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POLICY BRIEF

LESSONS FROM THE FRONT LINES: WHAT CAN SENEGAL LEARN FROM ETHIOPIA'S EXPERIENCE IN DEBT RESTRUCTURING?*

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Key takeaways

- There are important lessons from experiences from Ethiopia that hold relevance for Senegal, including the possibility of a positive restructuring experience with creditors and the role of smart and strategic negotiation by Ethiopian leadership.
- Ethiopia's debt restructuring strategy, informed by UNDP policy advice and analytics, showed the importance of a debt sustainability analysis (DSA) involving realistic debt service to export paths, a cap on annual debt service, and a gradual fiscal adjustment to protect social sectors.
- Ethiopia reliance on a flexible currency, an independent central bank, diversification of fundings from domestic bond financing and Gulf countries, can be a rationale for Senegal to seek greater monetary sovereignty and ability to manage shocks and stimulate growth.
- Senegal's borrowing from the regional West African Monetary Union (WAMU) financial market borrowing may be costly and not sustainable in the long run.

Introduction

It is important to take a historical perspective on Senegal's current debt challenges. After 2000, there had been considerable debt relief for African countries, including Senegal. However, in the aftermath of the COVID-19 pandemic, the debt situation of Senegal and others continued to worsen due to a combination of increased spending and decreased revenues. By the end of 2020, Senegal's debt to GDP ratio reached close to 70 percent of GDP, doubling from that a decade earlier. A combination of shocks, including the fallout of the Ukraine-Russia war, the discovery of hidden debts, and the US-Israeli war against Iran, have further exacerbated the debt situation. The recent war on Iran has significantly disrupted energy and fertilizer markets. Senegal, like many African countries, is dependent on imported fuel and fertilizer from the Middle East and other countries. The current oil price of USD 115 per barrel is inflating Senegalese import bills and weakening reserves.

Senegal's case exemplifies the challenges being faced on the continent. Many African countries are facing lost development opportunities, for a lack of proper multilateral strategies to address the debt crises they continually endure. The total external debt of sub-Saharan Africa tripled in the last two decades, reaching more than USD 1 trillion in 2025. According to the IMF, the average debt ratio in sub-Saharan Africa has almost doubled in just more than a decade—from 30 percent of GDP at the end of 2013 to almost 60 percent of GDP by end-2025.[1] Second, there are a growing number of countries with significant external debt burdens, including Senegal, Mozambique, Zambia, and Gambia (Figure 1). Third, debt servicing costs have been increasing, in part because of the heterogeneity of creditors, especially China and Eurobond holders. Eurobond issuance has expanded significantly, reaching a total of more than USD 150 billion in 2022. More than 40 percent of African debt is now owed to commercial creditors. In April 2026, research published by ONE Data showed borrowing costs from the World Bank's IBRD jumped to 5.2 percent in 2024 from 1.4 percent in 2020, and Chinese lending rates for African countries rose to 5.7 percent from 2.5 percent.[2]

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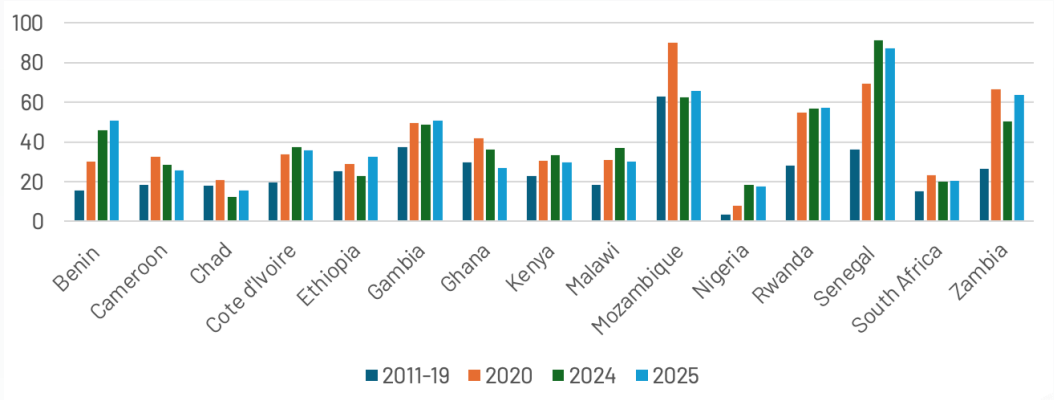
[1] IMF (2026), Africa Regional Economic Outlook (April 2026)

[2] One Data (2026), Development Finance Observatory, https://www.one.org/press/new-data-analysis-cost-of-borrowing-african-countries/

Figure 1: External Debt SSA Country (percent GDP)



Source: IMF Africa Regional Economic Outlook (April 2026)

The brief will draw some possible lessons for Senegal based on Ethiopia recent debt experience. Ethiopia is an interesting example because it successfully concluded a USD 3.4 billion deal with the IMF in 2024, and it was one of the early signatories, together with Zambia, Chad, and Ghana, of the G20 Common Framework. It concluded a Memorandum of Understanding with its Official Creditor Committee (OCC) for over USD 3.5 billion in debt relief in July 2025. This has been an important step in restoring public debt sustainability. The note draws on the author's experience as UNDP Economic Adviser, advising Government of Ethiopia on the macroeconomic and debt situation.

Lessons from the Ethiopian Experience

Ethiopia is one of the most important economies in East Africa and is Africa's second most populous country. It has had strong annual growth rates averaging more than 8 percent between 2000 and 2020, but in recent years it suffered the combined effects of economic shocks in recent years - the COVID-19 Pandemic, the Northern Ethiopia war, recurring droughts, the Ukraine crisis, and the 2026 Iran crisis. These shocks have jeopardized its macroeconomic stability and adversely impacted its human development. According to the IMF Third Review, Ethiopia's debt is assessed to be unsustainable, mainly due to protracted breaches of exports-related external debt indicators and is based on limited debt-carrying capacity. In July 2024, to support balance of payments gaps, the IMF approved a four-year Extended Credit Facility (ECF) arrangement for Ethiopia to address macroeconomic imbalances, and support Ethiopia's Homegrown Economic Reform (HGER) Agenda. See the Box in the Appendix.

The UNDP has been supporting the Government in its macroeconomic policy, its debt management strategy, and in its discussions with the international financial institutions and private creditors. Based on its analytical models, UNDP policy advice to Government of Ethiopia has been that given its debt buildup and spending needs, rapid fiscal consolidation is detrimental to the fulfilment of SDGs. Ethiopia's application to the Common Framework was filed in February 2021 and deliberations started in September 2021. However, the process for securing debt relief under this framework has been slow. Unfortunately, in many countries like Ethiopia, debt service payments have been crowding out social spending, especially in health and education sectors.

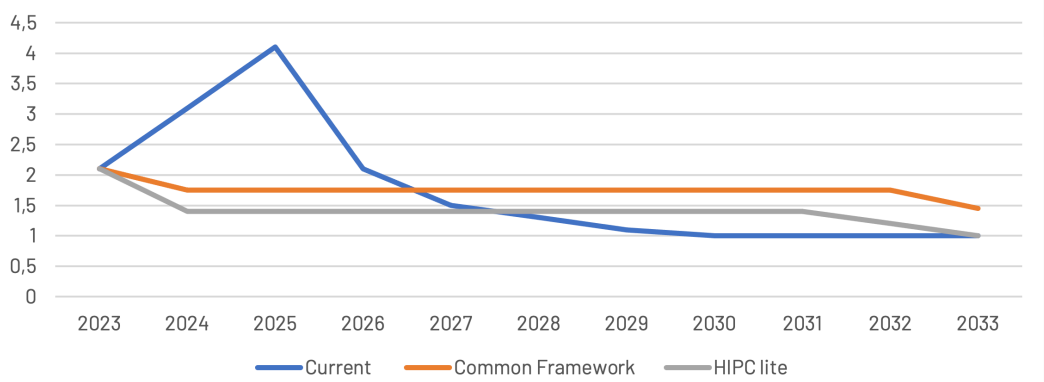
For Ethiopia, the approach developed by UNDP has been based on five parameters which are relevant to Senegal's situation and have shown to be effective in addressing the adverse distributional consequences of rapid fiscal consolidation.[3] First, it was proposed that Ethiopia and other African countries define an annual ceiling on debt service payments with ringfenced social expenditure. Second, the fiscal adjustment should be gradual and at least five years. Third, to address bunching of debt service payments from 2023-2025, the required debt relief could be between USD 3 billion and

[3] UNDP (2023) "From Debt to Development: What are Ethiopia's Choices?" UNDP Development Policy and Research Hub, Working Paper Series 3, Addis Ababa.

USD 4 billion using debt service to export ratio. Ultimately, the Government negotiated a USD 3.5 billion debt restructuring with the IMF. Fourth, the UNDP Ethiopia analysis suggested a debt haircut that could free up fiscal space for SDG investments. Finally, the analysis included a scenario-based analysis of different options, including status quo, Common Framework, and HIPC lite scenarios, as developed below (Figure 2).

According to the analysis, the three scenarios are: 1) no debt restructuring where there is no agreement between the Government of Ethiopia, the IMF and international creditors; 2) a modified Common Framework scenario where the debt service repayment is fixed at a ceiling of USD 1.75 billion per year with a payment maturity extension until 2033; and 3) a HIPC lite scenario involving a degree of principal reduction (debt haircut) and debt relief with a reduction in the total volume of debt service payments between 2024 and 2033 by 20 percent. The third scenario was cognizant of the fact that the creditor mindset has been less open to haircuts than in the past due to changing geopolitics and fiscal positions. These scenarios can be applied to other African countries such as Senegal. None of these scenarios envisaged significant new borrowing.

Figure 2: Ethiopia: Alternative Debt Service Payments under Alternative Scenarios (USD billion)



Source: UNDP (2023

Lessons for Senegal

There are several lessons to be drawn from the experience of Ethiopia for Senegal. In the absence of major reforms to the multilateral debt framework, cases will have to be settled on a case-by-case basis. There is some scope for the application of lessons from one country to another.

- First, the Ethiopia experience suggests smart negotiations with the vital importance of an alternative Debt Sustainability Analysis (DSA) to present a counter to the IMF DSA, which tends to be overly optimistic and does not incorporate climate and trade shocks. The UNDP team was able to demonstrate that with a DSA that incorporated realistic assumptions and a reliance on debt to exports (rather than debt to revenue), the debt restructuring perimeter should be between USD 3 billion and USD 4 billion, significantly higher than the initial USD 2 billion proposed by the IMF, relying on more optimistic export and growth forecasts. The final amount of debt restructuring determined at the end of negotiations was USD 3.4 billion, about USD 1.4 billion higher than the original IMF USD 2.0 billion.[4]
- Second, the UNDP Ethiopia proposal focused on protecting social expenditures and having a annual cap on debt service payments. This was designed to ensure fiscal sustainability but one that ensured the vulnerable communities were protected.

[4] UNDP (2023) "From Debt to Development: What are Ethiopia's Choices?" UNDP Development Policy and Research Hub, Working Paper Series 3, Addis Ababa. Some of the discussions were not written but orally conveyed given the sensitivity at the time of negotiations.

- Third, it is important to look at debt sustainability over a longer time horizon. The UNDP assessment was based on gradual fiscal adjustment over a more extended period up to 2033. From the UNDP perspective, it will be key to have a smoother and more gradual fiscal adjustment path for countries rather than an abrupt short-term adjustment. Fiscal austerity and consolidation will not lead to growth.
- Fourth, Ethiopia's reform happened in parallel with currency reform. An overvalued currency was replaced with a market-based one, a currency that could better manage terms-of-trade shocks and not be a disincentive to exporters. This was different from the Senegal's CFA franc, which is pegged to the euro and cannot adjust to terms of trade shocks. In this context, a reform of the CFA franc in the coming years will be important for macroeconomic stability.
- Fifth, Ethiopia has diversified its funding base and not only relied on the IMF. Following countries like Egypt and Kenya, Ethiopia has received support from the Gulf countries and also deepened its domestic bond market through its T-bill market.[5] This market has reached close to USD 2 billion in recent years, spurred by a USD 1 billion Saudi deposit prior to 2020. Since 2018, the UAE has provided close to USD 3 billion in loan and investment support, while more than 113 UAE-backed projects are currently active in Ethiopia, with an estimated value of USD 2.9 billion.[6] Senegal should actively explore diversified funding from other countries. In addition to the wide range of available bilateral and private creditors, Senegal should explore alternative financing arrangement, including Gulf nations and Asian countries, as well as deepening domestic bond markets.
- Sixth, Ethiopia's case is more about liquidity compared to Senegal, which is more about solvency. Senegal's negotiations will require greater focus on principal reductions (haircuts), long maturity extensions, and other favorable debt treatment.[7] The external debt of Senegal in 2024 was 90 percent of GDP, while that of Ethiopia was close to 23 percent of GDP. Senegal's case is more akin to insolvency given the country would need to adjust GDP by 10 percent of GDP over a short period. In addition, the undisclosed liabilities amounting to USD 7 billion have been high, the suspension of the IMF USD 1.8 billion credit facility has been a significant obstacle, and the concentration of high maturity pressures between 2026 and 2028 remains quite alarming.
- Seventh, as a cautionary note to Senegal, Ethiopia has made progress in discussions with the private creditors, but it has still been unable to solve the "comparability of treatment" case. One of the challenges of the Common Framework has been the inability to determine the proper allocation of burden-sharing among creditors.[8] In a recent note, Lazard, an advisory firm specializing in complex sovereign debt restructurings, has noted that the uncertainty surrounding the definition, perimeter, and application of the comparability of treatment within the Common Framework has been detrimental to the process.[9] The system allows one set of creditors to effectively veto another set of creditors, making it difficult for countries to reach agreement to exit default. In Ethiopia's case, the private creditors have demanded a Value Recovery Instrument (VRI) giving them a portion of future gold exports, which China and Paris Club have found excessive and unfair. Paris Club and China prefer maturity extensions, while private creditors favor immediate cash flows with the possibility of debt write downs depending on the country case.

[5] National Bank if Ethiopia (2025) Financial Stability Report, Addis Ababa, 2025.

[6] Capital News (2026). "UAE, Ethiopia deepen trade ties to protect supply chains," https://capitalethiopia.com/2026/04/19/uae-ethiopia-deepen-trade-ties-to-protect-supply-chains/

[7] It should be noted that the Senegal government has reiterated that it is confident of being able to pay the debt without resort to principal reduction. However, the concern here is on the fiscal adjustment required and the costs.

[8] The problem with the standard NPV of debt/GDP is the lack of consensus on the discount rate. The standard discount rate used by Paris Club and multilaterals is 5 percent. However, private creditors who mark to market, find a discount rate of 10 percent more realistic as it reduces their losses. One approach used by UNDP in advisory work in Ethiopia has been to use a approach based on a proportional contribution from participating creditors during the restructuring. This is based on a simulated estimation of the distribution of debt relief by creditor type to stabilize the debt service to exports ratio.

[9] Lazard (2022), How to Make Sovereign Debt Restructuring More Effective: Hold Warring Parties to a Better Standard of "Comparability," Paris, May 2022

- Eighth, the experience of Ethiopia suggests that Senegal should work towards greater monetary sovereignty over time. Ethiopia has an independent central bank and policy flexibility with a flexible exchange rate with ability to manage money supply and interest rates. It does not have many of the loans going to France (the former colonial power), and the associated political economy. Senegal is a member of the CFA franc, having a fixed peg to the euro, with limited capital controls to France and the Eurozone, a pooling of reserves, and an ambiguous convertibility guarantee from the French Treasury. In Ethiopia, the IMF ECF July 2024 report concluded that Ethiopia's reserve adequacy range would be 2 to 3 months under a flexible exchange rate regime. This is an important lesson for Senegal.
- Ninth, as Ethiopia is not a member of a monetary union, it does not have the option of borrowing from a regional debt market like Senegal. But, in Senegal's borrowing in the WAMU regional market has been very costly. In 2025, regional banks lent to Senegal over 4 trillion CFA francs (USD 6.7 billion) with marginal rates from 10 to 12 percent. It appears that to repay its debts due between 2026 and 2028, the Senegalese government will need to raise more than USD 20 billion. According to one assessment, in 2025, the government had to cover an exceptional gross financing need (high public deficit, significant amortization, and arrears) by turning to the WAMU market, syndications, and guaranteed structures (including Total Return Swaps), which now concentrates maturities between 2026 and 2028 and increases refinancing risk.[10] This reliance on over-the-counter derivative instruments, negotiated with international banks, allowing Senegal's Treasury to obtain immediate foreign currency liquidity by posting domestic debt securities as collateral, appears risky in the longer term. This makes a stronger case for monetary sovereignty for Senegal in the medium-term.

Conclusion

In an environment of geopolitical rivalries, growing trade fragmentation, and declining aid, both Senegal and Ethiopia face debt challenges. Senegal can learn from Ethiopia in terms of having negotiations capacity, achieving fiscal sustainability while protecting social spending, having a flexible currency, and tapping into domestic bond markets and Middle Eastern finance. Through policy changes and a strong strategy, Senegal can successfully escape its development impasse.

Ethiopia Chronology &Key Milestones[11]

- December 2014: Ethiopia issued a USD 1 billion sovereign bond. It represented a first-ever entry into global capital markets. Deutsche Bank and J P Morgan were actively involved. The bond was sold at a 6.6 percent yield. The maturity date was December 2024. The money was to be used to set up industrial parks and sugar factories.
- June 2015 to December 2023: The federal government has been paying interest on the sovereign bond, while interest payments are made twice a year.
- September 2021: An Official Creditor Committee (OCC) under the G20 Common Framework was formed.
- November 9, 2023: There was an agreement to suspend debt service due in 2023 and 2024.
- December 26, 2023: Ethiopia did not make $33 million interest payment on Eurobond, in large part to the Common Framework process and comparability of treatment.

[10] Kessler, Martin and Abdoulaye Ndiaye (2026), "Debt Crisis in Senegal: A Strategic Compass, Finance for Development Lab, Paris.

[11] UNDP (2022 -2026), Quarterly Economic Profile of Ethiopia), Addis Ababa, multiple issues.

- July 2024: Government agrees to USD 3.4 billion in support from IMF. There is also USD 3.5 from the World Bank, and USD 3.5 in debt restructuring.
- October 2024: The Ethiopian government made a restructuring proposal of USD 800 million to bondholders out of total of USD 1 billion. It was rejected by bondholders as insufficient. Bondholders have asked for full repayment.
- January 17, 2025: the Committee formally demanded immediate payment of the 2024 Notes, including principal and accrued but unpaid interest and costs.
- March 21, 2025: An agreement-in-principle (AIP) on the key terms for a debt treatment between the OCC and the Ethiopian authorities was reached. A Memorandum of Understanding on this debt treatment for USD 3.5 billion has been finalized.
- September 2025: Discussions between bondholders and Government of Ethiopia were conducted
- January 2025: The Ethiopian Government reached an Agreement in Principle (AIP) with the Ad Hoc Committee of private holders of its USD 1 billion 6.625 percent Eurobond maturing in 2024. Under that deal, bondholders accepted a 15 percent haircut on the principal, leaving about USD 850 million to be repaid in new bonds starting in 2026, with an upfront payment of USD 350 million expected by July this year. A value recovery instrument (VRI) was added to include a potential share of future export revenue conditional on the commodity prices.
- January 2026: Ethiopia's Official Creditor Committee (OCC) formally rejected the terms of the agreement with private Eurobond holders as violating the principle of fair burden-sharing among creditors. The Ministry of Finance indicated it cannot proceed with the restructuring under the current terms, because doing so would be inconsistent with the "Comparability of Treatment" principle that governs its debt relief with official creditors.
- April 2026: Private bondholders are reportedly considering legal action against the Ethiopian government.

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