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The African Collateral Paradox

Why Africa's Real Wealth Cannot Yet Finance Its Sovereigns ?

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ABSTRACT

Third article in the AlterFinance Sovereign Debt Series, following the June analyses of Senegal's debt crisis. Senegal is no longer in the delay regime. A thirteen-event sequence between May and September 2026 (new leadership, a unified debt-management directorate, Lazard's appointment, partial fuel-price pass-through, an active IMF mission and a Moody's downgrade to Caa2) signals a shift toward active restructuring preparation. On 1 September, a Staff-Level Agreement on a \$2.2 billion IMF facility followed: a start, not a resolution.

The TRS programme that bought time in 2025 is now contributing to the financing constraint. Protecting benchmark yields from margin calls has coincided with auction under-allotment and growing reliance on shorter-term bills.

The choice of TRS was rational given Senegal's constrained alternatives. Angola, Senegal and Nigeria have committed over \$9 billion to TRS financing since 2024 for its speed and freedom from conditionality. Limited WAEMU monetary sovereignty leaves fiscal measures as the primary mechanism for absorbing debt stress. The instrument was flawed; the financing need was real.

This exposes a broader problem. Moody's and the IMF independently converge on fiscal adjustment because their frameworks weight fiscal flows heavily, and give limited weight to African resource wealth, monetary-sovereignty constraints, and real assets as collateral: a system that values what the sovereign earns more than what it owns.

The proposed response: an African collateral architecture: AfDB intermediation, resource-backed instruments, tokenization and African-governed legal safeguards. Rwanda's 2026 transaction points toward this evolution. The next stage must be built before the next crisis sets its terms under distress.

KEY THEMES: TRS & Collateral Risk · Sovereign Credit Frameworks · African Resource Wealth · AfDB & Tokenization · Monetary Sovereignty · Restructuring Risk

I. From Delay to Preparation: Where Senegal Stands

The Regime Has Shifted

The June 2026 article concluded that Senegal was in the delay regime, absorbing the cost of inaction through rising borrowing rates, deteriorating creditor confidence, and compounding fiscal non-clearing. Between then and today, it has changed, not toward resolution but toward active institutional preparation for restructuring.

The evidence is a sequence of thirteen documented events between 25 May and 1 September 2026. No single event is dispositive. The sequence is.

Date	Event
25 May	Ahmadou Al Aminou Lo appointed Prime Minister (political repositioning).
1 June	Economic team restructured: Ministries of Economy and Finance unified (institutional consolidation).
15–19 June	IMF mission: constructive discussions confirmed, no Staff-Level Agreement reached.
17 June	New Direction Générale des Financements et de la Dette created, led by Babacar Touré. IMF's 22 June statement named debt-management unification a critical corrective measure.
25 June	Revised DPBEP published: updated budget framework.
3–6 July	Zeine Zeidane, IMF Africa Director, visits Dakar: senior-level engagement above technical staff.
Early July	Search initiated for a specialized sovereign debt adviser.
Mid-July	Technical meetings at IMF Washington headquarters.
Mid-July	Lazard selected as debt adviser (Reuters), the restructuring firm that advised Zambia and Ghana.
15 August	Partial fuel-price pass-through: supercarburant 920→990 FCFA/liter (+70); gasoil 680→755 FCFA/liter (+75). State continues to subsidize each liter: import cost 1,019 FCFA vs 990 FCFA (supercarburant), 1,044 FCFA vs 755 FCFA (gasoil). Attributed to the Middle East conflict; gas and fishing fuel unchanged; prices restored to pre-December 2025 levels.
19 Aug–1 Sep	Two-week full IMF team mission explicitly aimed at advancing negotiations on a new lending programme.
28 August	Moody's downgrades Senegal to Caa2, negative outlook maintained; issued during the active IMF mission, explicitly naming TRS regional-market dependency and Faye-Sonko institutional tension as the two primary rating drivers.
1 September	IMF and Senegal reach a Staff-Level Agreement on a new Extended Credit Facility: \$2.2 billion over 36 months (2026–2029), subject to IMF Executive Board approval. Conditionality includes fiscal consolidation, a 2027 medium-term revenue strategy, debt-management and SOE-oversight reforms, and debt treatment to restore sustainability; Mission Chief Vera Martin: "Further decisive action will be critical to resolving the misreporting issues and strengthening safeguards."

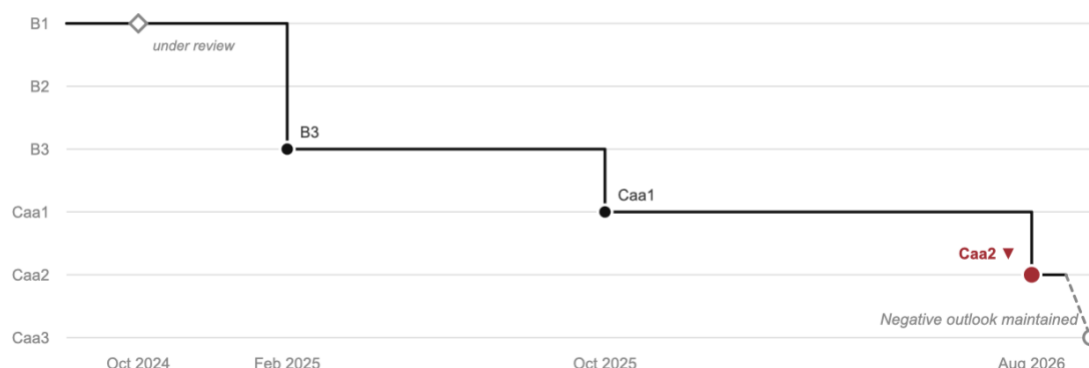
The Lazard appointment in mid-July is the sharpest single signal in the chronology. Lazard is not a conjuncture adviser: it advised Zambia through its Common Framework restructuring and Ghana through its programme. Its appointment signals that the government has acquired the institutional capacity to execute a restructuring if the IMF programme path fails.

The Moody's downgrade of 28 August, the twelfth event, carries a specific analytical significance that goes beyond the rating itself. Moody's did not wait for the outcome of the two-week IMF mission before acting. It assessed the trajectory as sufficiently deteriorated to cut the rating mid-mission. The negative outlook was maintained, meaning the next formal signal on this trajectory is Caa3, one notch above selective default. The agency has made its assessment of direction independent of the programme negotiation outcome.

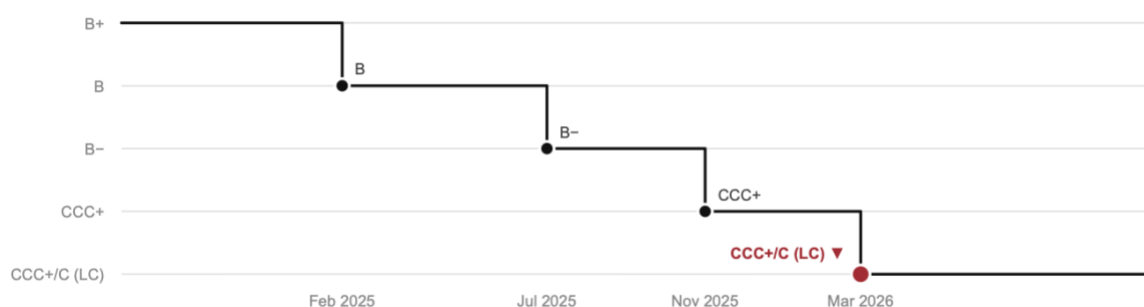
The Complete Rating Trail

Moody's and S&P Global Ratings: trajectory from October 2024 to August 2026

MOODY'S



S&P GLOBAL RATINGS



Sources: Moody's Ratings (2024, 2025, 2026); S&P Global Ratings (2025, 2026); reported in Financial Afrik, Bloomberg, Reuters, Ecofin Agency at respective dates.

The TRS Trap

The mechanism that made this trajectory shift unavoidable is the TRS programme Senegal executed between April and November 2025. What was designed to provide liquidity has become the constraint that forecloses it.

The auction data documents the trap with precision. Finance Minister Diba explained the mechanism at his March 2026 press conference: if Senegal accepts bids at interest rates higher than the rate agreed with the TRS partner, that could cause a loss of value in the partner's securities portfolio, triggering the independent-amount

mechanism, or margin call. To prevent it, the Treasury rejects bids above the threshold. To avoid accepting higher rates, it leaves financing on the table.

Auction date	Submitted	Raised	3Y rejection rate	Consequence
8 May 2026	n/a	n/a	53%	Over half of 3Y bids rejected to hold yield below trigger.
22 May 2026	n/a	n/a	43%	Consistent pattern, not an anomaly.
29 June 2026	n/a	n/a	58%	Rejection rate accelerating.
17 July 2026	120 Bn	90 Bn	82%	120Bn submitted; 90Bn raised; 82% of 3Y bids rejected.

Sources: UMOA-Titres auction data; Seydina Alioune Ndiaye (SENQUANT), *Financial Afrik*, 8 June 2026; Finance Minister Diba press conference, March 2026.

The consequence is structural and compounding. The 3-year OAT is the benchmark instrument of the UMOA-Titres regional market. By systematically rejecting bids at that maturity, Senegal is progressively marginalizing the instrument on which the WAEMU domestic market depends. Meanwhile it has shifted financing toward 1-year Treasury bills: 976 billion FCFA in bills issued year-to-date versus 443 billion in 3-year OATs. To avoid the TRS trap, the sovereign is shortening its maturity profile, increasing rollover frequency and refinancing risk now of maximum financing pressure.

Moody's 28 August statement confirms this diagnosis in agency language: the prolonged absence of an IMF programme has increased reliance on regional-market funding to meet financing needs of about 25% of GDP, raising rollover risk and interest costs. The regional-market issuance of approximately 8% of GDP since January 2026 (Moody's, August 2026) is consistent with the 976Bn in bills and 443Bn in OATs documented in auction data: the same figure from two independent sources.

THE TRS LOOPING TRAP (Feedback: higher required yields tighten the TRS constraint, restarting Loop 1)

Loop 1: The TRS Constraint

Higher 3Y OAT yields



TRS mark-to-market pressure



Treasury rejects higher-yield bids



Under-issued 3Y auctions



Funding gap

Loop 2: The Debt-Management Response

Funding gap



Greater reliance on 1Y Treasury bills



Shorter average debt maturity



Higher refinancing (rollover) risk



Greater financing pressure



Investors demand higher 3Y yields

The Two Factors Driving Further Deterioration

Moody's Caa2 rationale identifies two structural amplifiers of Senegal's pre-existing financing gap. Both are named explicitly as rating drivers, not as background context but as quantified risk factors.

The first is TRS-driven regional-market dependency. Moody's language: the prolonged absence of an IMF programme has increased reliance on regional-market funding, raising rollover risk and interest costs. Interest payments have risen to 23.7% of government revenue in 2026, from 16.1% in 2023, a 7.6-percentage-point deterioration in three years (Moody's, August 2026). The RTEB Q1 2026 (MFB/DGB, June 2026) records interest payments at 22.1% of fiscal revenues on a narrower revenue denominator. Both figures confirm the same directional deterioration; the difference reflects the revenue perimeter each source uses.

The second is the Faye-Sonko institutional tension. Moody's language: the dismissal of former Prime Minister Ousmane Sonko and his subsequent election as President of the National Assembly have intensified institutional tensions between the executive and legislature, increasing the risk of delays to fiscal measures. This is the first time a major rating agency has named the Faye-Sonko fault line as an explicit credit-rating driver rather than political background. The June 2026 article identified it as the primary political-economy obstacle to the social compact condition. Moody's has confirmed it in rated language three months later.

Together these two amplifiers form the closed loop the article's subsequent sections analyze. The TRS trap constrains fiscal flexibility. The political tension delays the fiscal measures that would reduce the financing gap. The financing gap deepens the TRS dependency. The dependency tightens the trap. Neither driver can be addressed without addressing the other, and both are downstream of a framework problem examined in Section III.

The Moody's Restructuring Scenario

The Caa2 rating carries a specific analytical characterization that goes beyond the downgrade itself. Moody's states the rating is consistent with a debt treatment focused primarily on alleviating liquidity pressures, involving limited losses for private-sector creditors: broadly a 10–20% loss-given-default range.

This is Moody's baseline scenario, not a tail risk. The agency is no longer rating a sovereign that might restructure. It is rating a sovereign for which restructuring is the working assumption, and it is characterizing the probable form of that restructuring: liquidity-focused reprofile, limited PSI haircut. Ecuador prepaid its TRS repos in full before its 2020 general restructuring; Eurobond holders received a restructured instrument. Moody's 10–20% LGD fits the Ecuador template. The next sections examine why that template is the path of least resistance when TRS and a general restructuring collide, and what a different framework would need to look like to prevent it.

The IMF's own July 2026 research adds a precise dimension to the programme negotiation underway. Ferrero, Kambou and Keita (WP/26/161, July 2026) find that IMF lending robustly reduces the probability of a sovereign debt crisis, but this stabilizing effect weakens as debt levels rise. The coefficient remains beneficial above 70%, 90%, 100% and even 120% of GDP, but shrinks in magnitude at each threshold. At 132% debt/GDP, Senegal sits above every threshold the paper tests. An IMF programme still reduces crisis probability. But the reduction is compressed relative to what a programme delivers for a sovereign at lower debt levels. The programme is necessary. It is not sufficient on its own. This is the empirical grounding for the article's central argument across all three articles in this series: a Staff-Level Agreement is the beginning of a resolution path, not its completion.

The Agreement Arrives: What It Changes and What It Doesn't

Four days after this analysis's closing anchor, the sequence produced its thirteenth event: on 1 September 2026, the IMF and Senegal reached a Staff-Level Agreement on a \$2.2 billion, 36-month Extended Credit Facility, still subject to Executive Board approval. The market's response was muted rather than celebratory: Senegal's 2037 Eurobond rose 1.3 cents to 48.46 cents off a record low, with dollar bonds little changed, and investors described as cautious pending implementation. The reaction is consistent with this article's framing: the market is pricing the probability of a durable adjustment regime, not the announcement of a programme.

The SLA answers the immediate question the June articles posed: whether a Staff-Level Agreement would be reached. It does not resolve the deeper argument this article makes. At an effective interest rate near 4.5%, Senegal's interest bill alone (CFAF 1,191 billion) still runs close to a fifth of budget revenue, far exceeding the \$2.2 billion facility; and commentary on the deal has already converged on the same fault line Section IV identifies: Dakar's position depends on persuading Paris Club and Chinese bilateral creditors to accept relief while regional WAMU bondholders remain protected by design (Ecofin Agency, September 2026), the ring-fencing dynamic this article analyses as a structural, not incidental, feature of the current framework. The SLA changes the chronology. It does not change the architecture.

II. The Incentive Trap: Why choose TRS Financing

Why the TRS Choice Is Rational

The IMF Resident Representative in Nigeria, Christian Ebeke, stated at the June 2026 Article IV briefing that Nigeria has market access and could issue Eurobonds or borrow from concessional sources, and that TRS carries risks those alternatives do not. Moody's has independently flagged TRS-driven regional-market dependency as a credit-rating driver for Senegal. Both assessments are analytically sound as far as they go.

What neither analysis explains is why TRS financing continues to gain traction despite the availability of conventional alternatives. The choice is often framed as technical: a comparison of financing costs and transparency standards. It is a political-economy choice shaped by institutional constraints.

What IMF Conditionality Actually Costs

An IMF programme is not free financing. It comes with conditionality: fiscal consolidation targets, subsidy removal, tax-mobilization benchmarks, and public wage restraint. These are not neutral technical adjustments. They are politically determined choices about who bears the cost of adjustment. In practice the answer is consistently the same: domestic populations bear it through higher prices and reduced services while external creditors are protected through continued debt service.

The fuel-price adjustment of 15 August 2026 is the most concrete recent expression of what this means in Senegal. The government raised supercarburant from 920 to 990 FCFA per liter and gasoil from 680 to 755 FCFA per liter, restoring prices to their pre-December 2025 levels, attributed to the Middle East conflict. This is partial pass-through, not subsidy elimination: the state continues to subsidize every liter sold. At current import costs of 1,019 FCFA for supercarburant and 1,044 FCFA for gasoil, the subsidy per liter remains 29 FCFA and 289 FCFA respectively. Other petroleum products, including gas and fishing fuel, are unchanged. The IMF requirement is reform of untargeted subsidies across the energy sector; what was delivered is a partial adjustment that reduces the fiscal cost without eliminating the subsidy structure. The government implemented it four days before the IMF mission arrived, not because it was voluntarily persuaded of the economics but because programme negotiation required demonstrated prior action. The population felt the price increase immediately. That is what IMF conditionality costs, and who pays it even in its partial form.

TRS does not come with this conditionality. It carries margin-call risk, opacity, and contingent liabilities that grow over time, but no IMF staff reviewing quarterly benchmarks, no structural conditionality, no public programme targets that create political accountability to external institutions. For governments with sovereignty-grounded objections to external governance of domestic policy (the explicit position of the Faye government throughout 2025), TRS is not merely a financing instrument. It is a governance choice. The cost it imposes falls on the sovereign balance sheet in contingent form, not on households in immediate and visible form.

The Monetary Architecture Asymmetry: Three Comparators

The deeper question is not which financing instrument is cheaper. It is why African sovereigns have such limited funding options outside the IMF–World Bank architecture, and why sovereigns facing comparable debt distress have access to a third adjustment mechanism that WAEMU members do not: monetary adjustment.

Ghana, Egypt and Zambia illustrate the difference. All three underwent IMF-supported adjustment program while retaining independent monetary policy. Currency depreciation and interest-rate adjustments (imperfectly in Ghana's case, more successfully in Egypt and Zambia) distributed part of the adjustment across the broader economy. Ghana's cedi depreciated by roughly 55% in 2022, with inflation peaking at 54%. Egypt devalued the pound by around 50% in 2016, with inflation peaking at 33%. Zambia likewise allowed significant exchange-rate adjustment during its restructuring while the Bank of Zambia retained monetary-policy autonomy. In each case, part of the adjustment occurred through inflation, exchange-rate depreciation and monetary conditions rather than solely through discretionary fiscal measures.

WAEMU sovereigns cannot deploy this mechanism. The BCEAO conducts a single monetary policy for eight member states under a fixed peg to the euro and cannot act as a market maker of last resort for an individual sovereign. Ponsot (IDAN Policy Brief No. 6, 2026) identifies this as a structural feature of the WAEMU framework rather than a policy choice. For African sovereigns outside the franc zone, greater monetary autonomy also comes with risks: BIS Bulletin 132 (Chui and Gambacorta, August 2026) shows that episodes of fiscal dominance have often fueled inflation and exchange-rate instability. For WAEMU members, however, that adjustment channel is largely unavailable. The burden therefore falls predominantly on fiscal policy, through subsidy reform, tax increases and expenditure restraint, with the costs borne directly by households.

	Ghana 2022	Egypt 2016	Zambia 2020	Senegal 2026
Debt/GDP at intervention	~93%	~103%	~120%	~132% (IMF perimeter)
GDP per capita	~\$2,200	~\$2,400	~\$1,100	~\$1,700
Central bank	Bank of Ghana, independent, cedi floats	CBE, independent, pound floats	Bank of Zambia, independent, kwacha floats	BCEAO, fixed euro peg, single policy for 8 members
IMF programme	\$3Bn ECF/EFF, 2023	\$12Bn EFF, 2016	\$1.3Bn ECF, 2022	SLA reached 1 Sept 2026: \$2.2Bn ECF, 36 months, pending Board approval
Monetary adjustment	Cedi -55%; inflation peaked 54% (Dec 2022)	Pound -50%; inflation peaked 33% (2017)	Kwacha depreciated; Bank of Zambia set rates independently	None; FCFA peg forecloses all exchange-rate adjustment
Fiscal adjustment	DDEP losses on domestic savers and pension funds; expenditure cuts	Subsidy reform with compensatory cash transfers	Debt-service suspension; Common Framework restructuring; fiscal consolidation	Fuel-price increase Aug 2026; subsidy reform ongoing; compensatory measures unconfirmed
Resolution path	Ghana-type: Common Framework completed 2024	Egypt-type social compact: debt stabilized	Common Framework restructuring completed 2024	Delay regime → restructuring preparation → SLA (1 Sept); Caa2 August 2026

Sources: IMF Article IV consultations: Ghana (2022, 2023), Egypt (2016, 2017), Zambia (2020, 2022); World Bank WDI; Bank of Ghana; Central Bank of Egypt; Bank of Zambia; Moody's Ratings (August 2026); Ponsot, IDAN Policy Brief No. 6 (2026); BIS Bulletin 132 (August 2026).

THE MONETARY ARCHITECTURE ASYMMETRY: THREE COMPARATORS, ONE STRUCTURAL CONSTRAINT

Ghana restructured at 93% debt/GDP. Egypt entered its programme at 103%. Zambia defaulted at 120%. Senegal is at 132%, above every comparator at their moment of decisive action, and only reached its Staff-Level Agreement on 1 September 2026, later in its distress trajectory than any of the three. Each comparator had an independent central bank and used it: Ghana absorbed part of its adjustment through cedi depreciation, Egypt through pound devaluation, Zambia through kwacha flexibility. In all three cases the monetary channel distributed part of the adjustment cost diffusely across the economy, reducing the political concentration of fiscal measures. Senegal has none of that latitude. The FCFA peg and WAEMU's single monetary policy for eight member states mean every unit of adjustment falls on the fiscal channel: direct, specific, and identifiable at the household level. The three comparators pursued the three resolution paths the June article identified as available to Senegal: Ghana-type restructuring, Egypt-type social compact, and the full Common Framework sequence. All three were executed with a monetary cushion Senegal does not have at debt levels lower than where Senegal now stands.

African sovereigns are not irrational when they choose TRS over IMF programme financing. They are responding to a set of incentives that the mainstream framing often overlooks. TRS financing is expensive, opaque and can create significant contingent liabilities. It also provides liquidity without immediately requiring politically costly measures such as energy-subsidy removal, parliamentary approval of structural conditionality, or quarterly programme reviews. That trade-off is real. Treating the choice as simple mismanagement rather than a political-economy response to asymmetric institutional constraints misses a central part of the financing decision.

The three comparators illustrate why. Ghana, Egypt and Zambia all pursued IMF-supported adjustment with a policy instrument unavailable to Senegal: monetary autonomy. Exchange-rate depreciation and independent monetary policy helped absorb part of the adjustment, alongside fiscal consolidation, by spreading some of the economic costs across the wider economy. Senegal has no equivalent mechanism. Within the WAEMU framework, monetary policy is set regionally and the BCEAO cannot conduct sovereign-specific monetary adjustment. Senegal is therefore attempting the most demanding version of fiscal adjustment (subsidy reform and fiscal consolidation without an accompanying national monetary cushion) while entering the process with a higher debt burden than any of the three comparators before their respective adjustment program.

Why the IMF's Advice Is Right but Not Sufficient

The IMF's advice to Nigeria, to use Eurobonds or concessional financing rather than TRS, was grounded in a sound transparency argument and in the reality of existing market access. For Nigeria in April 2026, with Eurobond markets open and a stronger credit profile, the advice was actionable. The IMF was not asking Nigeria to rely on financing it could not obtain.

Senegal presents a different case. Eurobond market access has been closed since the 2024 hidden-debt disclosure, the previous IMF programme was suspended, and the Fund still lacked full visibility into the terms

of the TRS as of 14 August 2026 (Octus, August 2026). In that context, the implicit assumption that a clearly superior financing alternative exists is less persuasive. The principal alternative is a programme whose conditions include the subsidy removal the population has now experienced, and whose negotiation requires demonstrating compliance before the mission arrives. That is not obviously superior to TRS from the perspective of a government navigating a constrained domestic political economy. It may be preferable from the perspective of long-term debt sustainability, but it does not necessarily address an immediate financing need or the domestic political constraints facing the government.

This is where the rational individual choice and the structural problem diverge. Choosing TRS financing can be a rational response to the available set of options. The deeper problem lies in the options themselves. The IMF's programme framework and Moody's credit assessment are different institutions pursuing different mandates, yet both operate within an international financial architecture that places limited weight on two structural features particularly relevant to African sovereigns: the financing value of resource wealth, and the constraints imposed by limited monetary sovereignty. The next section argues that these omissions help explain why fiscal adjustment repeatedly emerges as the dominant policy prescription.

III. The Framework Problem: Three Blind Spots, One Prescription

Convergence Without Coordination

Moody's downgraded Senegal to Caa2 on 28 August 2026. The IMF has conditioned programme resumption on fiscal consolidation and subsidy removal. Both prescriptions point in the same direction: adjustment costs borne by domestic populations through specific, identifiable policy measures. This convergence is not evidence of coordination between two institutions pursuing a common objective. It is the independent output of two analytical frameworks that share three structural blind spots.

The distinction is central to the article's policy argument. If the convergence were coordination, the solution would be political: reforming the relationship between the IMF and rating agencies or giving African sovereigns greater voice in both institutions. If it is framework convergence, the solution is architectural: developing frameworks capable of recognizing what the current ones systematically overlook. The evidence presented here supports the second interpretation.

Blind Spot One: African Real Wealth

Moody's creditworthiness model measures fiscal-flow variables: fiscal deficit, debt-to-GDP ratio, interest payments as a share of revenue, gross financing need, and liquidity position. These are the variables in the Caa2 rationale. What the framework does not explicitly value is the sovereign's broader balance sheet. Senegal's phosphate reserves, Nigeria's hydrocarbon wealth, Angola's diamond resources and Ghana's gold production do not directly enter the credit assessment.

Senegal's phosphate sector is among the world's largest, with reserves estimated at over 50 million tons and annual export revenues that constitute a significant share of the current account. Nigeria holds proven oil reserves of approximately 37 billion barrels, the largest in Africa. Angola's diamond production ranks among the continent's highest. Ghana produces approximately 4 million ounces of gold annually. These assets represent substantial national wealth, yet conventional sovereign credit analysis evaluates them primarily through the fiscal flows they generate rather than as components of the sovereign's balance sheet.

The distinction is analogous to firm valuation. A corporate analyst would not assess a mining company solely on its current earnings while ignoring its proven reserves. Yet sovereign credit analysis largely evaluates resource-rich states through fiscal flows rather than the value of their natural-resource reserves. The framework values what the sovereign earns, not what the sovereign owns.

The IMF's Debt Sustainability Analysis operates on a similar set of fiscal variables. The 81.3% probability of non-stabilization reported by the Senegalese Ministry of Economy's own analytical tool (MEPC, March 2026) is derived from projections of revenue, expenditure, financing needs and debt dynamics. The country's underlying resource wealth is not directly valued in that calculation. In valuation terms, the analysis assesses the sovereign's income statement without assigning an explicit value to its balance sheet.

This is not a criticism of these frameworks for the purposes they were designed to serve. Fiscal-flow analysis is appropriate for assessing near-term liquidity and debt dynamics. The limitation is that it provides an

incomplete picture of sovereign creditworthiness when applied to resource-rich states. A more balanced assessment would consider the sovereign's underlying balance sheet alongside its fiscal flows, much as a corporate credit analyst considers both the income statement and the balance sheet. The current framework places far greater weight on what the sovereign earns than on what it owns.

Blind Spot Two: Monetary Architecture Asymmetry

The monetary architecture asymmetry documented in Section II is not just a financing observation. It is a framework observation, and it requires precision about what the frameworks do and do not capture.

The IMF's debt sustainability framework does incorporate Senegal's monetary situation. It knows Senegal is in the WAEMU. It uses the CFA franc peg as an input. It models inflation, interest rates and financing conditions accordingly. The constraint is not absent from the model. What the framework does not do is separately quantify what the loss of monetary sovereignty costs in debt-sustainability terms. It does not ask: how much harder is adjustment for a sovereign whose central bank cannot buy its own bonds, set its own interest rates, or adjust its exchange rate independently? That question is not in the model. The monetary constraint is embedded in the assumptions as a background condition, not isolated as an explanatory variable that adds to debt vulnerability.

The consequence is significant. When Moody's or the IMF recommend fiscal adjustment, they are recommending the only response their frameworks identify as available. They are not wrong that fiscal adjustment is necessary. They are not accounting for the fact that Ghana at 93% debt/GDP had the Bank of Ghana to absorb part of the adjustment cost through cedi depreciation, Egypt at 103% had the Central Bank of Egypt to manage the transition through pound devaluation, and Zambia at 120% had the Bank of Zambia to adjust rates independently throughout its restructuring. Senegal at 132% has the BCEAO, which sets a single monetary policy for eight heterogeneous member states and cannot act as market maker of last resort for any individual member. That difference between Senegal and its three comparators is real and consequential. It is embedded in the models' assumptions. It is not explained by them.

Both Moody's and the IMF therefore place fiscal adjustment at the center of the response to financing stress. But the same fiscal prescription carries different implications depending on the monetary regime. A sovereign with monetary autonomy can distribute adjustment across fiscal, monetary and exchange-rate channels. A WAEMU sovereign cannot. Its fiscal policy must absorb a greater share of the adjustment because monetary policy cannot be deployed at the national level. Treating these situations as equivalent obscures a structural constraint specific to the WAEMU architecture.

Blind Spot Three: Collateral Gap

The ISDA collateral standard accepts liquid, daily priceable, immediately transferable financial assets. Government securities of G7 sovereigns, investment-grade bonds, listed equities in deep secondary markets, and cash in major currencies constitute the eligible categories. Commodity revenue streams, mineral royalties, and resource rights, the forms in which African real wealth exists, do not meet the ISDA framework's technical requirements.

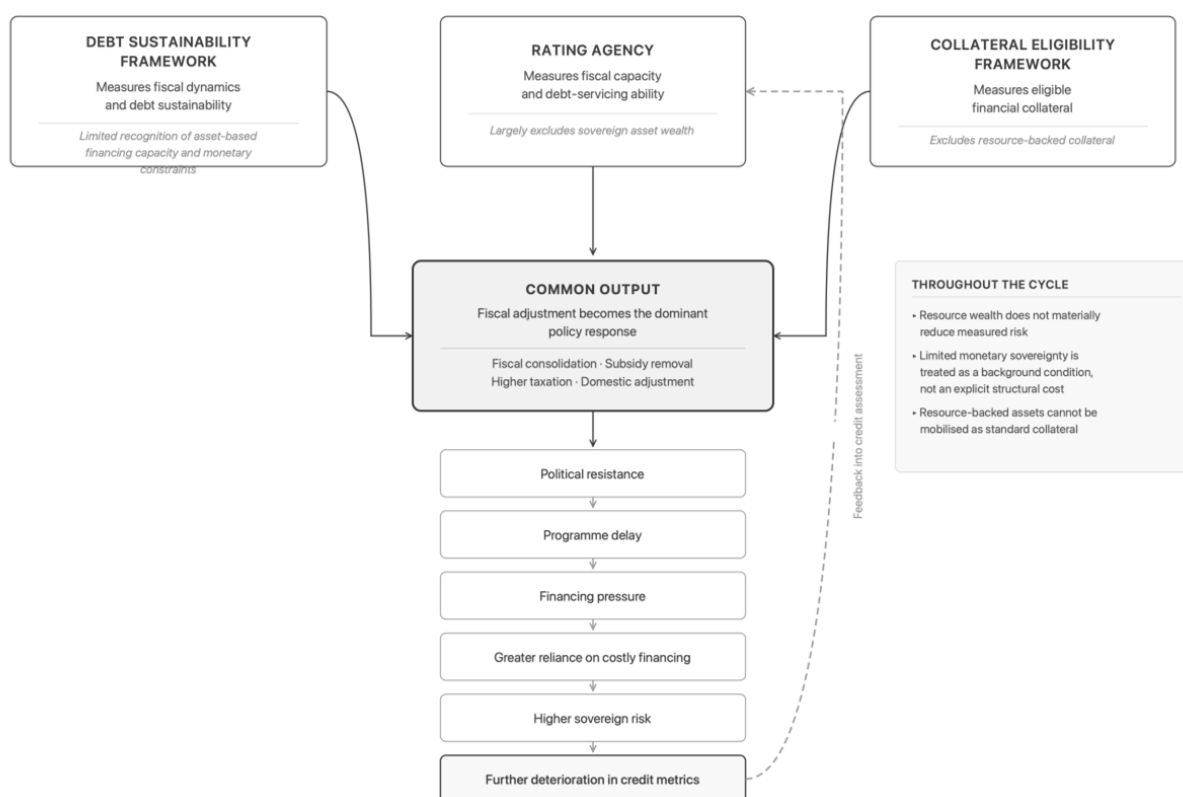
The consequence is that the same resource wealth absent from Moody's creditworthiness model is also absent from the IMF's fiscal-flow projections and ineligible as ISDA collateral. It does not reduce the measured credit risk. It does not appear in the sustainability projections. It cannot be posted as collateral to lower borrowing

costs. The exclusion is not identical in each case: Moody's does not include it because its model measures fiscal flows, not balance sheets; the IMF's projections do not include it because they are built on revenue, expenditure and debt dynamics; and ISDA does not accept it because the collateral standard was built for financial assets in liquid secondary markets. But the three exclusions operate in the same direction and produce the same outcome: African sovereign resource wealth does not reduce the cost or improve the availability of financing through any of the three frameworks that determine both.

The Closed Loop the Three Blind Spots Produce

Together, these three blind spots create a financing trap. Their distinct analytical focus is summarized below.

Framework	What it primarily measures	What is largely outside the framework
Moody's	Fiscal capacity and debt-servicing ability	Sovereign asset wealth
IMF / Debt Sustainability Analysis	Debt sustainability and fiscal dynamics	Asset-based financing capacity
ISDA collateral framework	Liquid financial collateral	Resource-backed collateral



The frameworks do not coordinate. They independently converge on the same prescription because each evaluates sovereign credit through a different lens that omits a different structural feature of African sovereign financing.

Throughout the cycle, resource wealth does not materially expand financing capacity. The cost of limited monetary sovereignty is treated as a background condition rather than a structural constraint. Resource-backed assets cannot readily be mobilized as recognized collateral. The result is a financing architecture in which African sovereigns are repeatedly driven towards fiscal adjustment, while domestic populations bear a disproportionate share of the economic cost.

IV. The Collateral Paradox: What the Framework Exclusion Produces

The Pricing Paradox

Section III established that the ISDA framework excludes African real wealth through a design mismatch. It was built around liquid financial assets with deep secondary markets. Resource rights, royalties and commodity revenues do not fit those characteristics. Section IV shows the consequence: sovereigns post their own government bonds as collateral, even though those bonds lose value as sovereign risk rises. The collateral therefore weakens precisely when it is most needed.

Standard credit pricing: $\text{Rate} = \text{Risk-free rate} + (\text{Default probability} \times \text{Loss given default})$.

Collateral reduces loss given default because it provides a source of recovery that is, ideally, independent of the borrower's creditworthiness. The house does not lose value because the homeowner loses their job. The bank holds the house as security against the borrower's deterioration.

The problem arises when the collateral is the borrower's own debt. If Senegal's government bonds fall in value when Senegal's creditworthiness deteriorates, the collateral loses value precisely when the lender needs it most. TRS collateral creates this correlation by construction: the borrower and the collateral are exposed to the same underlying risk. The bonds therefore provide less independent recovery value, limiting the extent to which they can reduce the credit premium.

The sovereign pays a high interest rate because it is risky, while simultaneously pledging bonds that become less valuable as that risk increases. The collateral does not sufficiently reduce the lender's risk, leaving the sovereign to bear both the financing premium and the loss in value of its pledged assets.

THE ANGOLA PROOF OF CONCEPT: APRIL 2025

Angolan Eurobond prices fell approximately 14 cents. JPMorgan triggered a \$200 million cash margin call on the \$600 million TRS immediately. The \$1.2 billion of Eurobond collateral posted had lost market value proportionally, and the sovereign was required to mobilize hard currency now of maximum liquidity stress. JPMorgan returned the cash in May when prices recovered. The mechanism functioned as designed. It was not a malfunction. It was the empirical proof that correlated collateral amplifies stress rather than absorbing it. For Senegal: XOF 1 trillion of domestic-bond collateral against \$1.26 billions of financing, at approximately a 139% ratio. But that headline ratio overstates the protection provided to the lender: as Senegal's credit risk rises, the market value of the pledged bonds falls, weakening the collateral precisely when it is most needed.

Source: Octus (August 2026); Afronomicslaw AfSDJN Update No. 162 (February 2026).

The Comparative Data

Sovereign	Amount	Counterparty	Collateral	Ratio	Margin call
Angola	\$600M (Dec'24) + \$400M (Jan'25) + \$2.5Bn (Dec'25)	JPMorgan + AFC	Eurobonds + UST + Kwanza bonds	200%→140 %	\$200M (Apr 2025); returned May 2025
Senegal	\$1.26Bn, 7 transactions, Apr– Nov 2025	Multiple	XOF domestic bonds	~139%	Mechanism confirmed by Minister Diba; yield trigger active
Nigeria	Up to \$5Bn approved; \$1.5Bn drawn Jun 2026	First Abu Dhabi Bank	Naira bonds	133%	Dollar margining on naira depreciation or price decline

Sources: Octus, Schatzberg and McMahon, 14 August 2026; Afronomicslaw AfSDJN Updates No. 162 and 164 (2026); Senegal Finance Ministry clarification statement, March 2026; CNBC Africa, April 2026; BusinessDay Nigeria, June 2026; Fitch Ratings, June 2026; Moody's Investors Service, June 2026.

Africa Has the Collateral. The Framework Excludes It.

Africa has genuine independent collateral. Angola's oil production does not fall in value because Angola's fiscal deficit widens. Senegal's phosphate royalties do not deteriorate because the Sonko-Faye tension intensifies. Ghana's gold reserves do not decline because Ghana's credit rating is cut. These assets satisfy the independence condition that standard collateral logic requires. Their value and the sovereign's creditworthiness move on fundamentally different dynamics.

Yet these assets cannot be posted as ISDA-governed TRS collateral. Angola's oil revenues were already pledged against Chinese bilateral financing. When Angola needed TRS financing in December 2024, its primary real asset was already encumbered. Nigeria's hydrocarbon revenue flows are structured through NNPC and cannot be packaged as ISDA-compliant instruments in their current form. Senegal's phosphate royalties are illiquid, jurisdiction-specific, and legally complex in ways incompatible with ISDA's technical requirements.

ISDA was established in 1985 by major US and European banks to standardize the OTC derivatives market. Its collateral framework reflected the financial assets those institutions routinely used; government securities, investment-grade bonds and listed equities. African sovereign resource wealth was not deliberately excluded; it simply fell outside the market for which the framework was designed. The result is a path-dependent system in which expanding eligible collateral requires consensus among institutions with little incentive to develop new valuation, custody and legal-enforcement infrastructure for resource-backed assets.

The result is the opposite of what collateral is supposed to achieve. The one asset African sovereigns can readily post as ISDA-compliant collateral is their own government bonds, the least effective. Because the collateral deteriorates alongside the sovereign's creditworthiness, it provides limited independent protection to lenders. Meanwhile, the real assets whose value is largely independent of sovereign distress remain ineligible. The framework therefore accepts the asset that weakens collateral and excludes the assets that would strengthen it.

V. The Solution and Its Risks: AfDB, Tokenisation, and African Governance

A Trajectory, not a Single Step

The article has so far described TRS as a trap. That framing is accurate for the instrument in its current form. But it should not obscure what TRS represents in the evolution of African sovereign financing: a rational response to a financing gap between IMF conditionality and conventional market closure. Sovereigns turned to TRS because they needed financing that was fast, flexible and free from policy conditionality. That need is real. The instrument that met it is flawed. The need remains.

Understanding this trajectory is essential to identifying the solution. The path forward has three stages.

Stage one is TRS. Fast, flexible, governance-free. No IMF quarterly reviews. No structural conditionality. But the structure has a fundamental weakness. When the collateral is the sovereign's own debt, its value falls alongside the sovereign's creditworthiness. Margin-call risk amplifies stress precisely when financing conditions are already deteriorating. Senegal's auction-rejection data, Angola's \$200 million margin call, the progressive destruction of the UEMOA 3-year OAT benchmark: these are not malfunctions. They are the mechanics of Stage one working as designed.

Stage two is the Rwanda path. On 27 August 2026, Rwanda raised approximately \$190 million through a World Bank Group-backed dual-currency facility: JPY 15 billion and €82 million, 15-year maturity, six-year grace period, structured around existing Eurobond obligations. No self-referential collateral. No margin call. Rwanda's first access to Japanese yen capital markets. The World Bank guarantee opened a door to private Asian and European investors who would not otherwise have engaged with a sub-Saharan African sovereign at Rwanda's rating level. This is a meaningful step forward from TRS: longer maturity, no collateral risk, genuine capital-market diversification. But it is still creditworthiness dependent. The World Bank is guaranteeing Rwanda's ability to repay; the sovereign's fiscal position remains the foundation. It is outside the IMF programme track but still within the multilateral system. It is the first step into uncharted territory, not the destination (Reuters, 27 August 2026; Ecofin Agency, 26 August 2026; Rwanda Ministry of Finance, 26 August 2026).

Stage three is the proposed model: the destination that the trajectory of TRS failure and Rwanda innovation points toward. It combines TRS's flexibility with multilateral institutional credibility, while replacing the creditworthiness foundation with a real-asset foundation. The sovereign's phosphate reserves, oil revenues, or gold deposits back the instrument, assets whose value does not fall when the sovereign falls. The AfDB acts not as a guarantor of the sovereign's ability to repay, but as a clearinghouse that validates, standardizes, and certifies the asset quality, making it accessible to global capital markets. Pricing would reflect the quality of the underlying collateral, rather than being driven primarily by sovereign distress. Because the collateral would be economically separate from the sovereign's credit risk, the feedback loop between sovereign deterioration and collateral deterioration would be substantially reduced. The instrument does not yet exist. The trajectory described here is why it needs to be built.

Component 1 – AfDB as Clearinghouse: The Real-Asset Foundation

African sovereign resource wealth satisfies the economic independence condition that standard collateral logic requires. Angola's oil production does not fall in value because Angola's fiscal deficit widens. Senegal's phosphate royalties do not deteriorate because the Sonko-Faye tension intensifies. Ghana's gold reserves do not decline when Ghana's credit rating is cut. These assets are economically separate from the sovereign's creditworthiness. They are high-value collateral. The problem is that in their raw form, illiquid, jurisdiction-specific, legally complex, they cannot be used.

The AfDB's role in the proposed model is different from the World Bank's role in Rwanda's transaction. The World Bank guaranteed Rwanda's creditworthiness; it backed Rwanda's ability to repay. The AfDB in the proposed model validates and certifies the asset itself; it acts as the institutional clearinghouse that converts a phosphate-royalty stream or a copper-revenue flow into a standardized, quality-certified instrument that capital markets can price and hold. The sovereign does not need to be creditworthy for the instrument to work. The asset needs to be valuable, which African real assets are, and the AfDB needs to certify that value in a form market can use.

The Zambia debt-for-development swap of May–June 2026 points toward this architecture at the post-restructuring stage. AfDB provided a \$600 million concessional loan to finance Zambia's buyback of \$1.36 billion in step-up bonds, with the freed debt service contractually linked to a \$275 million grid-resilience programme funded by copper-sector revenues (Zambia Ministry of Finance, May 2026; Reuters via CNBC Africa, June 2026). The real asset, copper revenue, backed a financial obligation with AfDB as institutional intermediary. That architecture has been used once, post-restructuring, at a single sovereign. It needs to be standardized and made available pre-distress, at scale, across multiple African sovereigns.

The economic logic of the proposed model works like a sukuk, the Islamic finance instrument in which investors hold a certificate representing a share in a real asset's revenue, not a claim on the issuer's creditworthiness. A sukuk backed by a phosphate-royalty stream pays investors from the royalty revenue. The sovereign's fiscal deterioration does not affect the royalty. The independence condition is satisfied by construction. Sovereign sukuk is not a theoretical instrument: it is a \$4 trillion market with 40 years of operational history across Malaysia, Saudi Arabia, Indonesia and Egypt. Senegal itself issued the first CFA franc-denominated sovereign sukuk in 2014, structured around state assets. The instrument is not new to the WAEMU context. What the proposed model adds to the sukuk template are two extensions: tokenization for ISDA settlement efficiency, and African-governed legal safeguards to prevent the asset structure from becoming an extraction mechanism. The AfDB's clearinghouse role maps directly onto the trustee and guarantor function in a standard sukuk structure.

Component 2 – Tokenization: Making Real Assets ISDA-Compatible

AfDB intermediation restores the independence condition. It does not resolve the liquidity problem: ISDA's requirement that collateral be daily-priceable and immediately transferable. A guaranteed mineral-royalty stream is credit-enhanced but not liquid in the ISDA technical sense.

Tokenization is the enabling technology that closes this gap. A tokenized, AfDB-guaranteed mineral-royalty instrument is: daily-priceable because the underlying commodity price is observable in real time on global markets; immediately transferable because it exists on-chain with atomic settlement; and ISDA-compatible

because it meets the liquidity and pricing requirements the framework demands, without using a government bond.

The technology is not prospective. Tokenized gold is already emerging as a hard-asset collateral layer in global financial markets, with the tokenized real-world-asset market approaching \$20 billion by end-2025 (CoinDesk, January 2026). The IMF's 2026 note on tokenized finance characterizes the development as a structural shift in financial architecture rather than a marginal efficiency improvement (IMF, Tokenized Finance, April 2026). AfDB-backed infrastructure bonds and climate-finance tools have been identified as candidates for tokenization, with faster disbursement and automated reporting (Africa at LSE, May 2025).

One caution is essential and the paper states it directly. The IMF's 2026 tokenization note identifies a specific risk: tokenized assets mobilized as collateral can ease constraints in normal conditions but can accelerate collateral withdrawals and margin calls in stress scenarios. This risk applies if tokenization is used to make the existing correlated collateral, sovereign bonds, more liquid and faster to transfer. In that application, tokenization makes the TRS trap more efficient and more dangerous. The risk disappears when the asset being tokenized is genuinely independent: a commodity-revenue stream whose value does not move with sovereign creditworthiness. The technology is not the answer. The right asset, plus AfDB guarantee, plus tokenization together are the answer.

Component 3 – African Governance: Preventing the Extraction Mechanism

This is the component most analyses omit, and the most consequential to get right. Tokenization of African sovereign resource assets creates a more efficient version of an old risk. If a sovereign tokenizes its mineral-royalty stream and posts it as TRS collateral, the mechanism for transferring African real wealth to external creditors in a stress scenario is faster, more liquid, and more legally airtight than any prior arrangement. The technology that makes the collateral ISDA-compatible is the same technology that makes the asset seizure efficient.

Three protective conditions must be embedded in the legal framework from inception:

- **Liquidation restrictions.** Tokenized resource collateral must be liquidatable only through AfDB-supervised processes, with member-state notification requirements and a sovereign right of first repurchase at fair value before any market liquidation is permitted. No direct commercial-counterparty seizure without multilateral oversight.
- **Revenue claim, not resource ownership.** The token must represent a claim on revenue from the resource, not on extraction rights, physical ownership, or operational control. The sovereign retains title to the underlying asset. The counterparty holds a cash-flow claim, as a mortgage gives the lender a claim on house value, not the right to demolish or occupy the house. This distinction must be embedded in the token's legal architecture and the AfDB guarantee documentation, not assumed from general principles.
- **African institutional governance of the protocol.** The legal standards, custody arrangements, smart-contract protocols, and dispute-resolution mechanisms governing African sovereign resource tokens must be developed under AfDB and African Union auspices, not under ISDA master agreements drafted in New York and London by institutions whose primary members' incentive structures are not aligned with African sovereign wealth preservation. A parallel African Sovereign Collateral Protocol achieves equivalent legal certainty through African-governed institutional architecture.

Unlike Ghana's 2023 domestic debt exchange, where domestic creditors were predominantly Ghanaian institutions, a Senegalese equivalent would transmit losses directly into Côte d'Ivoire's banking system: Ivorian banks hold 35.9% of Senegal's WAMU securities (MEPC, March 2026, cited in Touré and Sylla, May 2026). The case for ring-fencing WAMU instruments is therefore not about protecting creditors. It is about containing regional financial contagion.

This is a five-to-ten-year institutional project. That is precisely why the AfDB must begin now, before TRS and peers' dependence deepens and sovereign-linked collateral becomes embedded across African markets.

The Framework Reform Dimension

The instrument-level solution addresses what African sovereigns can do with their real wealth. The framework-reform dimension addresses what the institutions that determine borrowing costs must do with how they measure it.

Moody's creditworthiness models for resource-rich sovereigns should incorporate balance-sheet wealth variables alongside fiscal-flow variables, analogous to how corporate credit analysis examines both the income statement and the balance sheet. A sovereign with 50 million tons of phosphate reserves is not the same credit risk as a sovereign with the same fiscal ratios and no resource base, regardless of what the current Caa2 model implies.

The IMF's debt-sustainability framework should explicitly isolate what the loss of monetary sovereignty costs in adjustment-capacity terms, not merely embed the monetary regime as a background assumption. The adjustment capacity of a WAEMU sovereign constrained by the FCFA peg and a single monetary policy for eight member states is structurally different from that of a sovereign with an independent central bank. That difference should be an explanatory variable in the analysis, not a silent input in the assumptions. Ponsot's recommendation, that the possibility of reducing or cancelling Senegal's sovereign debt held by the BCEAO should be considered if the debt proves unsustainable (IDAN Policy Brief No. 6, 2026), is a framework-reform proposal, not just a debt-relief proposal. It asks the IMF to model what adjustment options are available to this specific sovereign, not what would be available to a generic sovereign with a full monetary-policy toolkit.

The AfDB is uniquely positioned to lead both levels of reform: the instrument itself and the frameworks around it. It can provide credit enhancement for new collateral-backed instruments, advocate for IMF framework reform within the IMF, and convene an African Sovereign Collateral Protocol to develop standards for resource-backed collateral. This would allow Africa to build an alternative framework from the outside rather than wait for existing financial standards to evolve from within.

Conclusion

Senegal's trajectory is becoming increasingly clear. Moody's downgraded the sovereign to Caa2 on 28 August 2026 while the IMF programme mission was still underway, maintaining a negative outlook. The rating has fallen from B1 to Caa2 in ten months, with four actions in under a year. Moody's now describes the likely restructuring as primarily liquidity-focused, with a 10–20% loss-given-default range. Senegal is already at 132% debt-to-GDP, compared with roughly 93% for Ghana when it restructured, 103% for Egypt when it entered its IMF programme, and 120% for Zambia at default. The comparison is not deterministic, but the direction is clear: delay is narrowing Senegal's options.

On 1 September 2026, four days after the Caa2 downgrade, Senegal and the IMF reached the Staff-Level Agreement this series has tracked as its central pending observable: a \$2.2 billion Extended Credit Facility over 36 months, pending Executive Board approval. It resolves the immediate financing question. It does not resolve the architecture problem this article identifies: an interest bill alone approaching a fifth of revenue against a facility a fraction of that size, and a debt-relief strategy that already depends on persuading external creditors to bear costs that regional bondholders, protected by design, do not.

The deeper problem is architectural. Moody's and the IMF are not coordinating against Senegal. They are converging, independently applying frameworks that share three structural blind spots: African resource wealth does not reduce measured credit risk or appear in sustainability projections; the cost of monetary sovereignty loss is embedded in assumptions rather than isolated as an explanatory variable; and conventional collateral mechanisms exclude the real assets African sovereigns actually hold. Their convergence on the same prescription (fiscal consolidation, subsidy removal, adjustment borne by populations) is not coordination. It is the output of frameworks that share three structural blind spots.

The political resistance that makes programme implementation difficult (the Sonko-Faye tension Moody's names explicitly) is the social consequence of asking populations to bear costs while the frameworks provide few alternative channels for absorbing the cost.

The AfDB must lead the next stage. TRS was Stage one: a rational first step into uncharted financing territory, now revealed as a trap. Rwanda's August 2026 transaction is Stage two: multilateral-backed access to new capital markets, outside the IMF programme track, longer maturity, no collateral risk. Stage three is the destination: real assets as the foundation of financing, the AfDB as validator and credit enhancer, tokenization as the mechanism for making those assets investable and potentially compatible with global collateral infrastructure, and African-governed legal standards to protect against distressed extraction. Angola, Senegal and Nigeria have committed over \$9 billion to Stage one and are paying the price of its limitations. Rwanda has shown Stage two works. The AfDB must build Stage three before TRS dependency deepens further.

The objective is not to eliminate IMF financing or replace conventional capital markets. It is to give African sovereigns a third option: one that recognizes the wealth they own rather than pricing them only on the fiscal flows they currently generate. The institution capable of beginning that work is already in place. The question is whether it begins before the next crisis forces the architecture to evolve under pressure.

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