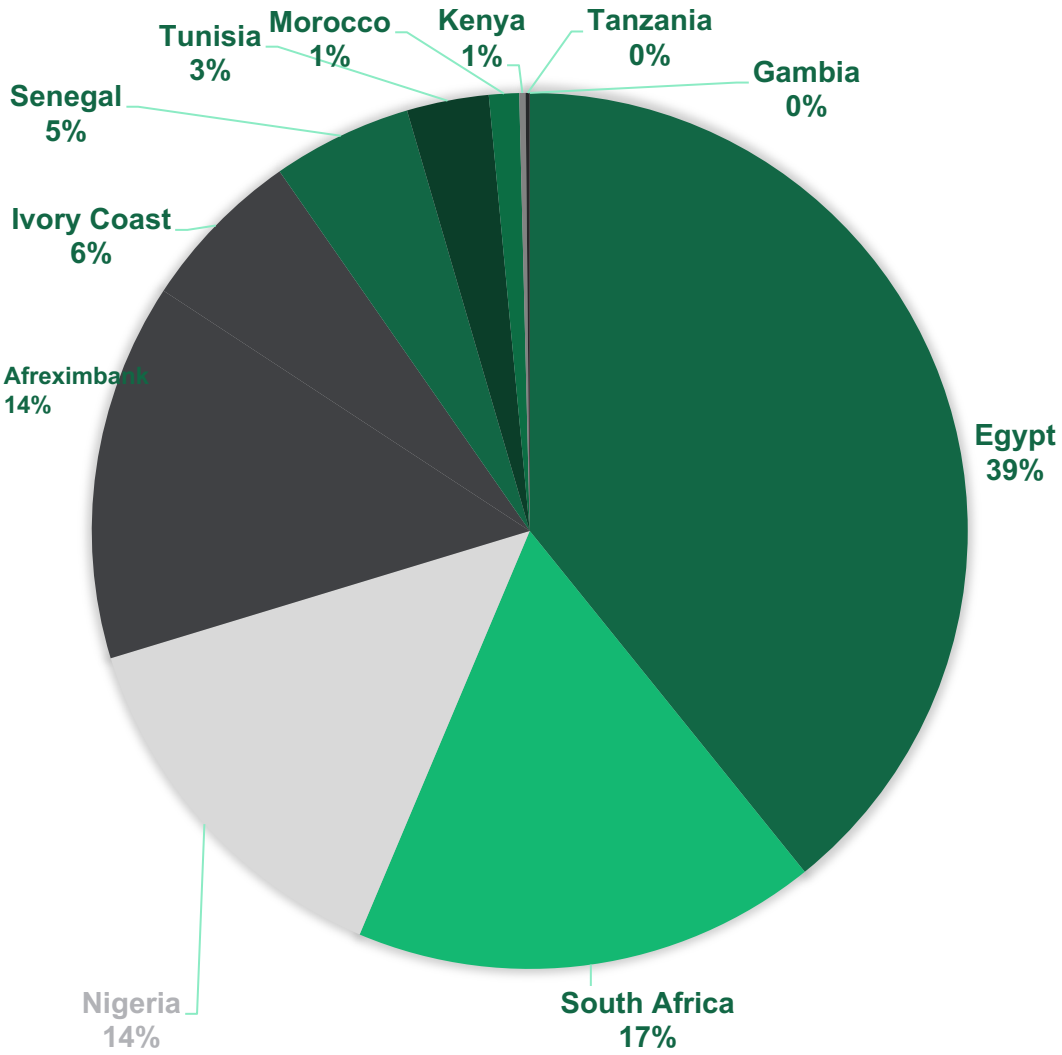


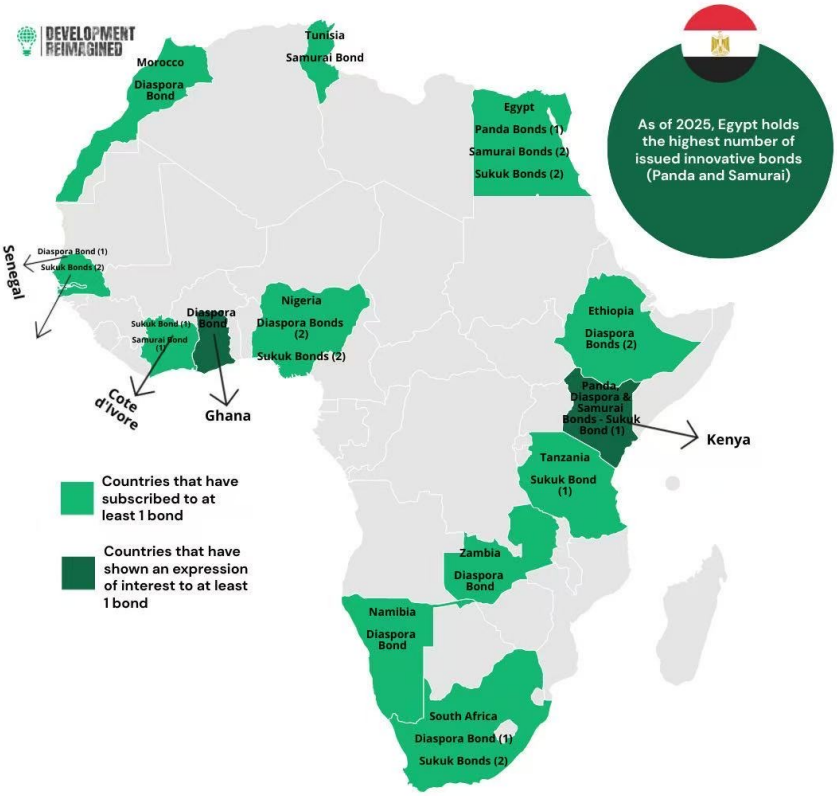
Figure 3 and 4 below illustrate the adoption of innovative instruments on the continent with Egypt leading with a US$478.7 million Panda Bond (2023) and US$1.1 billion in Samurai Bonds (2022-2023), driven by its sustainable financing framework. Afreximbank's US$1.3 billion in Panda and Samurai Bonds highlights the potential of multilateral issuance and Nigeria and Ethiopia's Diaspora Bonds show promise but face governance and regulatory hurdles.

Figure 3: The Adoption & Subscription of Innovative Finance Instruments by African Countries and Financial Institutions – Total Share



Source: Bloomberg, Development Reimagined

Figure 4: Africa Map Showcasing Bonds Distribution within the Continent



*Of the Diaspora Bonds issued by Ghana, Ethiopia, Kenya and Nigeria, only the 2017 Nigeria Diaspora Bond was fully subscribed

Source: Bloomberg, Development Reimagined

Unfortunately, only 14 out of 55 African countries have issued these bonds, reflecting slow adoption due to regulatory complexities and limited technical capacities

Nevertheless, there is still significant interest and progress. At the opening ceremony of the 9th Forum on Africa-China Cooperation (FOCAC) in 2024, China's President Xi Jinping pledged, "China will encourage and support Africa in issuing Panda bonds to enhance its results-oriented cooperation in all areas". Furthermore, during the 8th Tokyo International Conference on African Development (TICAD) in 2022, Japan announced a US$30 billion investment package for Africa over three years, combining public and private sector contributions, with US$1.5 billion already committed through the Enhanced Private Sector Assistance for Africa (EPSA5) program as of April 2024.

Compared to other bonds, Masala Bonds remain largely unexplored by African sovereigns despite their potential to diversify funding sources and mitigate currency risk. Although no African country has issued a Masala Bond yet, the instrument has gained traction in other developing regions such as Southeast Asia and Latin America. This growing demand elsewhere highlights the untapped potential for Africa, especially given the rising interest in South-South cooperation and local currency financing mechanisms. Meanwhile, countries such as Kenya are increasingly expressing interest towards Panda, Samurai and Diaspora Bonds.

As seen in the table below, there have been several positive sentiments among African policymakers emphasizing the shift towards innovative financial instruments.

Table 1: List of African policy makers and financial institutions on the shift towards innovative financial instruments

Institution/Country	What Was Said
Egypt	Pioneered the issuance of Panda bonds and advocated for more issuances on the continent as these issuances open new financing avenues and deepen economic ties with China and Japan.[1]
Egypt	Highlighted the strategic partnership with the African Development Bank (AfDB) in supporting Egypt's Panda bond issuance, focusing on promoting renewable energy and sustainable infrastructure projects, Dr. Rania A. Al-Mashat, Egypt's Minister of International Cooperation, noted that tapping into the Panda bond market helps diversify financing sources and builds upon previous efforts like the 2020 green bonds.[1]
Nigeria	Advocated for issuing a diaspora bond in the United States, aiming to tap into the financial resources of Nigerians abroad. In 2024, Central Bank Governor Olayemi Cardoso announced plans to achieve US$1 billion in monthly remittances, highlighting the eagerness of the Nigerian diaspora to invest due to the competitive value of the Naira and recent economic reforms.[2]
African Development Bank (AfDB)	AfDB's backing of Egypt's Panda bond underscores its commitment to supporting sustainable development projects and providing technical support in Africa through innovative financing instruments.[1]
Asian Infrastructure Investment Bank (AIIB)	AIIB's backing of Egypt's Panda bond underscores its commitment to supporting sustainable development projects in Africa[1] through innovative financing instruments.[3]
Africa Finance Corporation (AFC)	Acted as a re-guarantor for Egypt's Samurai bond issuance, demonstrating its role in enhancing the creditworthiness of African sovereigns in international capital markets.[4]
African Export-Import Bank (Afreximbank)	Set a precedent for African multilateral development banks to access Japanese capital markets by successfully issuing a Samurai bond, thereby diversifying funding sources for the continent.[5]
African Export-Import Bank (Afreximbank)	Chandi Mwenebungu, Afreximbank's Managing Director Treasury & Markets Group Treasurer, successfully led Afreximbank's debut in the Samurai bond market in 2024, marking the first Samurai bond offering by an African multilateral development bank, with an aim to diversify the Bank's investor base and markets. He's shown a strong commitment to engaging with Japanese investors and expanding relationships in the Samurai market.[5]

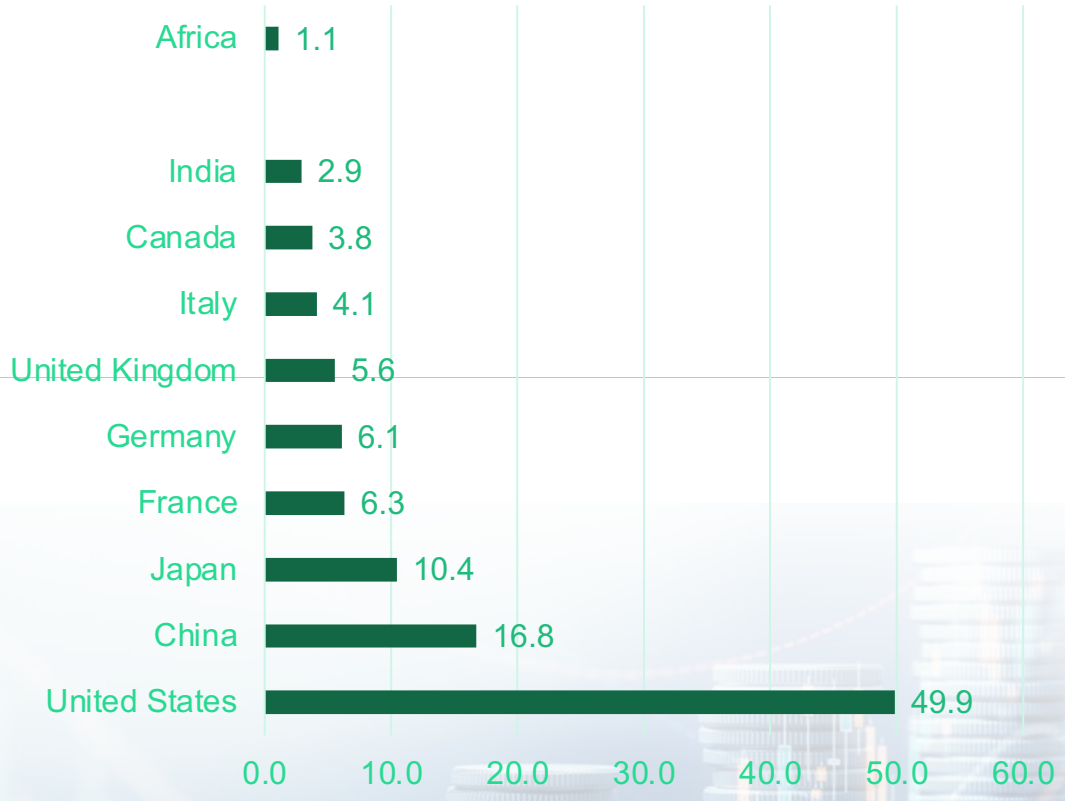
[1] African Member Countries to the AIIB include: Algeria, Benin, Cote d'Ivore, Djibouti, Egypt, Ethiopia, Ghana, Guinea, Kenya, Liberia, Libya, Madagascar,Mauritania, Morocco,Nigeria, Rwanda, Senegal, South Africa, Sudan, Tanzania, Togo, and Tunisia

Comprising less than 1% of the global bond market and valued at just over 1 trillion (see Table 2 and Figure 5 below), Africa's bond market has considerable room for growth by accessing a broad range of markets and diversifying its issuances.

Table 2: Estimated Global Bond Market Share by Region

Region	Estimated Share (%)	Notes
North America	39%	Dominated by U.S. Treasury and corporate bonds
Asia-Pacific	30%	Led by China and Japan, and the fastest-growing region
Europe	25%	Includes sovereign and corporate bonds across EU economies
Latin America	3-4%	Brazil and Chile emerging as regional leaders
Africa	<1%	Fragmented, with South Africa as regional leader

Figure 5: Estimate Values of the Global Bond Market Distribution (US$ Trillions)



Source: Reuters, World Population Review

2.3 Deep-dive Into Innovative Financing Instruments

2.3.1 Panda Bonds

Panda bonds are Yuan-denominated bonds issued by non-Chinese entities in China's onshore bond market, primarily through the China Interbank Bond Market (CIBM) or stock exchanges in Shanghai and Shenzhen. Launched in 2005, Panda Bonds allow users to access China's vast capital market, the world's second largest, with approximately over US$16 trillion in outstanding bonds. These bonds require approval from the People's Bank of China (PBOC) and are typically issued by sovereign governments, multilateral institutions or corporations with strong credit profiles and are often backed by guarantees from institutions like the African Development Bank (AfDB) or Asian Infrastructure Investment Bank (AIIB). Importantly, issuers must also secure ratings from Chinese credit rating agencies such as China Chengxin International Credit Rating Company (CCXI), which is a prerequisite for accessing China's onshore bond market and helps build investor confidence.

Egypt pioneered African Panda Bond issuances in 2023, raising 3.5 billion yuan, approximately US$478.7 million, through a 3-year bond at a 3.51% interest rate. The proceeds were directed towards sustainable projects, including clean transportation and renewable energy under its Sovereign Sustainable Financing Framework. The issuance was backed by AfDB and AIIB.

In 2024, Afreximbank followed suit issuing a 3 year 2.2-billion-yuan Panda Bond, approximately US$303 million, with an interest rate of 2.99%. Facilitated by The Bank of China, the offering aimed to diversify the Bank's funding sources and tap into new pools of capital to drive economic development across Africa.

At FOCAC 2024, China pledged US$50 billion in financing and welcomed the issuance of Panda Bonds by African countries, reflecting strong Chinese investor appetite particularly for sustainable projects, "*To enhance financial market connectivity, China will deepen cooperation with Africa in local currency settlement and financial technology, and welcomes the issuance of panda bonds by African countries*." So far, a few African countries have expressed interest in Panda Bonds issuance with notable mentions like Kenya, reportedly planning to issue a US$500 million Panda Bond that will support its economic development objectives mainly through infrastructure development.

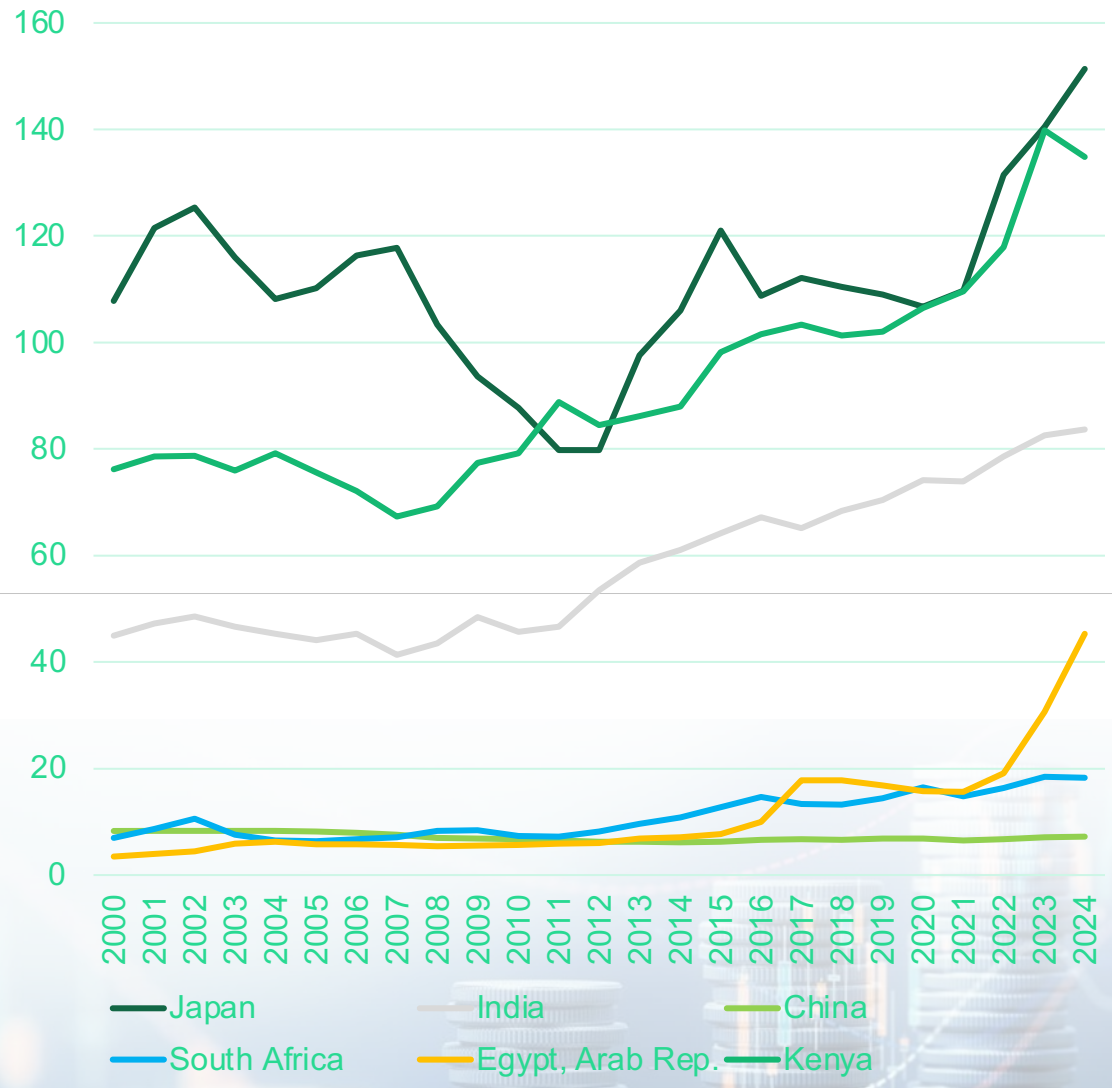
The advantages of Panda Bonds include providing African issuers with cost-effective borrowing, with interest rates typically ranging from 3-5%. This affordability enables large-scale infrastructure and climate projects aligned with the Belt and Road Initiative (BRI) and FOCAC, such as Egypt's sustainable growth initiatives, which also support broader sustainability goals in line with COP26 commitments.

2.3.1 Panda Bonds

Nevertheless, concerns about yuan volatility should be contextualized. Historical data shows that the yuan has been relatively more stable against the U.S. dollar compared to many African currencies such as The South African Rand, Egyptian Pound and Kenyan Shilling etc, which have experienced steep depreciations.

This relative stability is an advantage, as it reduces repayment uncertainty. Even if the yuan's movements differ in cadence from the dollar, its inclusion in Africa's debt portfolio provides diversification benefits, helping countries spread currency risk across multiple reserve currencies. See **figure 6** below:

Figure 6: Official Exchange Rate (Local Currency Unit (LCU) per US$, Period Average Over Time (2000-2024)



Source: The World Bank

Panda Bonds are increasingly vital for Africa due to China's prominent role as a financier with China lending over US$182 billion to the continent between 2000 - 2023 and US$50 billion pledged at the 9th FOCAC in 2024, offering a low-cost alternative to Eurobonds for infrastructure, trade, and climate financing.

The comparative low rates enable countries to fund microenterprises and renewable energy projects, helping to bridge Africa's US$100 billion annual climate financing gap while also advancing AfCFTA's infrastructure ambitions, which are essential for boosting intra-African trade and regional integration.

Globally, the Asian Development Bank (ADB) and New Development Bank (NDB) have so far issued over US$1.2 billion Panda Bonds as of 2025, demonstrating strong growth and market maturity. By tapping into China's over $16 trillion bond market, African issuers can diversify funding, reduce exposure to Western market volatility, and strengthen Yuan-based trade, which grew by 1.5% in China-Africa transactions from 2022- 2023.

Table 3: Summary of African issuances of Panda Bonds to date

Country	Total Issuance (US$)	Year	Interest Rate	Payback Period (Years)	Primary Use	Backers
Egypt	478.7 million (3.5 billion yuan)	2022	3.51% (3-year)	3	Sustainable projects, including clean transportation and renewable energy	AfDB, AIIB
Afreximbank	303 million (2.2 billion yuan)	2024	2.99% (3-year)	3	Diversify the Bank's funding sources and tap into new pools of capital to drive economic development across Africa	The Bank of China
Kenya	500 million	Planned	Planned	Planned	Support the country's economic development objectives mainly through infrastructure development	Planned

2.3.2 Samurai Bonds

Samurai Bonds are Yen-denominated bonds issued by non-Japanese entities in Japan's approximately US$11 trillion bond market, the third largest in the world, offering some of the lowest yields globally due to Japan's stable economic environment. Introduced in 1970, the Asian Development Bank issued the first bond quoted at approximately US$38 million, allowing users to access Japan's typically low-interest-rate environment.

Sovereigns, multilaterals, and corporations can issue these bonds often with backing from Japanese institutions like Nippon Export and Investment Insurance (NEXI), or Sumitomo Mitsui Banking Corporation (SMBC). In addition, issuers are required to obtain ratings from Japanese credit rating agencies such as Rating and Investment Information, Inc. (R&I), and the Japan Credit Rating Agency (JCR) which play a central role in ensuring investor confidence and regulatory compliance.

According to Bloomberg, Tunisia was the first African country to issue a 10-year Samurai Bond in 2007 backed by Japan International Cooperation Agency (JICA) at US$300 million intended for the development of infrastructure and industry and the reduction of regional inequalities. Egypt followed suit, raising US$ 500 million (60 billion yen) in 2022 and US$498.8 million in 2023 for agricultural electricity infrastructure, backed by SMBC, NEXI and the Africa Finance Corporation (AFC). These were 5-year bonds with an interest rate of 1.5%. Afreximbank issued Samurai bonds at 67.2 billion yen (US$530 million) in 2024 across multiple tranches and a 14.1-billion-yen retail bond, additionally, with the most recent issuance of 81.8 billion yen (approx. US$527 million), in 2025, marking a milestone for African multilaterals, backed by SMBC, through Regular and Retail Samurai Bond offerings with an aim to diversify its investor base and markets.

Most recently, Ivory Coast issued it's first Samurai Bond, raising 50 billion yen (US$336 million) through a 10-year note at a 2.3% coupon with the transaction backed by the Japan Bank for International Cooperation (JBIC), that provided a partial guarantee and helped secure interest from Japanese institutional investors. The issuance carries an **ESG label**, another first by an African issuer symbolizing growing appetite for Africa-linked sustainable debt instruments.

The advantages of Samurai Bonds include access to Japan's low-interest rate environment compared to Eurobonds, which reduces debt servicing costs and frees fiscal space for development priorities. Their 1–10-year payback periods align with long-term infrastructure projects, minimizing refinancing pressure, while JBIC and NEXI guarantees enhance investor confidence, attracting risk-averse Japanese institutional investors. Additionally, the bonds offer the flexibility to diversify from Western markets thus strengthening financial sovereignty.

Over the past two decades, the Japanese yen has exhibited notable fluctuations against the US$ with periods of appreciation in the early 2000s followed by sustained depreciation after 2012, as seen in **figure 6** above. Unlike the yuan's relative stability, the yen's trajectory has been more volatile, reflecting both domestic monetary policy shifts and global financial cycles. This volatility, however, does not negate its strategic role offering diversification benefits even if the amplitude of change is greater.

Samurai Bonds are highly relevant for African countries with strong credit profiles or access to multilateral guarantees, offering a low-cost alternative to traditional debt for financing critical infrastructure, renewable energy, and social projects.

Their alignment with the Tokyo International Conference on African Development (TICAD) enhances Japan's role as a strategic partner, providing not only capital but also technical assistance for projects. This commitment is reflected in initiatives like Africa-TICAD Bond, issued by JICA to finance eligible projects across the continent. By tapping into Japan's US$11 trillion bond market, African issuers can reduce reliance on volatile Eurobond markets and mitigate exposure to geopolitics and conditionalities from IMF/World Bank financing.

Table 4: Summary of African issuances of Samurai Bonds to date

Country	Total Issuance (US$)	Year	Interest Rate	Payback Period (Years)	Primary Use	Backers
Tunisia	300 million	2007	3.51% (10-year)	10	Development of infrastructure and industry and the reduction of regional inequalities	Pana International Cooperation Agency
Egypt	500 million (60 billion yen)	2022	1.5% (5-year)	5	Agricultural electricity infrastructure	SMBC, NEXI and AFC
Egypt	498.8 million (75 billion yen)	2023	1.5% (5-year)	5	Agricultural electricity infrastructure	SMBC, NEXI and AFC
Afreximbank	456 million (67.2 billion yen)	2024	Multiple tranches	Multiple tranches	Diversify Afreximbank's investor base and markets	SMBC

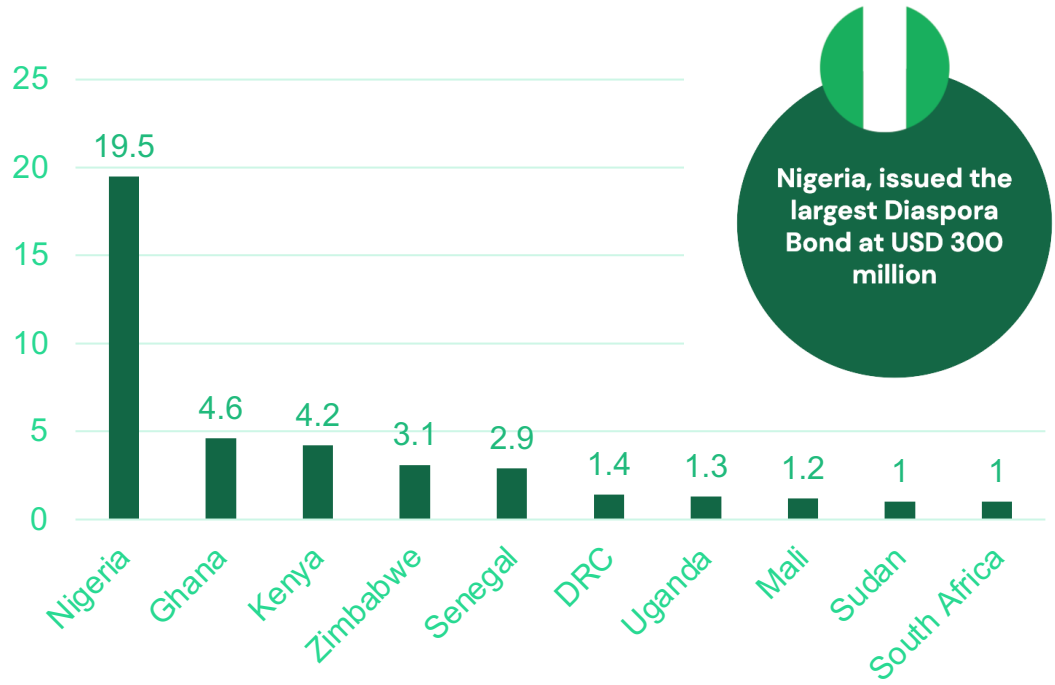
Continued Table 4: Summary of African issuances of Samurai Bonds to date

Country	Total Issuance (US$)	Year	Interest Rate	Payback Period (Years)	Primary Use	Backers
Afreximbank	95 million (14.1 billion yen)	2024	Multiple tranches	Multiple tranches	Retail bond	SMBC
Afreximbank	527 million (81.8 billion yen)	2025	Multiple tranches	Multiple tranches	Regular and Retail bond	SMBC
Ivory Coast	336 million (50 billion yen)	2025	2.3% (10-year)	10	ESG label	Japan Bank for International Cooperation

2.3.3 Diaspora Bonds

Diaspora bonds are debt instruments issued by governments to their diaspora communities, typically in USD, EUR or local currencies, to fund development projects such as infrastructure, energy, and social projects aligning with national priorities and the SDGs by leveraging patriotic sentiments. With over 40 million Africans living abroad, contributing US$95 billion in remittances as of 2024, these bonds tap into a significant funding pool for various projects. Converting remittances, often used as consumption, into productive capital is transformative especially for countries like Nigeria which receives US$19.5 billion in remittances in 2023.

Figure 7: The Top Remittance Recipients in Africa, 2023 (US$ Billion)



Source: The World Bank

Unlike Samurai and Panda Bonds, diaspora bonds require no international market access, making them viable for countries with weaker credit ratings. Success depends on trust, transparency, and governance to counter risks of mismanagement, with robust marketing to engage diaspora communities. These bonds channel remittances into productive investments, enhancing economic resilience.

Nigeria issued a US$300 million Diaspora Bond in 2017, fully subscribed, targeting infrastructure and aiming for US$1 billion monthly remittances by 2025 according to Central Bank Governor Olayemi Cardoso. Ethiopia, on the other hand, issued two bonds, the Millenium Corporate Bond in 2008 used to raise funds for the Ethiopian Electric Power Corporation with a 4-5% interest rate, and the Grand Ethiopian Renaissance Dam Bond in 2011 with a floating interest rate, although it faced challenges due to political instability and the Securities and Exchange Commission's (SEC) regulatory issues.

Ghana has also expressed interest, in addition to Cape Verde and Kenya. According to Bloomberg data, several African countries have issued Diaspora Bonds between 2016 to 2024, namely Egypt, Eswatini, Namibia, South Africa, and Tunisia. In addition, several African countries such as Morocco, Namibia, Nigeria, Senegal, and Zambia have issued sovereign bonds on international markets, open to all investors including the diaspora community, with 10-year maturities between the periods of 2010-2012. While not formally branded as "Diaspora Bonds," their open structure allowed African nationals abroad to participate. Each country conducted multiple issuances during these periods, often targeting infrastructure, budget support or refinancing needs.

Diaspora Bonds leverage patriotic appeal, offering below-market rates (2-5% on average) that reduce borrowing costs, making them a cost-effective tool for African countries facing high Eurobond yields. Their stability stems from diaspora investor's loyalty which is less likely to divest during crises, unlike volatile international investors. Their accessibility requires no investment-grade rating and suits countries with weaker credit profiles.

Nevertheless, trust deficits from corruption or mismanagement, as seen in Ethiopia's GERD bond subscription, deter participation, necessitating transparent governance. Furthermore, marketing i.e., via fintech platforms, is resource-intensive, and local currency bonds expose investors to depreciation risks while USD bonds increase insurer risk.

Table 5: Summary of African countries issuances of Diaspora Bonds to date

Country	Total Issuance (US $)	Year	Interest Rate	Payback Period (Years)	Primary Use	Source
Nigeria	300 million	2017	SUD 1 billion monthly remittances by 2025	Multiple tranches	Infrastructure development	Nigerian Investment Promotion Commission (NIPC)
Ethiopia	Amount unknown	2008	Fixed, 4%, 4.5%, and 5% depending on tenor	5, 7, and 10 years	Millenium Corporate Bond, Limited to Ethiopians with access to foreign exchange	AfDB
Ethiopia	Amount unknown but project cost US $4.8 billion	2011	Floating: 5y: Libor +1.25% 6-7y: Libor +1.5% 8-10y: Libor + 2%	5-10 years	Grand Ethiopian Renaissance Dam Bond, Infrastructure development	AfDB

2.3.4 Masala Bonds

Masala bonds are Indian rupee (INR) - denominated bonds issued by non-Indian entities in offshore markets primarily through India's International Financial Services Centre (IFSC) and settled in USD to mitigate currency risk for investors. Launched in 2014 by the International Finance Corporation (IFC), Masala Bonds tap into India's US$2.9 trillion bond market, attracting mutual funds, banks, and high-net worth individuals, whilst green Masala bonds align with Africa's climate financing needs.

The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI), regulate Masala Bonds, ensuring compliance with international standards. Returns typically range from 6-7%, competitive with Eurobonds, but with an advantage of INR denomination, which aligns India's stable currency and growing economic ties with Africa, with India emerging as one of the top five investors in Africa in recent years, with cumulative investments on the continent amounting to around US$74 billion.

As seen in **Figure 6** above, the Indian rupee over the past two decades has experienced a steady and pronounced depreciation against the US$, reflecting both structural trade imbalances and external shocks. This trend highlights the rupee's potential role in diversification.

Sovereign issuances are rare due to limited familiarity with Indian markets, securities and SEBI regulations, and higher yields compared to Samurai, Panda or Diaspora bonds.

As of today, no African country has successfully issued Masala Bonds, but Egypt has expressed interest, and Mauritius has hosted discussions at its Stock Exchange, indicating potential.

Outside Africa, in 2014, the IFC in conjunction with the Indian government, issued a Masala Bond, including green Masala Bonds with an introductory issuance of US$1 billion with multiple-tranche issuances.

Expanding Masala Bonds relevance requires informing Africa finance ministries on the potential of the Indian market, streamlining SEBI regulations for foreign issuers, and promoting green Masala Bonds to tap into India's estimated US$200 billion sustainable investment pool, potentially unlocking millions for Africa's energy transition and SME growth.

2.3.5 Sukuk Bonds

Sukuk bonds are Islamic Sharia-compliant financial instruments structured to generate returns without interest. These bonds operate through asset-backed financing where issuers sell certificates to investors using proceeds to purchase tangible assets i.e., infrastructure projects. Governed by Sharia boards, Sukuk Bonds ensure ethical investments aligned with Islamic principles and thus returns are derived from tangible economic activities and not speculative debt. They typically range from 3-10 years with returns varying by country and currency, overseen by national regulators and Sharia boards to ensure compliance. Its investor base includes Islamic banks, pension funds, retail investors, and Gulf-based institutions from the Gulf Cooperation Council (GCC), attracted by stable, ethical returns.

Islamic finance ranks among the fastest-growing segments of the global financial industry, with total assets approaching US$4.9 trillion in 2023, as highlighted in LSEG's Islamic finance reports. The Sukuk bond market saw strong expansion, with global issuances surpassing US$200 billion inclusive of about US$5 billion from African markets. This momentum stems from increased sovereign issuances to support yield curves in major hubs, growing participation from non-traditional issuers, and a notable surge in green and sustainability-linked Sukuk.

Sukuk Bonds have continuously expanded into non-traditional markets, specifically in Africa, with countries such as Egypt that issued the country's debut sovereign Sukuk in 2023, raising US$1.5 billion at an 11% return with a demand of over US$5.35 billion. Kenya launched its first Sukuk, the Linzi Sukuk, in 2024 raising KES 3 billion (approximately US$23 million), with proceeds earmarked for funding the development of 3,069 institutional housing units aligning with the government's transformative agenda. Additionally, South Africa, after a nine-year hiatus, issued its second Sukuk Bond in November 2023 raising ZAR 20.4 billion (approximately US$1.1 billion) and was oversubscribed 177 times.

Increasingly, more African countries are looking towards Sukuk Bond issuances such as Ethiopia, which is looking to introduce Sukuk by instituting laws following the Ethiopian Securities Exchange (ESC) launch. Furthermore, Tanzania's introduction of Sukuk regulation in 2023 under the Capital Market and Securities (Corporate and Subnational Sukuk), Egypt's amendment of its Capital market law in 2023 to allow multiple issuance of Sukuk Bonds and Algeria's interest in launching its first Sukuk Bond aimed at financing projects and infrastructure are notable examples.

Sukuk Bonds are structured depending on the underlying contract, with the most common types being:

- **Ijara Sukuk (lease-based)**

These are the most dominant type of Sukuk Bonds in Africa due to its simplicity and alignment with Africa's infrastructure needs. Its securities represent ownership of assets that are linked to a lease contract. It's ideal for governments and institutions with tangible assets like roads etc., and its fixed-income-like-returns appeal to risk-averse investors, making it scalable for African infrastructure finance projects.

- **Salam Sukuk (forward contracts)**

These are certificates of equal value issued for the purpose of mobilizing capital towards the sale of a specific commodity to be delivered on a fixed date in the future against an immediate advanced full payment of price to the ownership of the certificate holders. Its most ideal for agricultural or commodity-based economies needing short-term liquidity.

- **Murabaha Sukuk (cost-plus financing)**

These are certificates of equal value issued for the purpose of financing the purchase of goods through a sales contract where goods are sold at a price that includes the purchase price plus margin of profit agreed upon by the parties, and the price is paid off in cash or installments, and the certificate holders become holders of the commodity. It's suitable for trade financing or working capital needs, particularly for commodity-based economies.

- **Mudaraba Sukuk (Profit-Sharing Partnership)**

These are trust certificates issued to finance projects or business activities funded with Sukuk proceeds but managed by originating entity on behalf of the Sukuk holders, and the profit generated shared between the special purpose vehicle for Sukuk holders and originating entity. It's less common in Africa due to higher risks from variable returns, however, its suitable for private-sector or SME financing where profit-sharing aligns with entrepreneurial ventures.

- **Musharaka Sukuk (Joint Venture)**

These are project/business equity financing where the certificate holders, via a special purpose vehicle, become part owner of the project while the originating entity is the other partner. It's ideal for collaborative projects involving governments and private investors.

- **Hybrid Sukuk**

These combine multiple structures to balance risk and flexibility with returns dependent on the underlying contracts. It's suitable for large-scale, multi-sector projects like urban development where diverse revenue streams reduce risk.

Ultimately, Sukuk Bonds offer African countries access to Islamic capital markets with lower returns than Eurobonds for investment-grade issuers, and their asset-backed structure ensures tangible project funding, thus enhancing investor confidence.

Table 6 below highlights the key advantages of Sukuk Bonds and the differences between Sukuk and traditional Eurobonds.

Table 6: Key Advantages and Differences between Sukuk Bonds and Eurobonds

	Sukuk Bonds	Traditional Bonds - Eurobonds
Ownership	Represents the investors' ownership interest in the underlying Sukuk asset or project, which entitles them to receive a share of the income generated	Interest-bearing debt instruments issued by a government or corporation, representing a formal obligation to repay bondholders with periodic interest and principal at maturity
Underlying asset	The asset on which it is based must be Shariah-compliant.	Used to finance any asset
Pricing	Priced according to the value of the assets backing them	Pricing is based on credit rating
Returns to investor	Returns can increase in value when the underlying assets increase in value	Returns based on fixed interest
Nature of investment	A hybrid instrument in that it combines both equity (shares in ownership of underlying asset/project) and debt features (fixed periodic payments/coupon payments)	It's a debt instrument
Share of returns	Holders are entitled to share in the revenues generated by the underlying assets as well as being entitled to share in the proceeds of the realization of the assets	The Bond holder has no legal or beneficial right over the asset constructed from the Bond proceeds

So far US$5.52 billion has been issued by nine countries in Africa, led by Egypt, Nigeria, and South Africa. Ijara Sukuk dominate due to their simple funding structures as seen in various road projects in Nigeria while the other types of Sukuk Bonds offer flexibility for SMEs, Public-Private-Partnerships and multi-sector projects. Recent issuances like those in Kenya and Nigeria show strong investor appetite.

Table 7: Summary of African countries issuances of Sukuk Bonds to date

Country	Total Issuance (US $)	Year	Interest Rate	Payback Period (Years)	Type of Sukuk Bond	Primary Use	Backers
Egypt	1.5 billion	2023	11%	3	Hybrid Sukuk	Raising funds for budget gaps	Islamic Development Bank
Egypt	1 billion	2025	7.8%	3	Ijara Sukuk	Reduce issuance costs	Kuwait Finance House (KFH) via private placement
Nigeria	893 million	2017-2013	14.75 %	7	Ijara Sukuk	Road and bridge projects starting with 100 billion Naira in 2017	Debt Management Office
Nigeria	190 million	2025	19.75 %	Multiple tranches	Ijara Sukuk	Oversubscribed by seven times indicating high demand – leased road assets to the government	Debt Management Office
South Africa	500 million	2014	5%	Multiple tranches	Ijara Sukuk	Four times oversubscribed	National Treasury

Continued: Table 7: Summary of African countries issuances of Sukuk Bonds to date

Country	Total Issuance (US $)	Year	Interest Rate	Payback Period (Years)	Type of Sukuk Bond	Primary Use	Backers
Senegal	178 million (100 billion CFA Franc)	2014	6.25%	5	Ijara Sukuk	Infrastructure development	Islamic Corporation for the Development of the Private Sector
Senegal	333 million (200 billion)	2025	6%	4	Ijara Sukuk	Infrastructure development	Islamic Corporation for the Development of the Private Sector
Tanzania	15 million	2025	12%	Multiple tranches	Mudaraba Sukuk	Promote inclusive financial access and accelerate investment in ethical and socially responsible enterprises across Tanzania and the broader East African region.	British International Investment (BII)
Kenya	23 million	2025	11.13%	15	Ijara Sukuk	funding the development of 3069 institutional housing units aligning with the government's transformative agenda	The Capital Markets Authority

Continued: Table 7: Summary of African countries issuances of Sukuk Bonds to date

Country	Total Issuance (US $)	Year	Interest Rate	Payback Period (Years)	Type of Sukuk Bond	Primary Use	Backers
Ivory Coast	267 million (150 billion CFA Franc)	2015	5-year	5	Murabaha Sukuk	Infrastructure development	Islamic Corporation for the Development of the Private Sector
Gambia	73,529.5	2024	4.71% (91-day)	91-day	Salam Sukuk	Issued local-currency short-term domestic notes	The Central Bank of Gambia
Morocco	110 million	2017	7-year	7	Ijara Sukuk	Infrastructure development	Islamic Development Bank
South Africa	1.2 billion	2023	5.75%	Multiple tranches	Musharaka Sukuk	1.77 times oversubscribed, with a social inclusion element requiring Black Business Empowerment (B-BBEE) partners	National Treasury
Morocco	Planned	2025	Planned	Planned	Planned	Planned	Islamic Development Bank
Egypt	2 billion	Planned	Planned	Planned	Planned	Boost its foreign currency reserves	Via multiple offerings

3. Key Advantages of Leveraging Innovative Bond Instruments

a. **Funding Diversification:** These instruments diversify funding away from Eurobonds, tapping into various markets such as Japan's US$10.4 trillion market, China's US$16.8 trillion market, and Africa's US$95 billion-worth remittances market, and also provide African issuers with an opportunity to diversify away from traditional international markets and mitigate external market pressures. For instance, Ghana's debt restructuring in 2022–2023 was heavily influenced by its Eurobond exposure, forcing the government to adopt austerity measures and renegotiate terms to avoid default. Similarly, Kenya's 2023 Eurobond buyback was misclassified as a default by Moody's, which triggered higher risk premiums and compelled policymakers to adjust their debt management strategy.

b. **Climate Financing Potential:** Green Samurai, Panda, Sukuk, and Masla Bonds help close Africa's US$213.4 billion estimated annual climate financing. Furthermore, India's estimated US$200 billion sustainable investment pool offers potential for Masala bonds to support renewable energy, aligning with COP26 goals. Meanwhile, China has emerged as the world's largest green bond issuer with over US$80 billion issued in 2023 alone and is actively promoting Green Panda Bonds as a reliable financing tool for Africa's energy transition and thus reflects its strategic commitment towards supporting 30 clean energy projects in Africa as pledged at the 2024 FOCAC Summit.

c. **Diaspora Wealth Utilization:** Africa's over 40-million strong diaspora and US$95 billion in global remittances provide a vast funding pool, with the issuances channeling investments into infrastructure, fostering economic stability and diaspora-government ties, with the potential to scale to billions with effective marketing.

d. **Multilateral Support:** Guarantees from institutions such as the AfDB, and AIIB enable access for lower-rated countries to scale financing for trade and infrastructure, thus attracting global investors and reducing risk.

e. **AfCFTA Synergies:** Afreximbank's suite of facilities – including the US$10 billion AfCFTA Adjustment Fund, the Pan-African Payment and Settlement System (PAPSS), and the African Collaborative Transit Guarantee Scheme – play a pivotal role in operationalizing the AfCFTA. These instruments help countries manage tariff revenue losses, streamline cross-border payments, and reduce trade-related transactions. When paired with innovative financing tools like Panda Bonds, they offer African sovereigns access to low-cost capital for infrastructure and logistic investments that are essential to unlocking AfCFTA's goal of boosting intra-African trade.

f. **Strengthening South-South Cooperation:** Masala Bonds strengthen India-Africa trade, Samura Bonds align with TICAD goals and Panda Bonds reinforce FOCAC commitments, fortifying Africa's relationship with these countries. These partnerships diversify global geopolitical alliances, reduce reliance on Western donors and enhance Africa's negotiating power.

g. **Digital Innovation:** Fintech platforms and blockchain-based securities can streamline Diaspora Bonds marketing to reach a wider audience, potentially scaling bond uptake across African countries.

h. **Economic Resilience:** Innovative instruments - Diaspora, Masala, Samurai, Sukuk, and Panda Bonds - provide African countries with stable funding, especially in times of global market volatility. For instance, Diaspora investors are less likely to divest during

crises, while Panda and Samurai Bonds offer access to deep, low-cost markets in China and Japan. Masala Bonds add currency stability making these tools key to diversifying debt portfolios and reducing reliance on unpredictable Eurobond markets.

4. Recommendations for Next Steps in Innovative Bond Issuance

Recommendation 1: Manage Currency Volatility

Currency fluctuations can impact repayment obligations for Samurai and Panda bonds, while Masala bonds may shift risks to investors. To proactively manage this, African governments can establish regional foreign exchange (FOREX) reserve pools or hedging facilities through institutions like the African Development Bank (AfDB).

A key existing tool is The Currency Exchange Fund (TCX), supported by the African Development Bank's US$25 million equity investment that provides long-term, tailor-made hedging solutions in African and other frontier currencies, helping issuers mitigate foreign exchange risks, enable local currency financing, and reduce exposure to volatility, particularly for infrastructure, public debt management, and bond-related obligations. This draws on models like the Asian Development Bank's regional currency swap arrangements.

In addition, adopting hybrid USD-local currency structures for Diaspora bonds balances risks between issuers and investors, reducing exposure to depreciation - as demonstrated in Nigeria's 2017 issuance, which helped mitigate the volatility of the Naira. These steps not only safeguard fiscal stability but also make bonds more attractive to global investors, potentially lowering overall borrowing costs.

Recommendation 2: Enhance Market Access

Regulatory requirements in Japan (FSA) and China (PBoC) often demand investment-grade ratings or guarantees, while Masala bonds involve SEBI hurdles. African governments can streamline access by forging stronger multilateral partnerships with AfDB, Asian Infrastructure Investment Bank (AIIB), and Japan Bank for International Cooperation (JBIC). Joint task forces could negotiate simplified guarantee processes, reducing costs and conditionalities, as seen in Egypt's successful Samurai and Panda bond issuances backed by JBIC and AIIB.

Regional coordination through the African Union (AU) can pool resources for collective guarantees, enabling more countries to enter these markets. This approach not only broadens financing options but also builds long-term relationships with Asian investors, fostering South-South cooperation and diversifying away from Western capital markets.

Recommendation 3: Build Investor Confidence Through Governance

Perceptions of governance risks can deter participation in Diaspora bonds and Afreximbank facilities. African governments can foster confidence by implementing independent audit committees and public financial dashboards to ensure transparent project allocation. Regular impact reports detailing job creation, GDP contributions, and project milestones can demonstrate accountability, as successfully applied in Nigeria's Diaspora bond marketing campaigns.

Drawing from Ethiopia's experience with the Grand Ethiopian Renaissance Dam (GERD) bonds, governments can engage diaspora communities through virtual town halls and fintech platforms to co-create governance frameworks.

Recommendation 4: Diversify Rating Providers

Eurobond issuance, or even guarantees related to US issuance tends to require ratings from the "Big 3" - namely Moody's, Fitch and S&P. It will remain critical for African governments and financial institutions to continue to proactively engage with these agencies in order to encourage them to improve their methodologies to remove existing biases and bring the cost of US-denominated capital down.

However, African governments should also engage with other sovereign ratings agencies, such as CCXI in China, JCR in Japan, SAR and GCR in South Africa and CARE Ratings in India not only to better understand the problematic ways in which the big 3 rate Africa, but also more directly to access bonds in other currencies such as Panda and Samurai bonds.

Finally, African governments, financial institutions (and others outside of Africa) should also seek a rating from the Mauritius-based African Credit Rating Agency (AfCRA) once it is operational, as it is slated to demonstrate the methodology for the most comprehensive and objective rating of African countries, and can therefore provide a benchmark for other agencies globally as well.

Recommendation 5: Bridge Capacity, Expertise, and Data Gaps

Limited expertise in bond structuring and data availability can delay issuances and erode investor confidence. African governments can bridge these gaps by creating a pan-African database hosted by financial institutions like AfDB or Afreximbank to track bond metrics like issuance volumes, subscription rates, and economic impacts enabling visualization, strategic planning, and evidence-based policymaking. In addition, complementing this with regional training hubs in cities like Nairobi or Lagos, offering courses on bond structuring, regulatory compliance, and risk management in partnership with institutions like the Japan International Cooperation Agency (JICA) is essential.

Egypt's expertise in Samurai and Panda bonds serves as a model for peer learning. For Diaspora bonds, affordable digital platforms e.g., mobile apps can lower marketing costs, as seen in Kenya's 2020 investment fund. These initiatives will not only cut transaction expenses but also foster a self-reliant financial ecosystem across the continent.

Recommendation 6: Scale Issuance for Broader Impact

The smaller scale of Diaspora and Masala bonds limits their contribution to Africa's development needs. To scale up, African governments should integrate bond issuances with regional priorities like AfCFTA, focusing on cross-border projects such as the Lagos-Abidjan corridor or East African railways.

Offering incentives like tax breaks for trade-focused bonds can attract investors, while blending instruments e.g., pairing Diaspora bonds with Afreximbank facilities amplifies impact. With the continent needing US$1.3 trillion annually to meet the SDGs, governments can advocate for AU-led pooled issuances, as piloted in Nigeria's oversubscribed 300-billion-Naira Sukuk Bond. This approach not only addresses financing gaps but also promotes intra-African economic integration and resilience.

Annex 1: Key Comparisons Between Samurai, Panda, Masala, Diaspora, Sukuk Bonds and Eurobonds

	Masala Bonds	Panda Bonds	Samurai Bonds	Diaspora Bonds	Sukuk Bonds	Eurobonds
Currency	Indian Rupee (INR)	Chinese Renminbi (RMB)	Japanese Yen (JPY)	Typically, USD or EUR, occasionally local currency	Varies (e.g., USD or local currency)	Any currency foreign to the issuer usually USD or EUR
Issuer	Indian corporations, banks, or public sector entities	Non-Chinese entities (corporates, governments, supranationals)	Non-Japanese entities (corporates, governments, supranationals)	Governments targeting their diaspora communities	Governments, corporates, or special purpose vehicles	Any entity issuing outside their home market
Issuing market	Offshore market (e.g., London, Singapore Stock Exchanges)	Onshore mainland China e.g. (Shanghai, Shenzhen, interbank market)	Japanese domestic market	International markets targeting diaspora communities	Global or local markets	International markets
Currency risk	Borne by investors; issuers are shielded as bonds are INR-denominated	Borne by issuers; investors are shielded as bonds are RMB-denominated	Borne by issuers; investors are shielded as bonds are JPY-denominated	Varies; typically borne by issuers if in foreign currency, or investors if in local currency	Varies; investors bear risk in local-currency Sukuk or issuers in USD Sukuk	Borne by issuers, as bonds are in foreign currency
Regulatory oversight	Reserve Bank of India (RBI), plus local regulators	People's Bank of China (PBoC), China Securities Regulatory Commission (CSRC)	Japan's Ministry of Finance, Financial Services Agency (FSA)	Issuing country's central bank or securities regulator	Sharia boards, local regulators, and international standards like AAOIFI	Regulated by international market authorities and issuer's home regulator

Continued: Annex 1: Key Comparisons Between Samurai, Panda, Masala, Diaspora, Sukuk Bonds and Eurobonds

	Masala Bonds	Panda Bonds	Samurai Bonds	Diaspora Bonds	Sukuk Bonds	Eurobonds
Investor base	Foreign institutional investors (FIIs), non-resident Indians (NRIs), FATF-compliant countries	Chinese domestic investors, foreign investors via Bond Connect	Japanese domestic investors	Diaspora communities, sometimes institutional investors	Islamic investors, retail, pension funds, GCC institutions, and global ESG investors	Global institutional investors, hedge funds, banks
Maturity period	3–5 years	Typically, 3–10 years	3–20 years	Varies (e.g., 5–10 years for India's diaspora bonds)	3–10 years	1–30 years, flexible based on issuer needs
Yield	6–8%	2–5% (reflecting China's lower rates)	1–3% (reflecting Japan's low-rate environment)	Varies	6–19.75%	5–10%
Risks	Currency risk for investors (INR depreciation), regulatory restrictions	Currency risk for issuers (RMB appreciation), stringent PBoC regulations	Currency risk for issuers (JPY appreciation), strict Japanese compliance	Repatriation risk, political instability, currency risk (if local currency)	Sharia compliance risk, currency risk (local or USD), project execution risk	Currency risk for issuers, high interest rates, market volatility
Total Number of African Issuances	None	2	6		13	91

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[3] AAIB, AfDB Guarantee Africa's First Sustainable Panda Bond

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[5] Afreximbank successfully prices its inaugural Samurai bonds, raising JPY 81.3 billion (about USD 530 million equivalent) comprising JPY 67.2 billion 5 regular tranches and JPY 14.1 billion 3-year Retail Samurai ("The Transaction")

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