Benin sends message, saves costs with first African sovereign SDG bond

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In a “compelling message” to its peers, Benin this month became the first African country to issue an SDG (Sustainable Development Goals) bond, a €500m transaction that was some three years in the making and which enabled the country to achieve a large greenium.

The B1/B+ rated sovereign sold the €500m (XOF328bn) issue with a 12.5 year weighted average life on 15 July.

The groundwork for its SDG bond dates back to 2018, when Benin was one of five emerging market countries chosen to be part of an IMF-UN pilot programme under the oversight of the UNDP to assess the costs of meeting the SDGs.

“Benin has opted for SDG Bonds to support the reforms and investments necessary to ensure that our population has suitable work conditions, an adequate healthcare system, the food and clean water they need, access to clean energy (without harming the country’s ecosystem and essential resources), and equal rights and opportunities for all,” Arsène Dansou, head of the Debt Management Office, Republic of Benin *(pictured)*, told Sustainabonds.

A comprehensive SDG framework was prepared by the Republic of Benin, with a second party opinion provided by Vigéo Eiris. A new partnership was also struck with the United Nations Sustainable Development Solutions Network (SDSN) to monitor and evaluate the progress made in achieving the SDGs.

“It’s not just Benin waking up in 2021 and thinking they should be doing something sustainable,” said Aymeric Arnaud, managing director, head of CEEMEA debt capital markets, at joint bookrunner Societe Generale. “It’s been in the making for a long time, and their budget and whole governance set-up is designed for this product.

“All this required a lot of focus and commitment from the government as a whole, not just the Ministry of Finance – it’s a global effort made by the country.”

A Benin team led by senior minister in charge of Economy and Finance Romuald Wadagni held investor calls on 13 and 14 July. The €500m bond was then, on 15 July, sold via leads Citigroup, Natixis and SG at a coupon of 4.95%. According to Arnaud, this was approximately 20bp inside fair value based on Benin’s curve, with the SDG label and associated transparency contributing to the strong outcome.

“I don’t think I have ever seen a bigger greenium than that, to be honest, at least not in the recent past,” he said. “We got a nice combination of the faithful existing emerging market dedicated investor base, plus the additional momentum brought in by dedicated ESG pockets to break through the secondary curve of Benin and effectively reprice the issuer’s curve.”

Benin is only the second sovereign to issue an SDG bond, after triple-B rated Mexico, which inaugurated an SDG framework in September 2020.

“We are the first in Africa to go for an SDG bond,” said Dansou, “and to set a compelling message for the continent and our partners: that innovative debt solutions can help solve key social challenges of our country, for durable and responsible long term growth and development, through a swift achievement of the SDGs without adverse impact on debt sustainability, as the terms are better than the alternatives."

However, Arnaud cautioned that while the concept of an SDG bond is straightforward, preparation and implementation is more complex.

"These products are not designed for every country, and require a level of sophistication and transparency that right now not every frontier market is able to provide," he said. "So it's not just about willingness here; it's about ability."

Main photo: A stall of parboiled rice from the Shilo cooperative, a microcredit beneficiary. Credit: UNDP Benin