

# Sovereign Credit Ratings: Perspectives for Africa's Development



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# Foreword

At UNDP, we believe that access to affordable and fair financing is not a luxury – it is a lifeline. It enables governments to build infrastructure, deliver services, invest in people, and rise to the defining challenges of our time – from poverty and inequality to climate change and demographic pressures.

Yet for many African countries, access to finance is not just shaped by their policies or priorities, but also by how they are perceived. Credit ratings play a decisive role in influencing the cost of borrowing, investor confidence, and the willingness of development partners to engage. And for African economies, the stakes couldn't be higher.

Credit ratings are not neutral. They have the power to accelerate development – or to constrain it. A downgrade can mean higher debt servicing costs, reduced fiscal space, and diminished investor confidence, while limiting resources available for essential development goals.

And the challenge lies here: too often, sovereign credit ratings fail to tell the full story. They tend to emphasize narrow economic indicators while overlooking the broader development landscape – including reforms underway, institutional resilience, regional dynamics, and long-term sustainability efforts. Many African governments are making bold strides – investing in green growth, strengthening governance, and driving regional integration – but their progress remains under-recognized.

In a world of tightening global financial conditions and cascading shocks, this disconnect carries real and rising costs. It's time for a fresh look.

This report offers exactly that – a thoughtful and timely analysis of how sovereign credit ratings work, and why they matter deeply for Africa's development. It unpacks methodologies, examines the asymmetries that persist between global and Africa-based agencies, and surfaces structural imbalances that disproportionately affect African nations.

But more importantly, it looks ahead. It poses critical questions:

- How can African countries engage more effectively with rating agencies – and on more equal footing?
- How can credit assessment methodologies evolve to reflect the lived realities and opportunities on the continent?
- What new tools – such as climate-linked debt swaps or regional credit rating mechanisms – can help bridge the gap between perceived risks and real potential?

We are inspired by examples highlighted in the report – from South Africa's transparency efforts with investors and credit rating agencies, to the Democratic Republic of the Congo's bold vision to leverage its mineral wealth and climate leadership for transformative development and a better risk perception. These stories remind us that strategy, partnership, and innovation can change both the narrative and the numbers.

At its heart, this report is about rewriting the rules of engagement. It's about building institutions that stand tall, laying the foundations for resilient economies, and shaping a financial system that sees Africa not as a region of risks to be managed, but an investment and trade partner.

Because Africa is the future – a continent of solutions, resilience, talent, and promise.

Let this report be a call to action. Let us work together to ensure that credit ratings do not judge the past. Instead, they should enable a fairer and more inclusive financial future – one where every country has a fair chance to rise, invest, and prosper.



**Ahunna Eziakonwa,**  
UN Assistant Secretary-General, UNDP Assistant  
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# Introduction

## Credit rating agencies play an indispensable role in the architecture of global finance, acting as critical gatekeepers to capital markets.

Their ratings serve as signals to investors, determining how countries and corporations are perceived in terms of risk and return. In practical terms, these assessments shape borrowing costs, access to finance, and the overall investment climate. For sovereign nations, a credit rating is more than a score – it is a determinant of fiscal flexibility, a reflection of macroeconomic governance, and a key factor in attracting both private and public investment. Nowhere is this influence more consequential – and more complex – than in Africa, where credit ratings can either unlock vital development financing or reinforce existing structural constraints.

At the center of this global rating system stand the “Big Three” credit rating agencies – Moody’s, Standard & Poor’s and Fitch Ratings – whose opinions influence more than 95 per cent of the world’s rated debt. Their methodologies, designed to offer comparability across markets, often carry significant weight in shaping the financial futures of developing countries. For many African nations, this raises critical questions: To what extent do these ratings reflect actual risk? Are local dynamics, institutional contexts and development priorities adequately considered? And what are the implications for African governments striving to improve creditworthiness while pursuing inclusive and sustainable development goals?

This report engages with these questions by examining the evolving role of credit rating agencies in Africa, offering both a macro-level overview and country-specific insights. It explores how the dominance of the Big Three shapes financing conditions across the continent and assesses the potential for Africa’s regional agencies – such as Global Credit Ratings, Augusto & Co. and Bloomfield Investment Corporation – to provide more context-sensitive evaluations. These Africa-based credit rating agencies bring essential value through their deeper understanding of local market dynamics, fiscal systems and political economies, often serving as a necessary counterbalance to global methodologies. The report also delves into the inner workings of sovereign credit ratings – their production processes, technical frameworks and underlying assumptions. It interrogates the factors that go into determining a rating, including governance quality, macroeconomic performance, debt sustainability and external vulnerabilities.

Drawing on two case studies – South Africa and the Democratic Republic of the Congo – the report provides grounded perspectives on how governments manage their interactions with credit rating agencies, respond to rating actions, and implement reforms to regain or maintain investor confidence. South Africa’s experience illustrates the importance of institutional credibility, open communication with credit rating agencies, and consistent macroeconomic policies in shaping favourable outcomes. Meanwhile, the Democratic

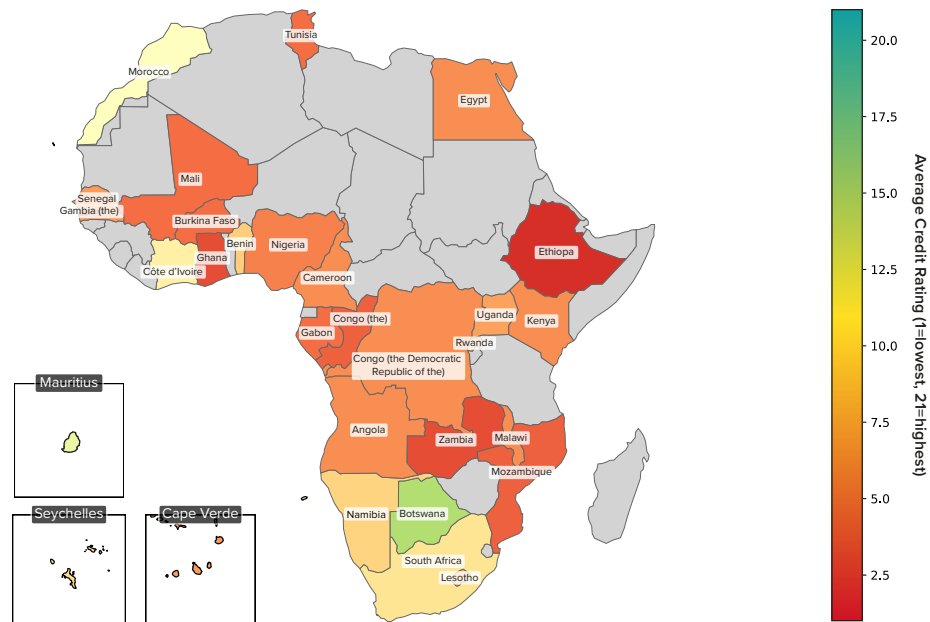
Republic of the Congo provides a compelling case of a resource-rich country using innovative tools – such as debt-for-climate swaps and value-added mineral processing – to build a more resilient credit profile. These case studies underscore the varied paths African nations can take to strengthen their fiscal and credit positions, even amid challenging structural conditions.

A central component of the report is a data-driven analysis of sovereign credit ratings across 53 African countries over two decades. The findings highlight governance – particularly government effectiveness and regulatory quality – as a key determinant of sovereign ratings. They also reveal persistent challenges, including the existence of a potential “Africa premium”, wherein countries may face higher borrowing costs or lower ratings than peers with similar fundamentals.

In essence, this report offers a multidimensional view of credit rating agencies and their impact on African economies. It emphasizes the need for more inclusive and transparent rating methodologies that better capture the continent's risks and opportunities. It also calls for stronger engagement between African governments and credit rating agencies, alongside broader structural reforms to improve governance, diversify economies, and build resilience.

Ultimately, the goal is not just to critique the status quo, but to chart a path forward – where sovereign credit ratings serve as tools for empowerment, not constraint, and where African countries can mobilize capital more effectively to achieve their development goals.

African Countries by Average Credit Rating



As of June 2025, among the 34 countries in Sub-Saharan Africa that have at least one sovereign credit rating, only two – Botswana and Mauritius – are rated investment-grade. The other 30 are rated as ‘speculative’, implying higher interest costs and lower financing volumes. The credit rating on the map is the numerical equivalent of the average rating of all available ratings from S&P, Moody's and Fitch, where available. Investment grade ratings are equivalent to a score of 12 or higher.

Source: CountryEconomy, TradingEconomics, June 2025

# 01



## **Understanding the significance of credit rating agencies in Africa's development**

# Chapter 1

Credit ratings provide valuable insights into a country's economic health and political stability. A higher rating signals strong capacity to repay, helping investors identify opportunities in emerging markets.

Ratings, as well as debt sustainability analyses from the International Monetary Fund (IMF), serve as external benchmarks for assessing countries' creditworthiness and macroeconomic stability. Improvements in ratings can reflect not only the capacity to service debt but may also reflect effective governance, sound economic policies and successful reform efforts. This positive feedback loop can encourage governments to pursue further reforms to enhance creditworthiness and sustain development.

Credit ratings also play a crucial role in shaping a country's access to aid and development financing. Multilateral organizations and donor countries often factor in internal and external credit ratings when determining funding allocations. For example, countries with higher risk (lower ratings) often get less grants and more loans. Countries with higher ratings often have more favourable terms and larger financing volumes – either lending or foreign direct investment (FDI) – boosting their development prospects.

For instance, multilateral development banks supplement external ratings with their own internal assessments, leveraging their role as trusted advisors to shareholders and their deeper access to economic data. In addition, loans from multilateral development banks enjoy de facto preferred creditor status, leading to lower default rates and higher recovery rates.

There are two views of the critical role played by credit rating agencies. In one case, they have “reputational capital” given their ability to generate and aggregate credible information about debt issuers and to use this to bridge the information gap

between borrowers and investors – in a similar way to restaurant or movie reviewers.

In another view, they have “regulatory license”. Since regulators often require investors and lenders to use credit ratings from these agencies, they acquire the power of a financial signal that is needed for access to capital markets. This makes the ratings powerful regardless of their accuracy in predicting the likelihood of default.

This chapter examines the dominance of these agencies, their global reach and the implications of their dominance for African economies.

## 1. The importance of credit ratings for Africa's development prospects

Access to capital is essential for African nations, and credit ratings act as critical gateways to foreign lending and investment. Favourable ratings not only attract debt capital but also serve as a signal for lenders and investors, which can indirectly encourage FDI and portfolio inflows. These investments are vital for financing key sectors such as infrastructure, education and healthcare.

Countries such as Côte d'Ivoire, Kenya and South Africa have used their credit ratings to borrow on international markets. While these ratings don't always guarantee low borrowing costs, they help investors assess risk and have supported these countries in raising funds for development. Strong credit ratings often reflect sound fiscal policies and stable macroeconomic management – both key

drivers of economic growth. Conversely, poor ratings may result in capital outflows and higher borrowing costs, limiting growth opportunities. For example, in the aftermath of the 1997 Asian financial

crisis, countries that stabilized their economies and regained investor confidence saw their credit ratings improve, fuelling economic recovery.

#### BOX 1.

### A brief history of the Big Three credit rating agencies

The Big Three credit rating agencies assess the creditworthiness for governments, corporations and financial products and serve as critical arbiters of credit risk. Their ratings help reduce information asymmetry between borrowers and lenders, providing a standardized framework for evaluating repayment risks. Reliable ratings foster accountability, encourage sound financial management, and enable the development of deeper capital markets.

The dominance of the Big Three credit rating agencies is rooted in their established reputation, global reach and regulatory influence. These agencies have built long-standing credibility through consistent methodologies and extensive historical data, refining robust analytical frameworks over decades to assess credit risk. Their ratings serve as benchmarks: higher ratings reduce borrowing costs, while lower ratings increase debt burdens and can deter investment. This dynamic is particularly significant in developing regions such as Africa, where access to affordable financing is essential for economic growth. Research shows that investors often prefer ratings from these established agencies owing to their perceived credibility and experience.

**Standard & Poor's (S&P)**, the oldest of the Big Three, was initially two firms – Poor's Publishing was founded in 1860 and Standard Statistics was founded in 1906. In 1941, it merged with the Standard Statistics Company to form its current brand. Over time, S&P expanded its services to include ratings for various asset classes, establishing itself as a market leader.

**Moody's Investors Service**, established in 1909 by John Moody, began with a focus on publishing railroad bond manuals. The firm quickly evolved, adding municipal and corporate bond ratings to its portfolio. It became a publicly traded company in 2000 and expanded its global presence through acquisitions.

**Fitch Ratings**, founded in 1913 by John Knowles Fitch, initially specialized in bond issuer information. During the Great Depression, it gained recognition for its government bond ratings. Fitch has since expanded globally and was acquired by the French group Fimalac in 1997.

These agencies have refined their analytical frameworks over decades, amassing a century's worth of data and expertise. Their methodologies are trusted by investors and financial institutions worldwide, solidifying their market dominance.

## 2. The evolution of African sovereign ratings

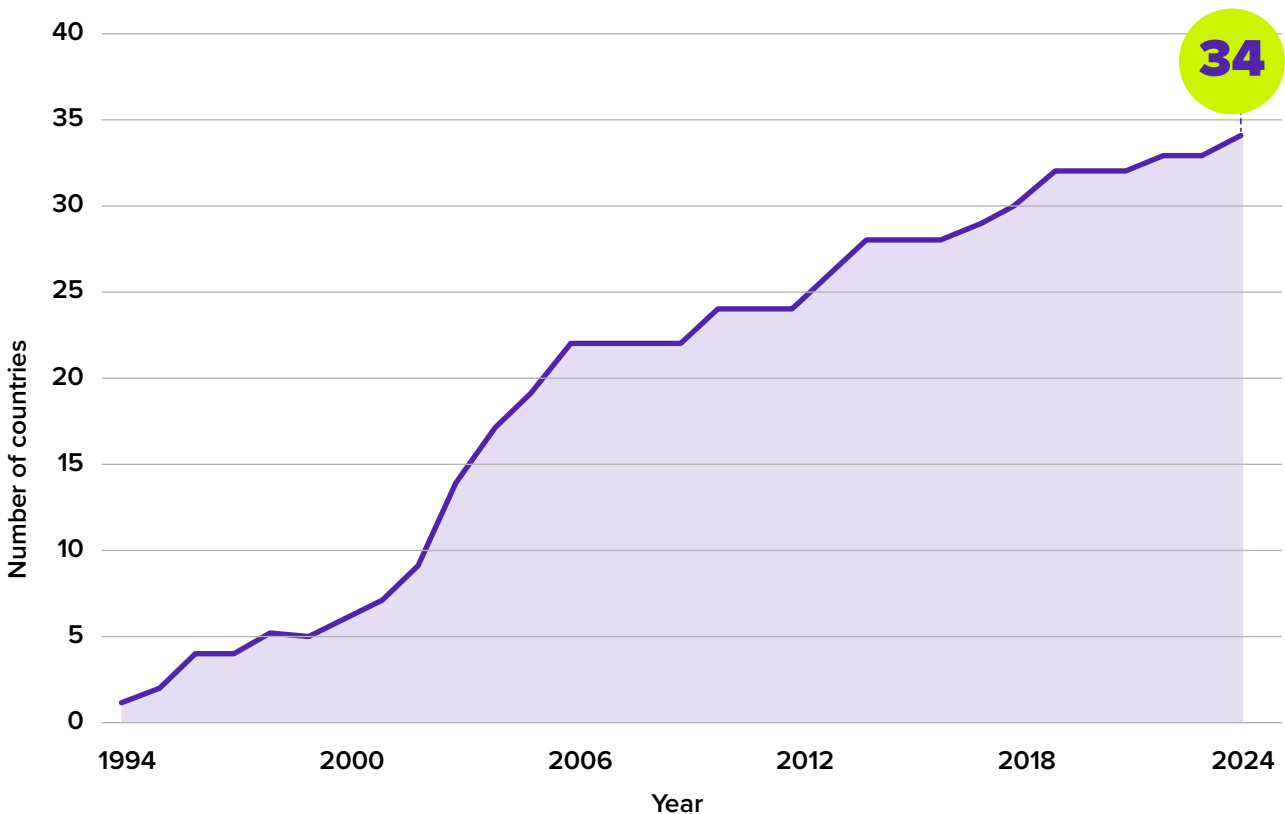
Historically, many African countries had limited access to credit ratings, due to insufficient data and perceptions of high risk. However, this began to change as international financial institutions and policymakers recognized the importance of ratings in attracting investment and fostering economic growth.

Between 2002-2003, significant steps were made to formalize credit ratings for African countries. Notably, the United Nations Development Programme (UNDP) funded initial ratings from S&P, while the United States Department of State financed ratings from Fitch. These initiatives aimed to provide African countries and investors with a clearer assessment of their creditworthiness, ultimately strengthening their ability to attract foreign investment.

By supporting these initial ratings, UNDP sought to enhance the transparency and credibility of lending and investing in African economies. As a result, countries such as Ghana, Kenya and Nigeria secured their first formal credit ratings, laying the groundwork for greater international investment.

The early 2000s marked a turning point, as more African countries pursued ratings from the Big Three. Economic reforms and governance improvements gradually translated into stronger credit ratings, reflecting these positive changes. By obtaining sovereign ratings, governments signalled their commitment to sound economic management and sought to attract foreign capital. These ratings opened access to global capital markets, fuelling the expansion of the African Eurobond market, which has since grown significantly, with total issuances reaching approximately \$300 billion over the past two decades.

**Figure 1. Number of African countries with one or more sovereign credit ratings from the Big Three agencies**



Despite the increase in the number of African countries receiving sovereign credit ratings, the journey remains challenging. Many countries continue to grapple with political instability, elevated debt burdens and weak financial institutions. Furthermore, African economies are particularly vulnerable to volatile commodity markets, where price fluctuations for grain, oil, food, copper and lumber can severely disrupt external accounts. These vulnerabilities frequently lead to rating downgrades. In 2024,<sup>1</sup> Africa accounted for nearly half of all global sovereign credit downgrades (43 per cent).

Downgrades generate uncertainty for both the affected countries and their investors. Moreover, the persistently low and declining ratings assigned to many African countries have raised concerns about potential subjectivity and bias in the methodologies employed by credit rating agencies. Reports by both UNDP and the United Nations Conference on Trade and Development (UNCTAD) have explored these issues in more detail.

**Table 1. Recent downgrades of African countries**

Date	Country	Agency	New rating	Previous rating
28 February 2025	Senegal	S&P	B	B+
21 February 2025	Senegal	Moody's	B3	B1
23 August 2024	Kenya	S&P	B-	B
2 August 2024	Kenya	Fitch	B-	B
8 July 2024	Kenya	Moody's	Caa1	B3
17 May 2024	Uganda	Moody's	B3	B2
6 October 2023	Uganda	S&P	B-	B
15 September 2023	Ethiopia	Moody's	Caa3	Caa2
21 December 2022	Ghana	Fitch	C	CC
20 December 2022	Ethiopia	Fitch	CCC-	CCC
6 December 2022	Ghana	S&P	CC	CCC+
11 November 2022	Nigeria	Fitch	B-	B
28 July 2022	Mauritius	Moody's	Baa3	Baa2
24 June 2022	Namibia	Fitch	BB-	BB
26 January 2022	Burkina Faso	S&P	CCC+	B

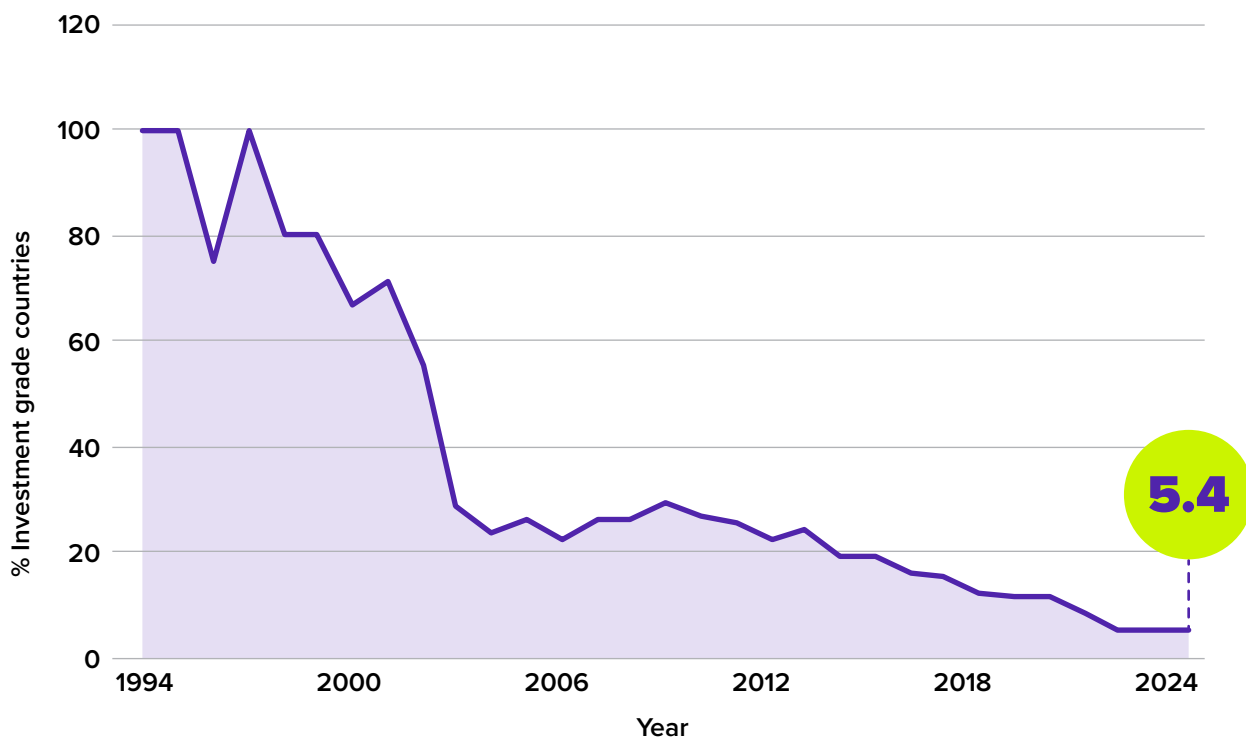
### 3. The low number of investment-grade ratings in Africa

The scarcity of investment-grade ratings – signifying a low risk of default – among African countries stems largely from political and economic vulnerabilities. Politically, nearly a dozen African nations have experienced coups in the past decade, while corruption and lack of transparency continue to undermine governance and investor confidence.

Economically, many countries grapple with unsustainable debt levels, heavy dependence on commodity exports and limited flexibility to curb imports when foreign currency earnings decline. Between 2000 and 2020, African economies became *less* diversified, according to the African Center for Economic Transformation, eroding their export competitiveness and resilience to external shocks. Countries heavily reliant on commodities – such as Angola, Mozambique and Nigeria – are particularly vulnerable to market volatility, making them more susceptible to rating downgrades.

**“In 2024, Africa accounted for nearly half of all global sovereign credit downgrades.”**

**Figure 2. Percentage of rated African countries with an investment-grade sovereign credit rating**



The dearth of reliable economic data only compounds these challenges. Many African countries struggle with data accuracy and transparency, making it difficult for credit rating agencies to conduct thorough assessments. Incomplete or inaccurate reporting on public sector debt, the informal economy and cross-border trade can lead to lower ratings, perpetuating a cycle of underinvestment and higher borrowing costs.

For instance, in late 2024, Senegal announced – following an independent audit – that its fiscal deficits and public debt had been understated. This significant restatement prompted Moody's to downgrade Senegal's rating on 4 October 2024, from Ba3 (stable) to B1 (under review), placing

the rating under review for a potential further downgrade.

Furthermore, underdeveloped financial markets in many African countries hinder effective capital allocation and risk management. Limited infrastructure and regulatory frameworks make these markets less appealing to investors. In this context, initiatives such as the Africa Financial Markets Index from Amalgamated Banks of South Africa (Absa)<sup>2</sup> – which has tracked progress over the past eight years in financial market access, openness and transparency across selected African countries – serve as valuable benchmarks for measuring improvements.

## BOX 2.

### Investment-grade ratings: the cases of Mauritius and Botswana

As of the latest assessments, Botswana and Mauritius remain among the few African countries that have maintained investment-grade sovereign credit ratings from at least one of the major international credit rating agencies. This status reflects their comparatively strong macroeconomic fundamentals, prudent fiscal policies, and stable political and institutional frameworks. These countries benefit from robust institutional frameworks, transparent public administration and low corruption levels, all of which foster investor confidence. Both nations also demonstrate a commitment to democratic governance, with Mauritius upholding civil liberties through regular elections, and Botswana often cited as a model of peaceful transitions of power and adherence to the rule of law.

**Mauritius** has successfully transitioned from a sugar-dependent to a diversified economy, with significant growth in sectors such as tourism, financial services and information technology. Prudent fiscal policies have allowed the Government to maintain low public debt-to-gross domestic product (GDP) ratios while creating a business-friendly environment that attracts foreign direct investment. The country

also boasts a well-regulated financial sector and an independent judiciary, which enhance economic stability and investor confidence.

**Botswana** has leveraged its diamond resources to drive economic growth, managing these revenues strategically to promote diversification since gaining independence in 1966. Budget surpluses have been reinvested in infrastructure, education and healthcare, further strengthening the country's development. Botswana's institutions are known for transparency and accountability, consistently ranking high on governance indices and reinforcing a stable investment climate.

While Mauritius and Botswana have achieved investment-grade ratings through strong governance and sound policies, other African nations like Tunisia and South Africa have lost this status due to economic instability, rising debt and structural challenges. For instance, Egypt has faced mounting external debt, currency depreciation, inflation and fiscal deterioration, worsened by global disruptions such as the Ukraine war. Similarly, South Africa continues to struggle with slow economic growth, high unemployment and corruption, leaving it vulnerable to further downgrades.

Persistent challenges with data quality, debt management systems and limited institutional capacity in preparing for credit rating reviews remain significant obstacles. To bridge this gap, UNDP launched the Africa Credit Ratings Initiative in 2024 that aims to strengthen the capacity of African borrowers, enabling them to engage more effectively with credit rating agencies and improve their credit standing.



## Conclusion

The role of credit rating agencies, particularly the Big Three, is central to understanding capital access and economic development in Africa. While their ratings facilitate investment and support economic growth, the structural challenges faced by African countries highlight the need for better engagement with the agencies and greater efforts to enhance governance, transparency and economic diversification. At the same time, credit rating agencies must deepen their understanding of local contexts to produce more accurate assessments. Moody's recent acquisition of the Mauritius-based Global Credit Ratings positions it to gain a stronger foothold in African markets and more granular information on the region's unique complexities.

# 02



## **Understanding sovereign credit ratings: measures, distinctions and regulatory frameworks**

# Chapter 2

This chapter examines the role of sovereign credit ratings in the global financial system by addressing three key questions.<sup>2</sup>

First, it examines what sovereign credit ratings measure – both quantitatively and qualitatively – to assess their effectiveness as tools for evaluating creditworthiness. Second, it differentiates between sovereign (cross-border) and domestic credit ratings, emphasizing the impact of currency market risks in shaping these assessments. Third, it reviews the regulatory frameworks governing credit rating agencies, focusing on their historical evolution and the mechanisms used to balance accountability, market discipline and global financial stability.

## 1. What do sovereign credit ratings measure, quantitatively and qualitatively?

Sovereign credit ratings are not universally regarded as purely scientific measures. Sociologists studying credit rating agencies often view these ratings as social signals, emphasizing their role in shaping market behaviour through specialized language. In contrast, financial practitioners generally trust the empirical foundation of ratings, viewing them as meaningful on average.

At their core, sovereign credit ratings reflect a credit rating agency's opinion of the likelihood that a sovereign borrower will fully and punctually repay its public market debts as outlined in the bond's contractual terms. This assessment is expressed using the credit rating agency's proprietary letter or alphanumeric rating scale.

However, the terms “quantitative and qualitative measures” remain ambiguous. This ambiguity underscores a divide: sociologists and some

policymakers question the legitimacy of ratings as objective measures, while financial professionals regard them as valid. The question can be interpreted in two ways: either as an inquiry into the types of data that inform sovereign ratings, or as a challenge to the legitimacy of these ratings as accurate measures of creditworthiness.

To address both perspectives, the following sections examine how credit rating agencies convert data inputs into credit assessments and align them with measures of credit quality.

### Key data inputs in sovereign credit ratings

Credit rating agencies use data across four or five equally weighted indicators of sovereign repayment strength:

- **Economic and fiscal:** All three agencies classify their first indicators as “economic” and “fiscal”;
- **Institutional or structural:** Fitch uses “structure” (capital strength), while Moody's and S&P label this category “institutional” (e.g., government effectiveness and monetary policy);
- **External finances or event risk:** Fitch considers “external finances” (external indebtedness), Moody's evaluates “event risk” (macroeconomic shock vulnerability), and S&P uses “external” (current and capital account structures); and
- **Monetary policy:** Unique to S&P, this category evaluates monetary policy.

**Table 2. Indicators considered by the three dominant credit rating agencies**

<b>Fitch</b>				
<b>Economic assessment</b>	<b>Fiscal assessment</b>	<b>Structural features</b>	<b>External finances</b>	
Real GDP growth, real GDP growth volatility, Inflation	Fiscal deficit, public debt, interest payments, public foreign currency debt	Money supply, GDP per capita, government effectiveness, status of reserve currency, years since last default	Commodity dependence, current account balance plus net foreign direct investment, gross external debt of the general government, external interest service, foreign exchange reserve	
<b>Moody's</b>				
<b>Economic assessment</b>	<b>Fiscal assessment</b>	<b>Institutional assessment</b>	<b>Event risk</b>	
Real GDP growth, real GDP growth volatility, World Economic Forum global competitiveness index, nominal GDP, GDP per capita, diversification, credit boom	Public debt, debt burden, debt trend, general government foreign exchange debt/general government debt, other public sector debt, public sector financial assets	Government effectiveness, inflation, inflation volatility, track record of default	Domestic political risk, geopolitical risk, gross borrowing requirements, non-resident share of general government debt, market implied ratings, baseline credit assessment, total domestic bank assets/GDP, banking system loan-to-deposit ratio, current account balance + FDI, external vulnerability indicator, net international investment position	
<b>S&amp;P</b>				
<b>Economic assessment</b>	<b>Fiscal assessment</b>	<b>Institutional effectiveness</b>	<b>External assessment</b>	<b>Monetary assessment</b>
GDP per capita, GDP per capita trend growth, diversification, credit boom	Change in general government debt, net general government debt, interest payment, general government liquid financial assets, volatility of revenues, foreign currency government debt, remaining maturity, non-resident share of general government debt, flexibility of tax regime, United Nations development index, demography, other public sector debt, sovereign exposure of banking sector	Effectiveness, stability, predictability and transparency of policymaking and political institutions, geopolitical and external security risk, debt payment culture	Status of reserve currency, local currency in circulation, current account balance, net international investment position, international terms of trade	Exchange rate regime, credibility and effectiveness of monetary policy, inflation, real exchange rate stability, level of financial intermediation credit market
Source: <a href="#">UNDP Africa Credit Ratings Resource Platform</a> .				

Methodological differences emerge in the required data fields within each indicator:

- Fitch's input list is the shortest and simplest;
- Moody's incorporates revenue volatility and favours "expected loss" over "probability of default" as a risk measure, reflecting its statistical approach; and
- S&P requires more data to provide additional context to its topline indicators.

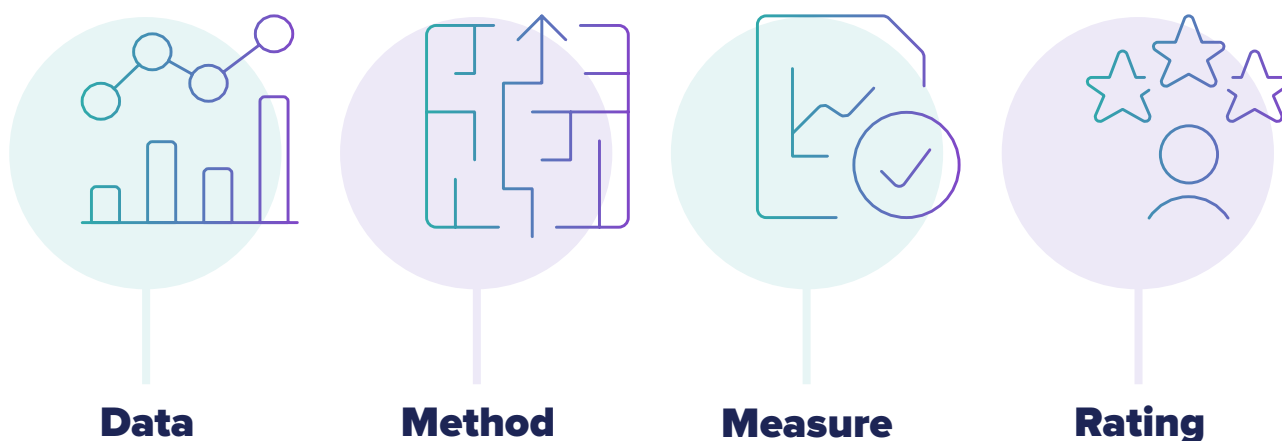
While identifying required data and understanding each credit rating agency's approach is valuable, hands-on "deal" experience is indispensable

for grasping how sovereign credit ratings are developed. Key questions include: How are data identified, sourced, cleaned and updated? How does the lead analyst score a sovereign and select comparison cohorts? How is an alphanumeric rating ultimately assigned, informed – but not dictated – by the score?

#### **Contextual information that shapes rating outcomes**

Implementing credit rating methodologies involves transforming data into measures, as illustrated in figure 3 below.

**Figure 3. Transforming data into measures**



The Method contains information about required Data and the logic for turning them into a Measure. The Measure produced can be a ranking (ordinal) or a dollars-and-cents (cardinal) unit of impairment. It is mapped to a Rating on the proprietary scale.

However, some rating specifics depend on the circumstances of the rating mandate:

- **Capital structure:** Sovereign ratings may assess the issuer's overall credit strength (or "issuer rating") or the creditworthiness of a specific bond issuance (or "issue rating"). While these ratings may align, their meanings differ.
- **Consent:** Sovereigns can choose between *solicited ratings* (with consent, where the issuer typically pays the agency) and *unsolicited ratings* (without consent, unpaid). Historically, solicited ratings tend to be better, possibly because issuers provide more information, improving accuracy, while unsolicited ratings may rely on limited data and take a more conservative approach. Critics, however, argue that lower unsolicited ratings are punitive.
- **Scope:** Sovereigns have the power to create money, levy taxes, regulate economic actors (including financial system players), expropriate funds from enterprises within their boundaries and even go to war. But as external borrowers, they are subject to external market pressures and foreign perceptions. Sovereigns are, in essence, two things: domestically, they control monetary policy, fiscal systems and legal frameworks; externally, they are borrowers navigating a very different power structure.

## 2. Are sovereign credit ratings objective measures?

Credit rating agency processes might appear to be a straightforward colour-by-number exercise, resulting in a measure of payment certainty or probability of default. If rating inputs and methodologies were fixed – static parameters – it would be easy to define what is measured qualitatively and quantitatively. But they are not static.

Rating scales, inputs, methodologies and even the definitions of terms like "measure", "quantitative" and "qualitative" evolve over time. For example, at the beginning of the twentieth century, the original rating scale had only three notches. Since the 1970s, it has 22 or more, excluding outlooks, watchlists and other qualifiers. This evolution reveals that credit rating components are not fixed parameters but dynamic variables – shaped by credit rating agency culture and broader commercial strategies, rather than fixed parameters.

Just as terminology evolves, so do methodologies. In 2022, Moody's replaced its 2019 sovereign rating methodology – a surprisingly rapid change for a credit rating agency with over a century of experience rating sovereigns.<sup>3</sup> These changes appear to have been driven less by product improvement and more by competitive strategy.

Ideally, credit ratings must represent probability of default or a comparable quantifiable measure of dollars-at-risk. Without such a connection, credit markets would lack a rational basis for demanding higher returns to compensate for higher risk. This perspective assumes investor rationality, a foundational concept in finance theory.



To support the perceived link between ratings and real-world outcomes, Moody's began publishing bond default studies in 1983 to demonstrate that its ratings tracked default experience. S&P followed suit in 1984 with similar studies. Even during the 2008 global financial crisis, when credit rating agencies rated complex mortgage re-securitizations, methodologies were rooted in the belief that ratings carried dollars-and-cents significance – implying they reflected measurable financial risks and outcomes.

### 3. What regulatory frameworks govern credit ratings?

#### United States

Credit rating agencies in the United States have maintained a close relationship with regulators since the 1930s, when national bank and state insurance regulators began treating the agencies as quasi-regulatory entities in the credit space. At the turn of the twentieth century, however, credit rating agencies were unregulated startups pioneering a novel business model. This historical evolution explains the United States' unique dual structure: while any firm can enter and operate as a credit rating agency, only those designated as a Nationally Recognized Statistical Rating Organizations (NRSRO) are authorized to have their ratings used for capital regulatory purposes.

The NRSRO designation was created in 1975 through an amendment to the Securities Exchange Act of 1934, coinciding with the introduction of capital risk regulation for broker-dealers. Under this legal framework, credit ratings were classified as opinions, granting them First Amendment protection from litigation, especially from powerful sell-side institutions.

Unlike the United States, no other jurisdiction that regulates credit rating agencies permits a fully free market for credit rating agencies. With the rise of bank deregulation and globalization in the late twentieth century, the influence of NRSROs grew substantially. By 1995, journalist Thomas L. Friedman highlighted their power in his widely cited *New York Times* opinion column, "Don't Mess with Moody's":

**“Credit rating components are not fixed parameters but dynamic variables – shaped by credit rating agency culture and broader commercial strategies, rather than fixed parameters.”**

In 2006, the United States Congress passed the Credit Ratings Agency Reform Act, originally intended to increase competition among credit rating agencies. However, following the global financial crisis, the law was amended through the Dodd-Frank Wall Street Reform and Consumer Protection Act to impose stricter oversight on NRSROs. The Securities and Exchange Commission was granted direct regulatory authority over credit rating agencies, leading to the establishment of the Office of Credit Ratings in 2012. The office is responsible for supervising credit rating agencies, publishing annual performance reports and maintaining oversight.<sup>4</sup>

The Security and Exchange Commission's EDGAR database hosts NRSRO-related filings, including the comprehensive Form NRSRO, which details each agency's operations and compliance status.<sup>5</sup> In the twenty-first century, other major jurisdictions – including China, the European Union and Japan – followed the United States in establishing regulatory frameworks for credit rating agencies.

#### China

China's regulatory framework<sup>6</sup> was collaboratively developed by key government entities, including the People's Bank of China and the China Securities Regulatory Commission. It reflects China's unique dual system of commercial and administrative law and aligns with the country's broader market philosophy.

## European Union

The European Union established its regulatory framework for credit rating agencies through Regulation (EC) Number 1060/2009.

In 2011, the European Securities Market Authority (ESMA) assumed responsibility for the registration, certification, monitoring, investigation and enforcement of credit rating agency activities.

ESMA's approach reflects a distinctly European perspective on the role of credit rating agencies in capital markets. It communicates its policies and standards through various formats, including guidelines, technical advice and technical standards.

Notably, obtaining a credit rating agency license in the European Union does not automatically qualify an agency's ratings for use as capital provisioning benchmarks. To achieve this status, a credit rating agency must also secure designation as an External Credit Assessment Institution from the European Banking Authority.



## Japan

Japan's regulatory framework, the Guidelines for Supervision of credit rating agencies, was issued by the Financial Services Agency in June 2022, following a decade of development.

The framework is clear and well-structured, offering detailed guidance on credit rating agency registration and oversight. However, the registration process requires approval from Japan's Prime Minister, adding an additional layer of regulatory oversight.

## Conclusion

Credit ratings rely on both quantitative data and qualitative judgment, shaped by evolving methodologies, market conditions and regulatory oversight. The distinction between domestic and cross-border ratings highlights the dual nature of sovereigns – powerful within their borders yet constrained by external market forces. Regulatory frameworks vary widely, from the United States market-driven NRSRO system to the European Union's centralized oversight and Japan's executive-level controls, each reflecting different approaches to balancing market discipline and accountability. Understanding sovereign ratings, therefore, requires not just technical insight but critical awareness of the institutional, methodological and geopolitical forces that shape them.

# 03



**How sovereign credit ratings are derived: process, data and collaboration with governments**

# Chapter 3

This chapter examines the production process of sovereign credit ratings (SCRs), addressing key questions:  
How are ratings derived? How are data points determined?  
How do credit rating agencies collaborate with African governments?

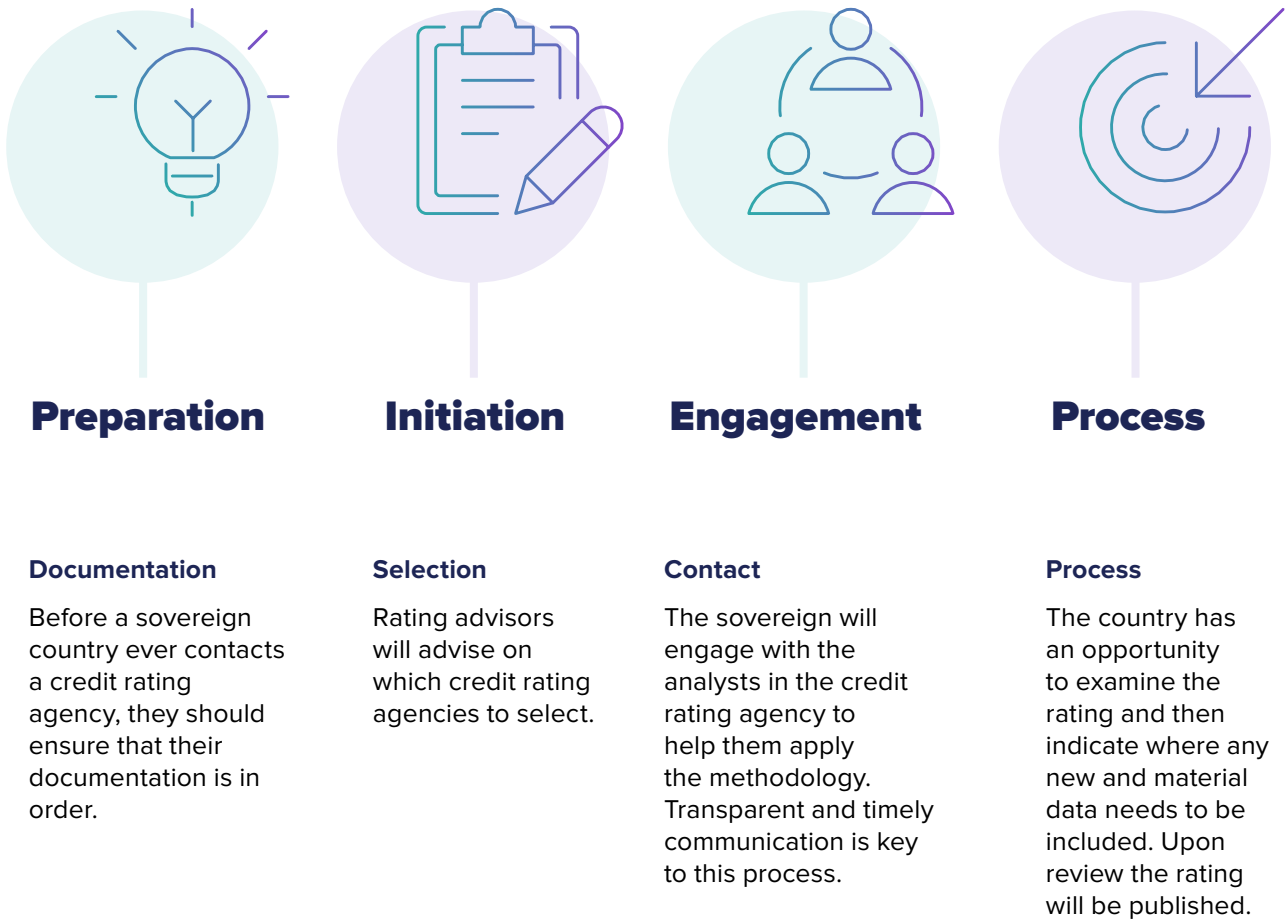
Because credit ratings are their primary product, credit rating agencies have developed a rigorous framework to ensure quality control. This framework consists of three components: (a) definitions; (b) methodologies and criteria; and (c) policies and procedures governing the production and dissemination of ratings. These components serve to balance accuracy and objectivity with operational efficiency.

While regulations do not dictate how credit rating agencies define definitions or methodologies, they do enforce constraints on policies and procedures. For instance, they may require final ratings to align with the agency's established definitions and methodologies (see chapter 2 for more information).



## Figure 4. The role of the sovereign country in obtaining a credit rating

A sovereign country may want to obtain a credit rating from a credit rating agency in order to attract foreign capitals. Eurobonds must have a credit rating attached to them, and usually more than one. Below are the overarching steps a sovereign country must take to obtain a credit rating.



Source: [UNDP Africa Credit Ratings Resource Platform](#).

## 1. Policies and procedures and informational inputs

The policies and procedures of credit rating agencies form a critical framework for ensuring the quality and consistency of sovereign credit ratings. While a comprehensive discussion of these policies could fill volumes, this section highlights the key aspects relevant to their operation, focusing on common practices among the three major credit rating agencies.

Credit rating agencies rely on standardized international data sources, such as the IMF International Financial Statistics, to anchor their analyses. These sources are a foundation for rating analyses, enabling consistent evaluations across countries. However, when justified, analysts may adjust datasets, provided such modifications are explicitly documented. For more specialized information, such as contingent liabilities, credit rating agencies often turn to national data sources, gathered through government websites, email correspondence with officials, or direct in-person meetings. Beyond gathering raw data, credit rating agencies strive to understand a country's macroeconomic, fiscal, external and monetary forecasts as outlined by its officials. This insight allows analysts to evaluate a nation's projected economic trajectory within the broader context of available data.

This is particularly relevant in the African context, where challenges related to data availability, accuracy and timeliness exist. Gaps in data can significantly impact a country's credit rating, as credit rating agencies often rely on models or alternative sources to estimate missing information. These gaps create room for "expert" opinion and subjectivity during ratings committee deliberations.

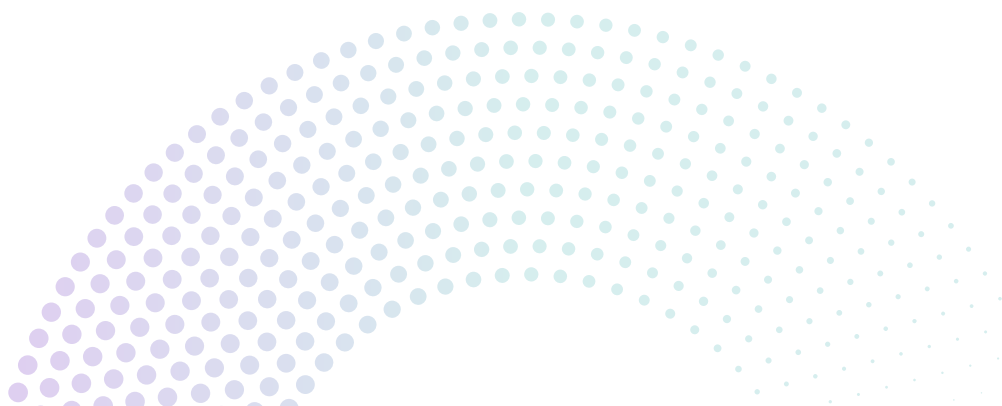
To uphold the integrity of their assessments, credit rating agencies enforce strict minimum data requirements as part of their policies and procedures. If a country fails to meet these standards, the agency may decline to assign or withdraw an existing sovereign credit rating, ensuring all ratings are grounded in a robust and consistent informational foundation.

Even when comprehensive numerical data are available from standardized sources, credit rating agency policies mandate that assigned analysts – normally at least two – conduct formal meetings, either in person or remotely, with key stakeholders. These include government officials, representatives from multilateral organizations, private-sector corporations operating in the country, opposition leaders, and members of the national media.

These meetings:

- Allow government officials to articulate their policy platforms and address any discrepancies with prior statements;
- Provide an opportunity to discuss forecasts and available data with government officials; and
- Cross-verify official statements with perspectives from other stakeholders.

The frequency of formal meetings varies across credit rating agencies. For instance, S&P typically holds annual meetings, while Moody's allows analysts more flexibility to schedule them as needed. In-person meetings – particularly those requiring travel – represent a significant variable cost in producing sovereign credit ratings. To optimize these interactions, credit rating agencies aim to maximize their value. However, inefficiencies – such as last-minute cancellations or officials evading critical questions – can lead to delays and disruptions, which credit rating agencies find especially frustrating.



## 2. Policies and procedures: conducting sovereign credit rating analyses

The policies and procedures credit rating agencies use are designed to streamline SCR analysis, ensuring consistency, reducing errors and facilitating cross-country comparisons. Supported by internal data and analytics systems, policies and procedures frameworks enhance operational efficiency and accuracy. For example, they ensure consistency between related economic indicators, such as fiscal deficits and net government debt or current account deficits and net external liabilities.

The main responsibility for analysing a country rests with the “primary” or “lead” analyst, who is supported by one or more junior analysts. Junior analysts typically handle data collection, perform basic calculations and draft initial written materials. Depending on the credit rating agency’s operational model, these tasks may be conducted locally or outsourced to lower-cost jurisdictions, such as India. Junior analysts may or may not participate in formal meetings with government officials or other stakeholders.

In addition to the primary analyst, a “secondary” or “back-up” analyst is generally assigned to each case. While their involvement is more limited, they often attend key meetings and serve as a sounding board for the primary analyst’s assessments. Secondary analysts are typically more senior and, in some cases, may also act as the primary analyst’s manager.

A defining characteristic of credit rating agency methodologies is their forward-looking nature, requiring analysts to generate forecasts on key variables. Even when data are incomplete or forecasting proves challenging, policies and procedures require analysts to provide their “best-effort” estimates – unless minimum data thresholds cannot be met. This forward-looking approach also enables country officials to shape projections by providing relevant and reliable information, helping ensure a more accurate assessment.

Once data collection and processing are complete, the primary analyst finalizes the key components of the analysis, including:

- Forecasts and forward-looking opinions (for example, the likelihood of policy changes following elections);
- Cross-country comparisons; and
- Drafts of explanatory narratives summarizing the analysis.

These elements form the foundation of the primary analyst’s recommendations for the sovereign credit rating, its associated outlooks and any headline opinions. The materials are then compiled into a standardized format known as the “committee package” or “committee presentation”, as specified in each credit rating agency’s policies and procedures.

## 3. Policies and procedures governing the sovereign credit rating committee

The SCR committee is the decision-making body within a credit rating agency responsible for finalizing and approving sovereign credit ratings. It ensures that ratings are determined in a structured, transparent and collaborative process, guided by established methodologies and policies.

The comprehensive “committee package” discussed above must meet standardized formatting requirements to ensure compliance with regulatory documentation standards and support operational efficiency. It is then circulated to all committee members in advance, typically with sufficient lead time to allow for thorough review.

When the SCR committee convenes, procedural matters are addressed first. The primary analyst is then invited to summarize their recommendations, followed by the secondary analyst providing their independent assessment. In turn, discussion opens to the broader committee for deliberation.

Key elements of the committee process include:

#### **a. Committee composition and leadership**

The committee is chaired by a senior analyst, typically the most experienced member, who ensures that discussions remain focused and productive. The chairperson's responsibilities include verifying that:

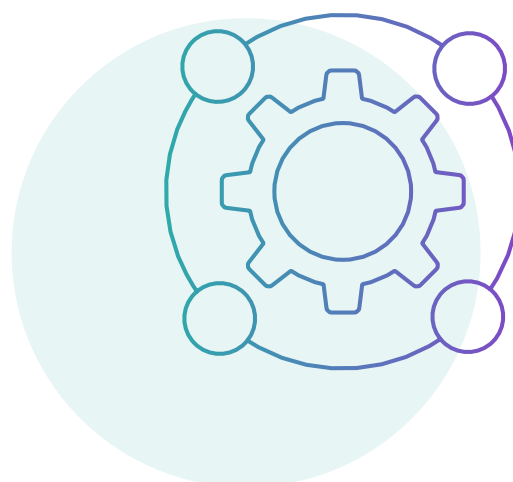
- The committee package meets minimum content and format standards;
- The committee includes members with the requisite expertise and seniority;
- All participants have the opportunity to ask questions, provide input and express disagreements; and
- Final decisions are clearly articulated and documented.

#### **b. Minimum attendance requirements**

Credit rating agencies mandate a minimum number of eligible members to convene a valid committee. Under normal circumstances, this ranges from five to seven members. In emergencies, the requirement may be reduced to as few as three.

#### **c. Voting process**

After sufficient discussion, the chairperson calls for a vote. Each eligible member casts one vote, and the majority decision becomes the agency's final rating. Junior attendees or contributors from other rating agencies may participate in discussions but typically do not hold voting rights.

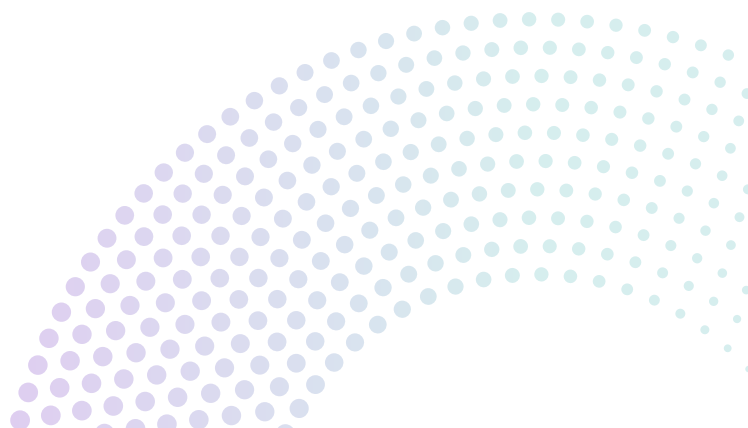


#### **d. Confidentiality**

Committee proceedings, including the composition and voting outcomes, remain strictly confidential and are not disclosed outside the credit rating agency. This confidentiality extends to the rated sovereign and external stakeholders.

#### **e. Communicating sovereign credit rating decisions to issuers and the public**

Credit rating agencies require that the committee's decision on the sovereign credit rating be communicated to the rated issuer within a set timeframe. This ensures that analysts and the chairperson can properly document the outcome and make any necessary adjustments to publications, data and forecasts to align with the committee's conclusions. If the committee disagrees with the primary analyst's initial recommendations, substantial revisions to the materials may be needed before finalization.



Once revisions are complete, the primary analyst – or the secondary analyst if the primary is unavailable – informs the rated issuer (typically the government) of the outcome. Credit rating agencies also provide the issuer with a brief opportunity to review the draft publication before its release. However, analysts are typically prohibited from accepting changes suggested by the issuer, unless they involve factual corrections or the removal of information deemed confidential by the issuer. The review period for government officials is intentionally brief, often lasting only a few hours.

Once the rated issuer is informed of the committee's decision and has had an opportunity to review the draft publication, the process shifts toward public communication. To ensure decisions are disseminated to the broader public as quickly as possible, credit rating agencies strictly limit the time allowed for issuer comments. This urgency reflects the regulatory focus on protecting the public interest and maintaining market integrity. The longer a market-moving decision remains unpublished, the greater the theoretical risk of its misuse as “material non-public information”.

## Conclusion

The process of determining sovereign credit ratings is both meticulous and dynamic, requiring a balance of rigorous definitions, sophisticated methodologies, and structured policies and procedures. By leveraging standardized data sources, fostering collaboration with governments, and adhering to forward-looking analysis, credit rating agencies strive to deliver ratings that are accurate, consistent and relevant.

# 04



## **Credit rating agencies in Africa: bridging global capital and regional growth**

# Chapter 4

## Credit rating agencies are important to Africa's financial development, facilitating access to both global and regional capital markets.

Two types of credit rating agencies operate across the continent: international agencies such as Fitch, Moody's and S&P, and Africa-based agencies such as Global Credit Ratings, Augusto & Co. and Bloomfield Investment Corporation. Each plays a distinct role – international credit rating agencies provide ratings that enable global comparability, while regional credit rating agencies offer localized insights tailored to specific markets. Together, they enhance transparency, improve fiscal discipline and increase capital flows to and within Africa.

This chapter explores the current operations of these agencies, the methodologies they employ and their contributions to Africa's financial ecosystem. It also examines their potential for growth and the vital role of development partners and regional organizations in supporting Africa's credit rating landscape. By shedding light on this complex yet essential topic, the chapter underscores the transformative impact of credit ratings in bridging global capital markets with regional economic growth.

### 1. Global credit rating agencies in Africa

Between them, the international credit agencies – Fitch, Moody's and S&P – provide ratings for a diverse range of entities across Africa. These include sovereign governments, state governments in major countries such as Nigeria, insurance companies, large domestic banks, prominent corporations and African multilateral organizations. Collectively, Fitch, Moody's and S&P each rate over 150 African entities, offering a comprehensive perspective on the region's financial landscape.

These rating agencies utilize a similar methodology and rating distribution scale, enabling international comparability. For instance, a sovereign credit rating of B+ (Fitch) for Benin is considered equivalent in creditworthiness or credit risk to a B+ rating (S&P) or a B1 rating (Moody's) for Montenegro. Corporate ratings follow the same logic. For example, South Africa's global chemicals and energy company, Sasol (rated Ba1 by Moody's; BB+ by S&P; and BB+ by Fitch), shares the same credit risk designation as Yankuang Energy Group in Hong Kong, rated BB+ by Fitch. The rating scale ranges from AAA, reflecting the lowest risk, to CCC-, denoting the highest risk. However, investors often go beyond the ratings and make their own assessment of default risk (see Appendix B).

Getting one or more ratings gives African countries access to a global investor base, not only for Eurobond issuance but also for investors interested in financing projects or businesses within the region. By enhancing transparency, international ratings help investors assess a country's risks and opportunities more accurately. This, in turn, can stimulate FDI and portfolio investment into domestic debt markets across Africa. Ratings also serve as a critical input for international and regional banks when determining cross-border lending limits for trade finance transactions.

Moreover, the ratings may encourage fiscal discipline on governments by encouraging them to manage public finances more effectively. Over the long term, credit ratings may also motivate countries to address structural barriers to growth and mitigate vulnerabilities in order to maintain or improve their ratings. Higher ratings reduce borrowing costs, further benefiting the fiscal health and economic prospects of African nations.

## 2. The role and potential of Africa-based credit rating agencies

Africa-based rating agencies focus exclusively on the continent, providing critical insights into local credit markets. The largest, Global Credit Ratings, was fully acquired by Moody's in July 2024. Global Credit Ratings operates in five countries – Kenya, Mauritius, Nigeria, Senegal and South Africa – and conducts national ratings across 20 to 24 African countries. Its scope includes corporations, financial institutions, insurance, public sector issuers and structured transactions in domestic credit markets. Augusto & Co, the longest-established African rating agency, and Bloomfield Investment Corporation provide ratings for sovereigns and other entities. Augusto & Co is headquartered in Nigeria and has offices in Ghana, Kenya and Rwanda. Meanwhile, CARE Ratings operates solely in Mauritius, focusing on entities and instruments within that jurisdiction.

Unlike international rating agencies, Africa-based agencies assign ratings on national scales using local currency. These ratings provide relative assessments within a specific country or region, rather than being globally comparable. While the rating scale resembles that of international agencies, within a national context, the strongest

creditor – typically the sovereign – receives the highest rating. Other entities are evaluated in relation to this sovereign benchmark, allowing for a more refined differentiation among local credits.

This level of granularity at the national scale is especially valuable in Africa, where many sovereigns carry ratings in the lower tiers of the international scale – typically B or CCC. These sovereign rating levels effectively cap the ratings that entities within these countries can achieve on an international scale, as they reflect shared economic and systemic risks. National scale ratings, however, offer a clearer view of relative credit strength within a given jurisdiction, showcasing creditworthy companies with lower default risks than what their sovereign's international rating might suggest.

The heightened transparency offered by national scale ratings attracts investment from investors focused on specific jurisdictions or regions. For example, regions such as the Central African Economic and Monetary Union and the West African Economic and Monetary Union, which share a Euro-pegged currency and regional monetary policy, benefit significantly. Investors in these regions are often comfortable with local currency returns and foreign exchange risks, further enabling capital inflows.

### BOX 3.

#### Bloomfield Investment Corporation

Bloomfield Investment is a credit ratings agency based in Abidjan, Côte d'Ivoire. The organization was established to address the needs of financial markets and banks in Africa by providing transparent and credible risk assessments. The agency offers three main services: credit risk assessments for domestic institutions, training seminars on credit ratings, and risk analysis at the sector, country and regional level.

#### Agusto & Co.

Agusto & Co. is a Pan-African credit ratings agency that also provides industry research and market knowledge to Sub-Saharan African countries. They are a leading provider of credit ratings to institutions in Nigeria, Kenya,

Rwanda, and Ghana, and hold licenses to operate in all four of these countries. Since its inception, Agusto has assigned over 3,000 ratings to private corporations, commercial and investment banks, insurance companies, and sovereigns.

#### African Credit Ratings Agency (AfCRA)

The African Credit Ratings Agency (AfCRA) is being established as a continental initiative by the African Union (AU) to provide independent and reliable ratings for sovereigns, sub-sovereigns, and corporations in the African continent. The goal of the agency is to reduce reliance on the three major international credit ratings agencies and address the specific credit assessment needs of African countries. The African Union plans to debut the agency's first rating between mid 2025 and early 2026.

By narrowing the information gap surrounding domestic entities, Africa-based credit rating agencies play a pivotal role in fostering investment through bank lending, private equity and portfolio investments in local markets. These agencies also contribute to the growth of domestic capital markets by encouraging firms to improve their financial management and transparency, thereby increasing their appeal to potential investors.

Given the vast number of domestic entities in Africa that stand to benefit from ratings, the growth potential for this sector is substantial. Greater adoption of local ratings can stimulate increased capital flows, ultimately fostering broader economic development across the continent.

#### BOX 4.

### What is the difference between sovereign (cross-border) and domestic ratings?

The distinction between cross-border and domestic ratings lies in whether currency market risk is factored into the rating. In jurisdictions where there is a risk of currency devaluation owing to exchange rate volatility on a bond payment date, this is referred to as *transfer and convertibility risk*.

In markets with easy access to global currencies such as the United States dollar or the Euro, transfer and convertibility risk is minimal, and cross-border and domestic ratings are typically identical. This was the case for most credit rating agencies' rating mandates before globalization expanded financial markets. However, as credit rating agencies began rating bonds in markets with less liquid currencies, where the risk of on-the-spot devaluation was significant, the cross-border/domestic distinction emerged.

**Cross-border ratings** reflect the likelihood of currency market disruptions on days when domestic funds must be converted into global currencies to meet debt obligations. **Domestic (local currency) ratings**, on the other hand, are assigned to issuers borrowing in their own currency. These ratings exclude transfer and convertibility risk and consider only credit risk. They use the same alphanumeric scale as cross-border ratings. Additionally, credit rating

agencies offer national scale ratings, which remap the credit spectrum to provide better resolution in economies with concentrated rating distributions. But these are less relevant to this discussion.

In countries where transfer and convertibility risk is significant, credit rating agencies impose a *country ceiling* that caps ratings. The ceiling may align with or exceed the sovereign's cross-border rating. While sovereigns can access domestic capital sources to the full extent of their authority, large enterprises or financial institutions with strong international operations may have better credit profiles and greater access to global currencies than the sovereign.

This dynamic introduces the possibility of sovereign *expropriation of foreign currency* from private entities to meet its own debt obligations. If it deems such actions likely, a credit rating agency may set the country ceiling at the sovereign's cross-border rating (a *sovereign ceiling*). Conversely, if issuers or their bonds meet criteria that minimize transfer and convertibility risk or sovereign expropriation risk, their ratings may *pierce the sovereign ceiling* and exceed the country ceiling.

Rating ceilings are designed to protect international creditors from transfer and convertibility risk but often limit borrower flexibility and disrupt trading relationships within affected countries. These ceilings can trigger a domino effect with far-reaching economic consequences, as demonstrated during the 2008 global financial crisis.

### 3. Development partners: current and potential roles

Development partners have played a crucial role in fostering the growth of credit ratings in Africa. Over 20 years ago, they identified the *information gap* as a significant barrier to private capital flows. This gap was believed to disproportionately limit investment opportunities, even though the actual level of risk in the region may not have justified such hesitation. Development partners contended that, among other things, credit ratings, by assessing creditworthiness and helping to price risk, would bring Africa to the attention of global investors.

In 2002, the United States Department of State and UNDP provided funding to support the first-ever sovereign ratings for African countries. The goal was to demonstrate the value of these ratings, with the expectation that over time countries would take on the responsibility of funding the process independently. At the time, only Botswana, Egypt, Mauritius, Tunisia and South Africa – all investment-grade countries – had voluntarily pursued and obtained ratings. Widespread hesitancy among other African governments stemmed primarily from concerns about the possibility of receiving unfavourable ratings.

To address these concerns, rating agencies and development partners, including UNDP and the United States Department of State, emphasized the advantages of improved transparency, reduced information asymmetries and increased capital flows. These benefits were framed as steps toward putting African countries on the investor map. There was initially little expectation that African countries would enter the Eurobond market anytime soon.

But this changed rapidly. By 2004, Ghana became the first of the newly rated countries to issue Eurobonds, paving the way for many others to follow. Today, 34 African countries have external ratings, and entities such as major pan-African banks, including Ecobank Transnational Inc., have integrated Eurobonds into their funding strategies. Domestic capital markets in countries such as Ghana, Kenya, Nigeria, Uganda and Zambia have also seen growing participation from portfolio investors. Despite challenges, particularly in recent years, African Eurobonds have become a mainstream global investment option.

UNDP has recently reaffirmed its commitment to supporting African countries in navigating such financial challenges, including rating subjectivities, abrupt downgrades and the so-called “African risk premium” on Eurobond funding. This renewed effort focuses on equipping African countries with a deeper understanding of rating agencies’ criteria and expectations, enabling them to better contextualize their economic narratives and bridge the information gap.

By improving engagement with rating agencies, investors and other capital market actors, these initiatives aim to attract greater local and foreign investment while fostering the growth of domestic capital and credit markets. Through targeted interventions that address informational and structural barriers, development partners and regional initiatives are laying the groundwork for a more resilient and transparent financial landscape in Africa.

## 4. Regional organizations

Many African regional organizations have achieved international ratings, including the African Development Bank (rated AAA by Fitch), the East and Southern Africa Trade and Development Bank (rated BB- by Fitch), the Afrexim Bank (rated BBB by Fitch), the African Guarantee Fund (rated AA- by Fitch), and the Africa Finance Corporation (rated A3 by Moody's). These ratings are significantly higher than those of most African countries, reflecting both their strong stakeholder support, which includes African and donor nations, and their robust capital and liquidity levels.

Multilateral organizations play a crucial role in three key areas. First, their strong ratings allow them to borrow at significantly lower costs, with the African Development Bank being the most cost-effective lender. Indeed, capital provided by African Member States to such African multilateral development banks can generate investments into the contributing Member States in amounts that are larger than the capital contributions and at costs that may be lower than on sovereign Eurobonds issued by the Member State.

Second, the funds raised are channelled into development and infrastructure projects, often in collaboration with private sector contributions at market rates. By blending multilateral and private sector funding, these initiatives help reduce overall financing costs across the region. In addition, the African Development Bank provides concessional funding to low-income countries, supporting a range of social development initiatives.

Third, the African Guarantee Fund plays a vital role in improving access to finance to small and medium-sized enterprises by offering guarantees to banks, thereby encouraging lending and fostering economic growth.

A potential area for expansion is multilateral fundraising in local capital markets using local currencies. This strategy supports the development of domestic capital markets while offering governments lower-cost funding in their own currencies. Targeted efforts in key sectors, such as small and medium-sized enterprises, could create greater impact – particularly for regional banks such as the West African Development Bank (rated BBB by Fitch and a Baa1 by Moody's).

## Conclusion

Both international and Africa-based credit rating agencies play an important role in shaping Africa's financial landscape. By delivering transparent, standardized assessments of creditworthiness, they bridge the gap between global capital markets and regional economies, fostering investment flows that drive development. Through their ratings, these agencies enhance fiscal discipline, improve access to financing, and uncover investment opportunities within the continent. With the support of development partners and regional initiatives, the credit rating ecosystem in Africa continues to evolve, highlighting its potential to further accelerate economic growth and strengthen domestic capital markets.

# 05



## **South Africa's approach to credit ratings: a qualitative study of best practices**

# Chapter 5

With its diversified economy, advanced financial markets and significant regional influence, South Africa has navigated a complex relationship with credit rating agencies.

While it has experienced commendable periods of economic stability and growth, South Africa has also faced episodes of political uncertainty, economic stagnation and social unrest. In the past six years, successive credit rating downgrades – driven by political instability, economic mismanagement and rising debt – have resulted in the loss of investment-grade status, significantly challenging the country's economic outlook.

The nation's public debt has risen steadily, now nearing 80 per cent of GDP – well above the sub-Saharan African average of 43.7 per cent – while economic growth has been sluggish, averaging just 1 per cent annually, even before the onset of the COVID-19 pandemic. Issues such as unreliable energy supply, unemployment rates exceeding 30 per cent, and ongoing political uncertainty have exacerbated its economic difficulties, discouraging investment and hindering growth prospects. Despite these challenges, South Africa's experience offers valuable lessons and best practices for managing relationships with credit rating agencies effectively.

By emphasizing proactive communication, transparency in policy frameworks and targeted reforms, South Africa has demonstrated strategies that can mitigate the risk of downgrades and secure more favourable ratings. The National Treasury has played a central role in fostering these interactions, underscoring the importance of building credibility and collaboration with credit rating agencies. Understanding these dynamics provides a roadmap for improving credit ratings, boosting investor confidence and fostering sustainable economic development.

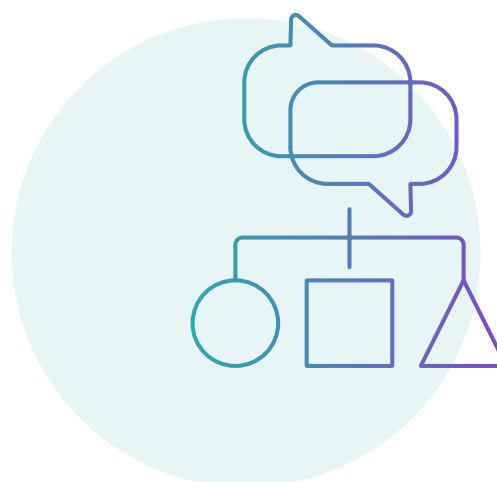
## 1. Understanding credit rating agencies' criteria and expectations

South Africa has undertaken various reforms to address its economic challenges, focusing on stimulating growth and stabilizing inflation. Key measures include enhancing fiscal discipline, such as reducing the budget deficit and improving public debt management. The National Treasury has prioritized stabilizing public debt and promoting fiscal consolidation. Structural reforms have also been introduced through initiatives such as Operation Vulindlela, which aims to expedite reforms to boost economic growth by modernizing and transforming network industries, including electricity, water, transport and digital communications. Despite these efforts, achieving sustained GDP growth and maintaining low inflation remain significant challenges.

To manage its rising debt levels, the Government has implemented fiscal consolidation measures designed to lower the debt-to-GDP ratio and improve revenue collection. Additionally, it has taken steps to enhance expenditure management and secure greater access to domestic and international liquidity. However, maintaining sustainable debt levels and ensuring sufficient liquidity continue to pose difficulties, reflecting the broader economic pressures South Africa faces.

Strong governance through institutional transparency, adherence to the rule of law and reduced corruption is critical for securing favourable credit ratings. South Africa has made notable efforts, establishing, for example, the National Anti-Corruption Advisory Council in August 2022, working alongside agencies such as the Anti-Corruption Task Team and the Fusions Centre. These bodies are part of a broader push for governance reforms. However, persistent political challenges and the risk of social unrest continue to undermine stability, posing potential risks to the country's credit rating.

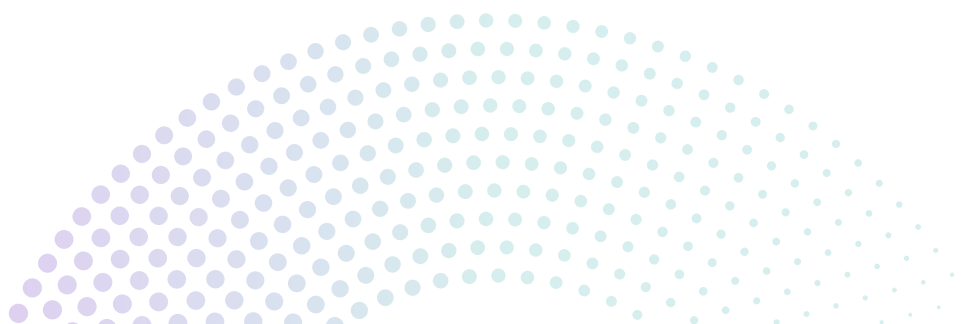
External factors also weigh heavily in the credit rating process. Ratings consider the current account balance, reflecting a country's capacity to manage international trade and investment flows. South Africa has maintained its current account balance through measures that encourage exports and manage imports. It has also built up its foreign exchange reserves, now estimated at approximately \$46.2 billion, to buffer against external economic shocks. Nevertheless, fluctuations in global commodity prices – particularly for key exports such as minerals – remain a source of economic volatility, complicating the outlook for growth and stability.



## 2. Engaging effectively with credit rating agencies

Effective engagement with credit rating agencies and investors is crucial for maintaining and improving the credit ratings of any country. A key aspect involves regular communication and transparency, ensuring that credit rating agencies receive accurate and timely economic data. This in turn allows for informed assessments of the country's creditworthiness. The National Treasury plays a central role in coordinating the dissemination of economic information and ensuring that policy changes are clearly communicated.

The National Treasury employs a clear communication strategy to build confidence in its engagements with rating agencies. South Africa benefits from a robust framework of independent institutions that support policy consistency and accountability. These institutions – including the judiciary, the South African Reserve Bank, the Office of the Public Protector, and the Auditor-General – play vital roles in upholding the rule of law, ensuring transparency and safeguarding financial stability. Their independence enhances policy coherence by providing checks and balances within the government and mitigating political influence.



Examples of institutional contributions include:

- South Africa's judiciary has repeatedly upheld the Constitution, ensuring that government actions align with legal and ethical standards;
- The South African Reserve Bank has maintained its independence and consistently focused on its mandate of targeting inflation and ensuring monetary stability through a reliable and stable economic policy framework;
- The Office of the Public Protector investigates misconduct in public office, promoting accountability and transparency; and
- The Auditor-General's office audits government spending, aiming to prevent corruption and mismanagement in public finances.

These institutions bolster trust in South Africa's governance, encouraging confidence from both local and international stakeholders.

Another important element is the role of the Financial Sector Conduct Authority in overseeing credit rating agencies within the country. The Authority enforces a stringent regulatory framework to ensure fairness and transparency in assessments, thereby safeguarding the integrity of the credit rating process while protecting the interests of both the country and its investors.

#### BOX 5.

### A credit rating liaison team at South Africa's National Treasury

The National Treasury has a dedicated credit rating liaison team, consisting of three to five experts who manage the country's relationships with credit rating agencies. The team is responsible for presenting accurate, detailed financial and economic data, policy reforms and projections to these agencies to help them assess South Africa's economic stability and debt repayment capacity.

Key responsibilities include:

#### **Engaging with the credit rating agencies:**

Communicating with credit rating agencies to clarify fiscal policies, economic reforms and long-term growth strategies. This ensures the agencies have up-to-date, transparent information about South Africa's economic status and policy measures.

**Compiling data and reporting:** Preparing reports on fiscal performance, debt levels, macroeconomic indicators and projections to provide a clear picture of South Africa's financial position and management of economic risks.

**Updating policy and communicating strategically:** Delivering regular updates on government reforms, policy changes and initiatives that impact economic stability. They can include measures to stabilize public debt, stimulate growth, or address challenges such as unemployment and energy shortages.

**Monitoring agency feedback:** Tracking feedback from credit rating agencies to identify concerns and guide future policy adjustments aimed at enhancing creditworthiness.

**Collaborating across government departments:** Coordinating with other government entities to align with economic goals and ensure consistent, unified data and messaging.

To ensure credit rating agencies have a comprehensive and accurate view of South Africa's economic landscape, the National Treasury and its affiliated entities prioritize consistent, transparent communication. This approach emphasizes ongoing reforms, development plans and targeted efforts to address structural issues such as unemployment and inequality.

Specific practices include:

**a. Regular and transparent economic updates:**

South African officials routinely provide rating agencies with detailed data on quarterly GDP growth, inflation, fiscal deficits and public debt levels. By offering up-to-date statistics and direct access to economic performance metrics, officials ensure that assessments are grounded in accurate and current information. This transparency reduces the risk of decisions being influenced by speculative projections.

**b. Clear communication of policy objectives:**

South Africa's credit rating liaison team actively engages with rating agencies to outline the country's fiscal and economic policy objectives, providing detailed explanations of how these strategies address both immediate challenges and long-term structural issues. This includes presenting comprehensive plans on economic reforms, spending priorities, and revenue measures aimed at stabilizing public finances. By maintaining this open dialogue, the National Treasury and related departments not only demonstrate their commitment to sustainable growth and fiscal prudence but also create opportunities to proactively address concerns raised by rating agencies, fostering greater confidence in the country's economic direction.

**c. Progress reports on structural reforms:**

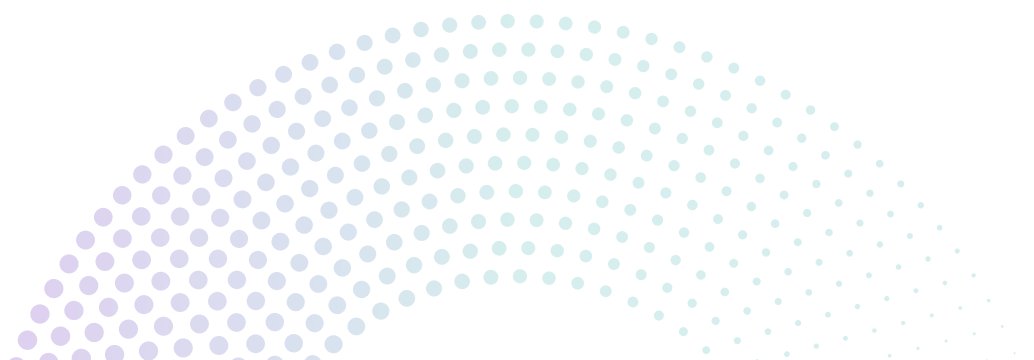
In addition to articulating intentions, South Africa provides periodic updates on the implementation of key reforms. For instance, updates on governance improvements, anti-corruption initiatives and public sector wage negotiations are shared with the rating agencies. When the Government committed to reforming state-owned enterprises, it began offering detailed progress reports, including milestones achieved and challenges encountered. These updates enhance the credibility of reform efforts and build confidence in their execution by demonstrating tangible progress.

**d. Direct engagement and consultations:**

Senior officials, including the finance minister, regularly meet with representatives of credit rating agencies during critical events such as the annual Budget Policy Statement Speech, or in response to economic shocks. These meetings allow officials to explain deviations from fiscal targets, contextualize economic challenges and address specific concerns from the agencies. Open dialogue helps clarify and justify policy changes, reducing the likelihood of downgrades caused by misunderstandings or speculation.

**e. Adherence to global standards and best practices:**

South Africa's interactions align with international best practices, such as adherence to the IMF's Special Data Dissemination Standard. This ensures that economic data is benchmarked consistently against other emerging markets. High standards in data reporting enhance the credibility of South Africa's engagements with the credit rating agencies and minimize the risk of surprises in rating decisions.



The National Treasury consistently issues official communications in response to all rating actions – whether upgrades, downgrades, or outlook changes – by the three major international rating agencies. These announcements serve to outline fiscal policy adjustments and measures being implemented to address the agencies' concerns, providing the public and international stakeholders with a clearer understanding of the broader context and the Government's response. For investors,

these statements signal accountability and fiscal responsibility, demonstrating the Government's awareness of its financial position and its commitment to sound economic management, even in the face of unfavourable ratings. By proactively shaping the narrative around the implications of these ratings, the National Treasury strengthens stability and trust among key stakeholders.

## Conclusion

South Africa's experience with credit rating agencies underscores the vital role of consistent communication, transparency and collaboration in managing a country's creditworthiness. By fostering open dialogue with credit rating agencies, ensuring timely and accurate provision of economic data and addressing agency concerns proactively, the Government has worked to build trust and credibility. The importance of regulatory oversight, exemplified by the Financial Sector Conduct Authority, further reinforces the need for a fair and transparent credit rating process. While challenges like unemployment, corruption and economic instability persist, South Africa's approach offers valuable insights into how maintaining strong relationships with credit rating agencies and fostering a collaborative environment can help stabilize economic foundations and attract sustainable investment.

# 06



## **The journey of the Democratic Republic of the Congo to an improved credit rating: a technical case study**

## Chapter 6

Like many African nations rated by international credit rating agencies, the Democratic Republic of the Congo is classified as a high-risk investment destination – largely due to ongoing conflict – and typically placed in the non-investment grade category or lower.

Yet, its vast natural wealth, including the world's second-largest forest cover and extensive mineral reserves, position it as a potential global leader in climate action. This unique status has earned it the moniker “solution country” in the fight against climate change.

A recent study highlights the Democratic Republic of the Congo's exceptional share of global reserves of critical minerals essential for energy transition

– particularly high-quality cobalt and lithium. As shown in table 2, the country dominates global cobalt reserves and plays a significant role in lithium and rare earth production. These resources, valued in the tens of trillions of dollars, offer major business opportunities. However, persistent challenges – including the ongoing conflict in eastern Congo, political instability and governance issues – have led to sovereign credit downgrades, dampening investor confidence.

**Table 3. Democratic Republic of the Congo's endowments in selected strategic minerals**

Strategic minerals	Share of the world's reserves	Largest African producers
Copper	3%	Zambia
Lithium	30%	Democratic Republic of Congo, Zimbabwe
Rare earths	15%	Democratic Republic of Congo

Source: adapted from Ouedraogo and Kilolo (2024).



To position itself as an investment-grade nation and attract sustainable investments, the Democratic Republic of Congo must improve its sovereign credit rating. This chapter explores the factors influencing the evolution of the country's sovereign credit rating, analysing both the causes of downgrades and recent improvements. Through graphical and econometric analyses, the chapter investigates the broader determinants of sovereign credit ratings in Africa, focusing on governance, macroeconomic fundamentals and external factors.

Using ordered Logit and Probit models, the study examines sovereign credit ratings across 53 African nations from 2002 to 2021, drawing on data from Fitch, Moody's, S&P, the World Governance Indicators and IMF International Financial Statistics. The findings underscore the critical role of governance – particularly government effectiveness and regulatory quality – in improving sovereign credit ratings alongside macroeconomic indicators, such as GDP per capita and economic growth. This research represents a significant contribution to the literature, offering the first comprehensive econometric analysis of African sovereign credit ratings (See Appendix A).

## 1. Evolving credit ratings in the Democratic Republic of the Congo

The Democratic Republic of Congo received its first sovereign credit rating in December 2013, when S&P assigned the country a B- rating with a stable outlook (see table 3). This rating reflected the country's vulnerability and speculative characteristics, signalling considerable risks for potential investors. However, mounting challenges led to a downgrade within a few years.

Moody's began rating the country in 2016, assigning a B3 grade – equivalent to S&P's B-, according to the correspondence tables in appendix A.1. While both agencies initially shared similar risk perceptions, their outlooks differed: Moody's maintained a stable view, while S&P took a more negative stance. By 2019, Moody's downgraded the country to a rating of Caa, aligning with S&P's CCC+ grade. In 2022, both agencies upgraded their ratings by one notch, returning it to B3 (Moody's) and B- (S&P).

Despite methodological differences, these agencies rely on similar core factors when determining ratings, including:

- **Macroeconomic outlook:** Indicators such as real GDP growth, GDP volatility, GDP per capita, inflation and external balance;
- **Public debt sustainability:** Metrics such as budget deficits, debt levels and debt servicing;
- **Governance quality:** Institutional strength, policy consistency and regulatory frameworks; and
- **Risk factors:** Political, economic and external risks, including the business environment.

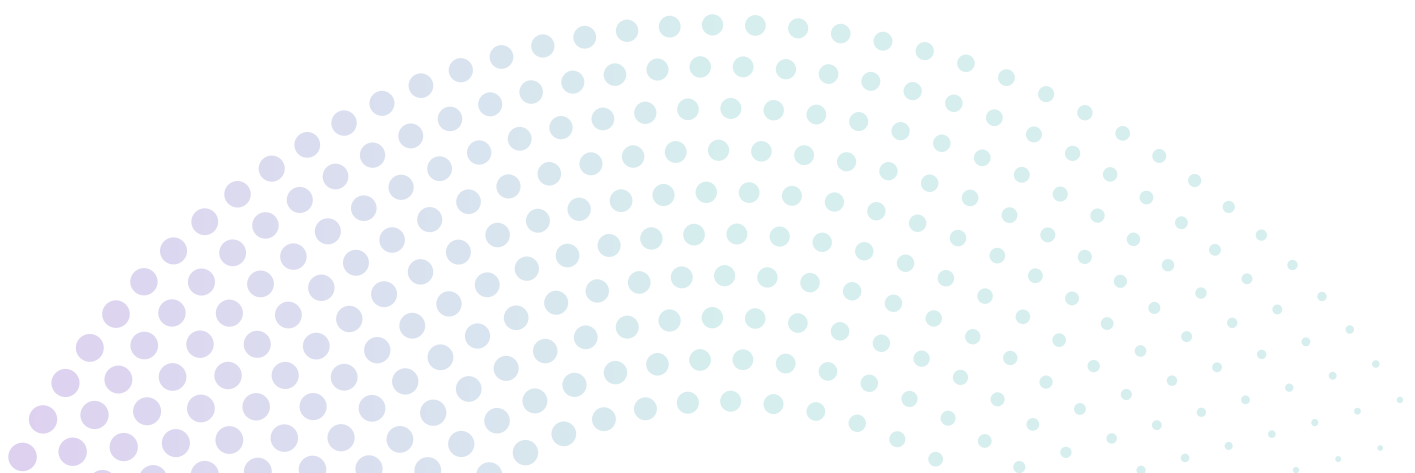
**Table 4. Democratic Republic of Congo's credit ratings since 2016**

Moody's			S&P		
Date	Rating	Outlook	Date	Rating	Outlook
			Jul-24	B-	stable
Nov-22	B3	stable	Jan-22	B-	stable
Oct-21	Caa1	positive			
			Jul-20	CCC+	stable
Jun-19	Caa1	negative	Aug-19	CCC+	positive
Dec-17	B3	negative	Aug-17	CCC+	stable
Jun-16	B3	stable	Feb-16	B-	negative
			Dec-13	B-	stable
Sources: Moody's, S&P, Schwidrowski, & Ordu (2023).					

**a. Drivers of rating changes**

S&P's downgrade in 2017 was primarily attributed to the impairment of key mining facilities, highlighting the country's overdependence on its extractive sector for public revenue and exports. A sharp decline in mineral production reduced exports, created external imbalances and caused foreign reserves to drop to levels barely sufficient to cover one month of imports. As a result, real GDP per capita growth contracted from 3.35 per cent in 2015 to -1.09 per cent in 2016.

The assessment also underscores the economic concentration in copper and cobalt, which constituted 74.6 per cent of total exports in 2016, alongside a heavy reliance on China as a trading partner, with 31 per cent of exports destined for the Chinese market. Additionally, weak governance, policy uncertainty and external challenges, including the Ebola outbreak and ongoing conflict in eastern Congo, further strained impressions of the country's creditworthiness.



**Table 5. An overview of the drivers of the Democratic Republic of Congo's sovereign credit rating in recent years**

	2016	2022	2023
<b>Macroeconomic outlook</b>			
GDP per capita growth	-1.09	5.50	5.11
Real GDP per capita	456.03	664.59	649.14
Foreign reserves/external debt	12.44	37.74	—
<b>Debt and public finances</b>			
Debt management*	3.5	4	4
<b>Governance and institutions</b>			
Political stability	New President elected; War in eastern Congo	Political continuity	Political continuity
Governance**	2	2	2
<b>Other risk factors</b>			
Economic concentration copper and cobalt/exports share of China in exports	74.6% 31%		
Health risk	Ebola outbreak		
Sources: S&P, World Development Indicators, Observatory of Economic Complexity. NB: *Country Policy and Institutional Assessment property rights and rule-based governance rating (1=low to 6=high). **CPIA debt policy rating (1=low to 6=high).			

### b. Upgrades driven by macroeconomic and governance improvements

In 2022, a series of positive developments led to an upgrade in the Democratic Republic of Congo's sovereign credit rating, reaffirmed in 2024. The country experienced a strong economic rebound, with GDP growth recovering from -1.49 per cent in 2020 to 2.83 per cent in 2021 and 5.50 per cent in 2022. Successful conclusion of the Extended Credit Facility arrangement with the International Monetary Fund facilitated access to concessional funding and reinforced macroeconomic stability and debt management.

Credit rating agencies also recognized the political stability following the peaceful transition of power from President Kabila to President Tshisekedi in 2019 and the latter's re-election in 2023, further reducing political uncertainty. Furthermore, the country's efforts to diversify its mineral base into lithium and crude oil, driven by growing demand for lithium-ion batteries and renewable energy technologies, were viewed positively.

The country's strategic focus on "raw material diplomacy" has contributed to a shift in its international narrative. Support from African multilateral institutions, such as the [African Development Bank](#), [Afreximbank](#) and [BADEA](#), has further enhanced perceptions of the country's commitment to sustainable industrialization. These developments have fostered greater confidence among investors and credit rating agencies, supporting the country's recent upgrades.

## 2. The path to investment grade: a quantitative approach

Botswana and Mauritius are among the only African countries that have consistently maintained investment-grade sovereign credit ratings from at least one major international rating agency since the early 2000s. Others on the continent, including the Democratic Republic of Congo, face significant risks and are categorized as non-investment grade. Understanding how these two countries have managed to stand apart offers valuable insights into the key drivers of sovereign credit ratings.

### Drivers of sovereign credit ratings: a graphical analysis

Panel A of figure 5 illustrates a positive relationship between sovereign credit ratings and GDP per capita. Three countries – Botswana (BWA), Mauritius

(MUS) and South Africa (ZAF) – stand out for having both the highest GDP per capita and the highest sovereign credit ratings. Conversely, the Democratic Republic of the Congo (COD) and Niger (NER) are among the countries with the lowest values for both measures.

This reality highlights a fundamental challenge: most African countries are rated non-investment grade, primarily due to widespread poverty and low levels of wealth. Africa is home to two-thirds of the world's least developed countries, making economic diversification essential for breaking the cycle of poverty.

Panels B and C of figure 5 describe the relationship between sovereign credit rating and government effectiveness, as well as sovereign credit ratings and regulatory quality. As before, Botswana, Mauritius and South Africa are high performers, while the Democratic Republic of the Congo figures closer to the bottom of the scale. Good governance therefore emerges as a significant contributor to higher credit ratings, while limited governance capacity in countries such as the Democratic Republic of the Congo negatively impacts their scores.

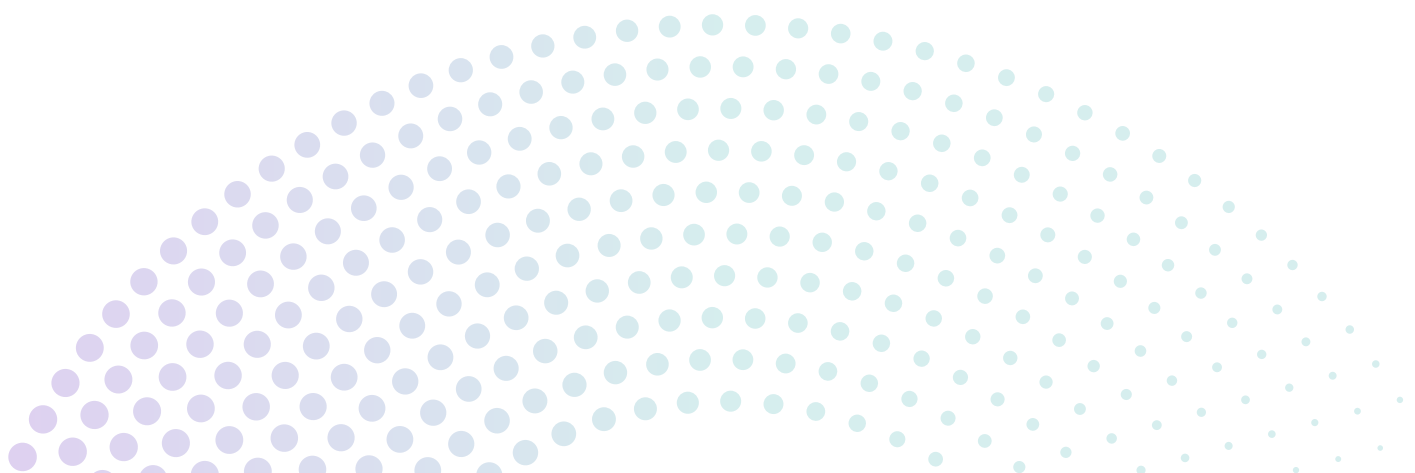
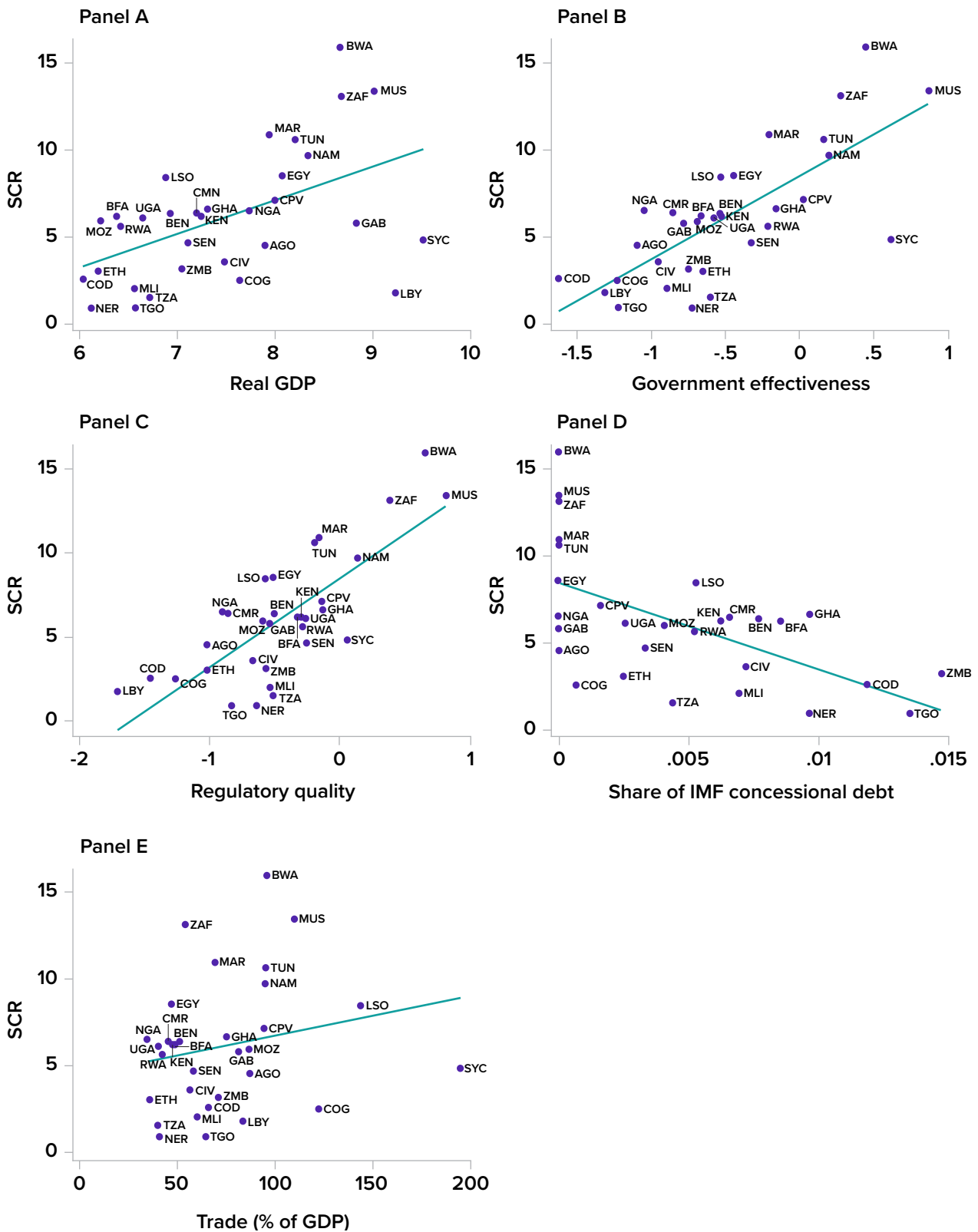


Figure 5. Correlation between sovereign credit rating in Africa and its key drivers



Source: BloombergNEF, 2021.

Panel D depicts a negative relationship between sovereign credit rating and the share of IMF concessional borrowing to total debt. Botswana, Mauritius and South Africa, which hold the highest sovereign credit rating, also have the smallest share of IMF concessional borrowing to total debt. As illustrated by the Democratic Republic of the Congo's experience, credit rating agencies generally view access to concessional funding favourably, as it strengthens a sovereign's capacity to service debts at lower cost.

Finally, panel E shows a positive relationship between sovereign credit rating and the trade-to-GDP ratio. This relationship is intuitive, as higher trade-to-GDP ratios often imply greater access to

international reserves, which support a country's ability to meet debt repayment obligations.

This graphical analysis highlights the significant influence of wealth, governance and international trade in determining sovereign credit ratings. However, these linear relationships should not be mistaken for causation, as simple correlations may be affected by omitted variable bias if other factors are not considered. This limitation underscores the importance of multivariate regression analysis for a more comprehensive and accurate assessment. Appendix B offers an econometric analysis of the marginal effect of different factors, considering other determinants.

## Conclusion

Credit ratings are not just financial assessments – they are policy levers, investor signals, and developmental gatekeepers. In Africa, where access to accessible and affordable capital is critical to achieving national and continental development priorities, the influence of credit rating agencies carries outsized consequences. As this report has shown, the methodologies, assumptions, and market dominance of the Big Three credit rating agencies – Moody's, S&P, and Fitch – often shape the fiscal space and investment environment of African countries more profoundly than any single policy reform or metric. The continent must therefore take a more strategic and coordinated approach to engaging with the credit rating ecosystem.

# 07



## Recommendations

# Chapter 7

Based on the analysis presented in this report, the following recommendations are proposed for African governments, regional institutions and development finance partners:

## 1. Enhance transparency and communication with credit rating agencies

African governments should proactively engage with credit rating agencies, ensuring that policy intentions, reform trajectories and macroeconomic realities are clearly conveyed. Building institutional capacity for credit rating liaison – through dedicated units or strengthened ministries of finance – can improve the quality of dialogue and help prevent misinterpretation or delayed updates. South Africa's experience shows that clear, credible communication with rating agencies can influence outcomes positively, even in times of economic stress.

## 2. Invest in data systems and fiscal reporting infrastructure

Reliable, timely and granular data is central to any credit rating assessment. African countries should continue strengthening national statistical systems, public finance transparency and regular dissemination of economic and fiscal data. Enhanced reporting on contingent liabilities, climate risks and public-private partnerships will also reduce informational asymmetries and improve risk perception.

## 3. Support and scale regional credit rating agencies

Regional agencies such as Global Credit Ratings, Augusto & Co. and Bloomfield Investment Corporation bring critical contextual knowledge that global credit rating agencies may overlook. Governments and regional bodies – such as the African Union, the African Development Bank and regional economic communities – should support the growth, credibility and international recognition of these agencies. Encouraging dual ratings (from both a global and regional credit rating agencies) could offer more balanced assessments and promote healthy competition in the ratings market.

#### **4. Call for methodological reform and greater accountability for credit rating agencies**

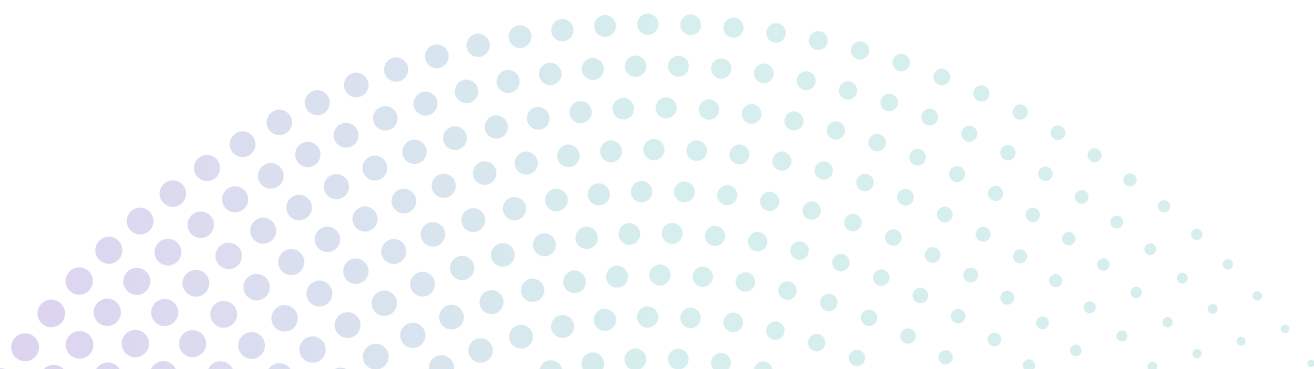
Through multilateral forums and coordinated African voices, governments should advocate for greater transparency and accountability in credit rating agencies methodologies, as they continue to encourage the publication of rating models and assumptions and ensure mechanisms for contesting or appealing decisions. This also involves refining the methodology and data used in ratings assessments to reduce subjectivity. Development finance institutions and multilateral partners can support this by convening technical dialogues between credit rating agencies, African stakeholders and global regulators.

#### **5. Leverage development finance to reduce sovereign risk**

Blended finance, guarantees and innovative instruments – such as debt-for-climate swaps – can help mitigate perceived risks and improve sovereign ratings over time. Development finance institutions and international partners should work closely with governments to design and deploy such tools, especially for countries vulnerable to climate shocks or commodity price fluctuations. The recent efforts of the Democratic Republic of the Congo to monetize climate assets and natural wealth offer a promising example. Engaging directly with investors would also enhance the risk perception of African countries, beyond what is already reflected in credit ratings.


#### **6. Establish an African credit rating platform or observatory**

To foster transparency and analytical independence, Africa should consider establishing a continental observatory or rating research platform – hosted by the African Union, the African Development Bank, or an academic consortium. Such a platform could monitor rating actions, analyse trends, provide peer reviews and publish independent insights on sovereign risk factors.



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# Appendices

## Appendix A. An econometric estimation of the drivers of credit ratings in the Democratic Republic of the Congo

This appendix presents a simplified model to examine the determinants of sovereign credit ratings in Africa:

where  $X$  is the credit rating of country  $i$  in year  $t$ , and  $X$  is a matrix of lagged domestic explanatory variables, related to:

- **Macroeconomics indicators:** log real GDP per capita, growth of GDP per capita, and FDI/GDP;
- **Governance measures:** lagged values of two key indicators – governance effectiveness and regulatory quality;
- **Public finance factors:** the share of IMF concessional lending in total debt; and
- **External indicators:** Trade/GDP.

The error term captures unexplained variation factors.

Sovereign credit rating data are sourced from Fitch, Moody's and S&P. These qualitative rankings are converted into an ordinal scale ranging from 21 to -1, with "not rated" assigned a value of 0 (see table B.1 in appendix B). If a rating remains unchanged, it is carried over to subsequent years. For cases where multiple agencies issue ratings within the same year, an average annual score is calculated. In addition, a country that defaults in a given year may still register a score above 0 if its rating improves following the resumption of debt payments.

Table B.2 outlines the data sources for all variables. Table B.3 provides data summary statistics. Appendix B lists all the African countries covered in the study.

The model employs ordered Logit and Probit estimation techniques commonly used in the literature, with result presented in table A.1. Across all six specifications:

- **Real GDP per capita** shows a positive sign (+), as expected, and is significant at the 1 per cent level in four regressions;
- **Growth of GDP per capita**, though positive, is not significant in any specification. This aligns with the empirical observation that, despite many African countries having the fast-growing economies in the world, most remain non-investment grade or below due to persistent poverty;
- **Governance indicators** – government effectiveness and regulatory quality (columns (1)-(6)) – have a positive coefficient, as expected, and are statistically significant at 1 per cent. After controlling for other variables, they display the largest coefficients in absolute value among all explanatory variables;
- **IMF concessional debt/debt** is negative in columns (1)-(6), but only significant at the 5 per cent level in two cases. This suggests that countries relying on IMF support are often typically in financial distress and undergoing macroeconomic management programmes, making them more susceptible to short-term default risks on their financial obligations;

- **Trade/GDP** enters with a negative coefficient (-), most likely reflecting African countries' low trade openness and limited diversified revenue base to support debt service obligations;
- **FDI/GDP** enters in the regressions with a positive coefficient, as expected, but lacks statistical

significance. The finding underscores Africa's ongoing challenge in attracting substantial FDI. In 2022, Africa accounted for 3.5 per cent of global FDI, with a decline of FDI flows to Africa from a record \$80 billion in 2021 to \$45 billion (UNCTAD, 2023);

**Table A.1. Estimation results for the determinants of sovereign credit ratings in Africa (SCR [-1, 21])**

	(1)	(2)	(3)	(4)	(5)	(6)
	oLogit			oProbit		
Log real GDP per capita	0.885*** (0.123)	0.125 (1.233)	2.139*** (0.515)	0.501*** (0.068)	0.251 (0.650)	1.417*** (0.282)
Growth of GDP per capita (%)	0.006 (0.023)	0.000 (0.032)	0.011 (0.025)	0.005 (0.013)	0.000 (0.018)	0.005 (0.014)
Government effectiveness	1.343*** (0.319)	4.656*** (0.718)	3.608*** (0.634)	0.920*** (0.179)	2.416*** (0.388)	1.864*** (0.344)
Regulatory quality	2.234*** (0.332)	3.098*** (0.704)	3.175*** (0.614)	1.147*** (0.181)	1.437*** (0.377)	1.484*** (0.325)
IMF concessional debt/Debt	-23.560** (9.214)	-8.255 (9.645)	-6.684 (8.683)	-12.132** (4.953)	-4.397 (5.825)	-3.624 (5.272)
Trade/GDP (%)	-0.005** (0.002)	-0.012 (0.009)	-0.007 (0.007)	-0.003* (0.001)	-0.008* (0.005)	-0.006 (0.004)
FDI/GDP (%)	0.013 (0.015)	0.019 (0.020)	0.024 (0.020)	0.008 (0.008)	0.013 (0.011)	0.017 (0.011)
Year fixed effects	Yes	Yes	No	Yes	Yes	No
Country fixed effects	No	Yes	No	No	Yes	No
Regional effects	No	No	Yes	No	No	Yes
Number of observations	858	858	858	858	858	858
Akaike information criterion	2489.41	1801.50	1954.23	2473.86	1829.3	1959.60

**Table A.2. Estimation results for the determinants of sovereign credit rating in Africa (SCR [-1, 7])**

	(1)	(2)	(3)	(4)
	oLogit		oProbit	
Log real GDP per capita	0.725*** (0.126)	2.697*** (0.553)	0.402*** (0.070)	1.510*** (0.307)
Growth of GDP per capita (%)	0.023 (0.024)	0.032 (0.028)	0.013 (0.013)	0.021 (0.016)
Government effectiveness	1.567*** (0.328)	3.605*** (0.670)	0.948*** (0.184)	1.761*** (0.358)
Regulatory quality	1.815*** (0.333)	1.584** (0.640)	0.916*** (0.184)	0.592* (0.338)
IMF concessional debt/debt	-18.388** (9.041)	-5.725 (9.282)	-9.504* (4.865)	-3.146 (5.566)
Trade/GDP (%)	-0.004 (0.003)	-0.016** (0.008)	-0.002 (0.001)	-0.010** (0.004)
FDI/GDP (%)	0.001 (0.016)	0.013 (0.022)	0.002 (0.009)	0.011 (0.011)
Year fixed effects	Yes	No	Yes	No
Country fixed effects	No	No	No	No
Regional effects	No	Yes	No	Yes
Number of observations	858	858	858	858
Akaike information criterion	1539.16	1113.54	1537.98	1158.18

To verify the robustness of the results, table A.2 presents the same analysis by changing the measurement scale of the dependent variable as defined in table B.1 in the appendix, where sovereign credit rating varies in the [-1,7] range. Results are very similar to those in table A.1.

## Appendix B. Data sources, rating scale and additional information

**Table B.1. Credit rating scale from Moody's, S&P and Fitch and conversion in ordinal ranking**

Moody's	S&P	Fitch	Rating1	Description	Rating2
Aaa	AAA	AAA	21	Prime	7
Aa1	AA+	AA+	20	High Grade	6
Aa2	AA	AA	19		
Aa3	AA-	AA-	18		
A1	A+	A+	17	Upper medium grade	5
A2	A	A	16		
A3	A-	A-	15		
Baa1	BBB+	BBB+	14	Lower medium grade	4
Baa2	BBB	BBB	13		
Baa3	BBB-	BBB-	12		
Ba1	BB+	BB+	11	Non-investment grade speculative	3
Ba2	BB	BB	10		
Ba3	BB-	BB-	9		
B1	B+	B+	8	Highly speculative	2
B2	B	B	7		
B3	B-	B-	6		
Caa1	CCC+	CCC	5	Substantial risks	1
Caa2	CCC	CCC	4		
Caa3	CCC-	CCC (low)	3		
Ca	CC	CC	2		
C	C	C	1	In default	-1
D	/	DDD			
DD	D		-1		
D					
Not rated			0		0

Source: Bloomberg, Moody's, Fitch, S&P, UNDP (2023).

**Table B.2. Data sources**

Variable	Source
Credit ratings	Moody's; Fitch; S&P
Government effectiveness	World Governance Indicators
Regulatory quality	World Governance Indicators
IMF concessional lending (logarithm)	IMF financial data
IMF non-concessional lending (logarithm)	IMF financial data
Real GDP per capita (\$)	World development indicators
Growth of GDP per capita (%)	World development indicators
Trade/GDP (%)	World development indicators
FDI/GDP (%)	World development indicators

**Table B.3. Summary statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
Credit ratings	1060	3.683	4.703	0	16
Log real GDP per capita	1018	7.263	.988	5.542	9.726
Growth of GDP per capita (%)	1026	1.568	6.09	-47.9	96.956
Government effectiveness	1060	-.758	.624	-2.445	1.161
Regulatory quality	1060	-.715	.631	-2.548	1.197
IMF concessional debt/debt	980	.007	.017	0	.248
Trade/GDP (%)	945	71.537	39.185	4.128	347.997
FDI/GDP (%)	1038	4.398	7.808	-18.918	103.337

**Table B.4. Correlations matrix**

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Credit ratings	1.000							
(2) Log real GDP per capita	0.552	1.000						
(3) Growth of GDP per capita (%)	0.077	-0.008	1.000					
(4) Government effectiveness	0.714	0.576	0.124	1.000				
(5) Regulatory quality	0.684	0.476	0.118	0.890	1.000			
(6) IMF concessional debt/debt	-0.209	-0.329	-0.071	-0.236	-0.165	1.000		
(7) Trade/GDP (%)	0.121	0.326	0.078	0.167	0.148	-0.114	1.000	
(8) FDI/GDP (%)	-0.035	-0.086	0.090	-0.016	-0.015	-0.003	0.267	1.000

## Appendix C. List of countries

Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Côte d'Ivoire, Democratic Republic of the Congo, Djibouti, Egypt, Equatorial Guinea, Eritrea, Eswatini, Ethiopia, Gabon, the Gambia, Ghana, Guinea, Guinea-Bissau, Kenya,

Lesotho, Liberia, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Republic of the Congo, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Togo, Tunisia, Uganda, United Republic of Tanzania, Zambia, Zimbabwe.

## Endnotes

1. Online article Chaucer. "[Africa sees wave of credit downgrades last year – bucking global trend of net upgrades](#)". 1 July 2024.
2. The term "sovereign" or "sovereigns" in this context refers to national governments that issue debt securities, such as bonds, to finance public spending.
3. United States, Code of Federal Regulations, Title 17, Chapter II, Part 240, General Rules and Regulations, Securities and Exchange Act of 1934, and Part 249b, Further Forms, Securities and Exchange Act of 1934.
4. The EDGAR database is a system maintained by the United States Securities and Exchange Commission that provides public access to millions of documents filed by publicly traded companies, including financial reports and registration statements.



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