DEVELOPMENT REIMAGINED



MAY 2026

REPORT

THE AFRICA DISAGREEMENT TAX

Rating Agency Divergence, Timing Effects, and the Financial Cost to African Multilateral Institutions.

Contents

ACKNOWLEDGEMENTS 6
EXECUTIVE SUMMARY 7
INTRODUCTION 10
1.1 What Are Credit Ratings? 10
1.2 Why Do Credit Ratings Matter So Much? 10
1.3 Evidence on the Africa Risk Premium 11
1.4 The Problem of Rating Disagreement 12
1.5 The Critical Importance of Timing 12
DATA AND 14
METHODOLOGY 14
2. Sample Construction and Coverage 15
2.1 Data Sources and Access 16
2.2 Rating Level Mapping and Standardisation 17
2.3 Analytical Methods 18
2.4 Contemporaneous Panel Construction 19
2.5 Episode Clustering 19
2.6 Limitations 20
PART I: EVIDENCE FROM AFRICAN GOVERNMENTS 21
3. African Government Rating Patterns (2000–2025) 22
3.1 Sovereign Issuance Timing Effects 25
4. Sovereign Rating Action Sequencing 27
PART II: EVIDENCE FROM AFRICAN MULTILATERALS 28
5. AMFIs in the Global Context: Rating Divergence Patterns 29
5.1 The Divergence Gap 29
5.2 The Broader African MFI Context: A Systemic Pattern 32
Mechanism 1 — MDB Methodology Divergence (the AAMFI pattern) 33
Mechanism 2 — Sovereign Linkage Divergence (the broader African MFI pattern) 33
Policy Implications of the Two-Mechanism Framework 34
Emerging Market Peer Comparison: The Africa Pattern is Unique 34
5.3 A Robustness Check: MFI Divergence is Independent of Sovereign Rating Behaviour 35
5.3.1 Divergence Persistence: Why This Pattern is Structural, Not Reactive 36
6. The Cost of Rating Levels: Bond Spread Analysis 38
6.1 Methodology 38
6.2 Regression Results 38
6.3 Same Rating, Different Price: Testing for a Residual Africa Premium 40
7. Timing Matters: When Rating Actions Occur 42

7.1 The Timing Hypothesis 42
7.2 Analysis of AAMFI Bonds 42
8. Rating Action Sequencing: Who Moves First and Last? 46
8.1 Why Sequencing Matters 46
8.2 MFI Downgrade Sequencing 46
8.3 MFI Upgrade Sequencing 47
8.4 The Fitch Asymmetry: A Synthesis 47
9. Which Agency Sets the Binding Rating? 49
9.1 The Binding Rating Concept 49
9.2 Agency Patterns for African Institutions 49
9.3 Policy Implications 50
9.4 Index Inclusion Consequences: The Passive Capital Cost 50
9.5 Regulatory Amplification: Why the Tax Becomes Economically Severe 51
10. Investment-Grade Cliff Exposures 53
10.1 The Cliff Effect 53
10.2 Cliff Proximity Analysis 53
10.3 Institutional Triggers: What Drives Cliff Proximity 54
Afreximbank: 13 Years at the Cliff Edge Under Fitch 54
TDB: A Decade in High Yield, Then a Contested IG Recovery 55
BOAD: 100% of Rated Life at the Cliff Edge 55
11. Translating Rating Divergence into Dollar Costs 57
11.1 Cost Estimation Framework 57
11.2 Annual Cost Calculation 57
11.3 Total Cost Estimate 58
11.4 Per-Institution Impact 59
11.5 Comparison to Non-African Peers 59
11.6 Counterfactual Case Studies: Bond-by-Bond Excess Cost 59
11.7 The Development Cost: What the Tax Buys Instead 61
12. Strategic Responses: The Rating Withdrawal Option 63
12.1 Type A — National-Scale Withdrawal (DBSA, LADB, IDCSA) 63
12.2 Type B — Methodology Disagreement (Afreximbank) 63
12.3 Limits of the Withdrawal Strategy 64
CONCLUSIONS AND RECOMMENDATIONS 65
Summary of Key Findings 66
1. For the Big Three Credit Rating Agencies 68
2. For the African Peer Review Mechanism (APRM) 68
3. For African Sovereigns, MFIs, and Private Sector 68

4. For Institutional Investors and the International Community 69
ANNEX A: INSTITUTION CLASSIFICATION AND SAMPLE COMPOSITION 71
Category 1: AAMFI Members — Rating Coverage 71
Category 2: Other African MFIs (N=13) 72
Category 3: Non-African MFIs (N=13) 73
Category 4: African Sovereigns (N=31) 73
ANNEX B: AAMFIS RATINGS BY AGENCY 75
ANNEX C: SUPPLEMENTARY BOND ISSUANCES (2016–2025) 77

List of Figures

Figure 1: African Sovereigns: Distribution of Binding Ratings (2000–2025) 23
Figure 2: African Sovereigns: Average Binding Rating over Time (2000–2025) 24
Figure 3: African Sovereigns: Frequency of Rating Splits 24
Figure 4: Predicted Yield vs Binding Rating (controls at means; 365d window) 26
Figure 5: Issuance Timing: Downgrade Proximity (nearest downgrade within 365 days) 26
Figure 6: Rating Divergence by Institution Category 31
Figure 7: Bond Spreads vs Average Rating Level 39
Figure 8: AAMFI Timing Analysis — Impact of Rating Actions by Pre-Issuance Window 43
Figure 9: Investment-Grade Cliff Exposure (Proximity to BBB−/BB+ Boundary) 54

List of Tables

Table 1: Evolution of Sovereign and Multilateral Assessment Framework 13
Table 2: Summary Table of Data Used for the Analysis 16
Table 3: Mapping of Ratings to a Common Ordinal Scale 17
Table 4: African Government Lowest Ratings and Disagreement (2000–2025) 22
Table 5: Sovereign Lowest Rating and Issuance Timing Effects 25
Table 6: Sovereign Agency Sequencing Counts 27
Table 7: MFI Rating Divergence — Entity-Year and Bond-Level Comparison 29
Table 8: AAMFI Per-Institution Divergence 30
Table 9: Detailed AAMFI Divergence (Entity-Year Basis) 32
Table 10: African MFI Divergence by Group — All Ratings on Global Scale 32
Table 11: MFI Rating Divergence: Regional and Institutional Summary 35
Table 12: Correlation Between Sovereign and Multilateral Financial Institution Rating Divergence 35
Table 13: Regression Table: Determinants of Bond Spreads (MFI bonds, N=391) 38
Table 14: AAMFI Bond Timing Analysis Results 42

Table 15: Strategic Issuance Timing Zones 44
Table 16: AAMFIs Downgrade Episode Sequencing 46
Table 17: AAMFI Upgrade Episode Sequencing 47
Table 18: Agency Attribution — Who Sets the Binding Rating? 49
Table 19: Summary of Investment-Grade Cliff Exposure by Category of Institution 53
Table 20: Summary of Cost Scenarios 58
Table 21: Bond-by-Bond Counterfactual Analysis (AAMFIs, bonds with divergence at issuance) 60
Table 22: Development Equivalents of the Annual Excess Financing Cost (US$25.2m/yr identified across 8 bonds) 61
Table 23: Rating Withdrawal Events in African MFI Universe (2016-2026) 63
Table 24: AAMFIs — Big Three Rating Coverage 71
Table 25: AAMFI Member Ratings by Agency 75
Table 26: Supplementary AAMFI Bond Issuances 77

ACKNOWLEDGEMENTS

Development Reimagined would like to thank the various stakeholders whose expertise, research and advocacy on sovereign credit ratings provided the essential context for this report. The ongoing global dialogue regarding market equity was invaluable in shaping the independent analysis of the “binding” rating phenomenon as presented in this report.

Special thanks go to the Development Reimagined Team – including Trevor Lwere, who led the drafting and research for this report, Juliet Onyino, Weilu Jiang, Rugare Mukanganga, and Judith Mwai, who all contributed in various ways to its delivery, and Hannah Wanjie Ryder for her overall stewardship.

EXECUTIVE SUMMARY

When African development banks want to borrow money on international markets, three American and European companies — Fitch, Moody's, and Standard & Poor's — decide how much interest they have to pay. These companies, known as credit rating agencies, assign scores to borrowers. Better scores mean cheaper loans. Worse scores mean more expensive ones.

The problem is that these three agencies frequently disagree on how to score African institutions and when they disagree, the worst score wins. Banks, pension funds, and regulators around the world are required by their own rules to use the lowest score when deciding whether to lend and at what price. So even if two out of three agencies say an African bank is creditworthy, the one that is most sceptical sets the price.

This report calls that the "Africa disagreement tax."

The bottom line: this tax costs Africa's development banks an estimated US$ 20 million every year, rising to US$ 44 million when you include the extra cost of borrowing at the wrong moment. Over a decade, that is US$ 200 to US$ 440 million. The same money could build 400 kilometres of road, fund universal primary schools for a mid-sized African country, or bring electricity to five million people for the first time.

Five findings explain exactly how this happens and who is responsible:

1. **Every point on the scoring scale costs money**. Each one-step downgrade in a credit score raises the interest rate a development bank pays by approximately 0.44 percentage points. On a US$ 500 million loan, one step costs US$ 2.2 million a year. This is well-established — the finding is robust across nearly 400 bond issuances and explains over 80% of the variation in what these banks pay to borrow.

2. **African development banks are scored inconsistently.** The three agencies agree almost perfectly when scoring development banks in Europe, Asia, or Latin America. For African banks, they routinely disagree by one or two steps on the same institution at the same time. The analysis finds this is not explained by African country risk or economic conditions — it appears to reflect how the agencies have built their scoring models for African multilateral institutions.

3. **One agency (Fitch) is responsible for setting the worst score in 86% of bond issuances by African development banks.** Across all years, Fitch sets the worst score roughly a third of the time. But specifically at the moments when African banks go to market to borrow, Fitch's score is the one that determines the price in 86% of cases. This is why Afreximbank, one of Africa's largest development banks, ended its relationship with Fitch in 2026.

4. **Fitch moves quickly when scores go down, but slowly when they go back up**. When Afreximbank's financial position deteriorated in 2025, Fitch downgraded it 27 days ahead of Moody's, rapidly setting a lower price. But when the Trade and Development Bank (TDB) recovered in 2017, Moody's upgraded it immediately while Fitch waited a full 12 months to follow. Slow to recognise improvement, fast to penalise deterioration; this double disadvantage is documented across multiple institutions and time periods.



5. **Timing matters.** Development banks that borrow within 90 days of a scoring change pay an average of 1.21% points more than banks that borrow in quieter periods. On a US$ 500 million loan, that is US$ 6 million a year in avoidable costs. Fitch typically reviews African banks in the middle of each year; Moody's tends to do so at the end. African treasuries that build their borrowing plans around these predictable windows could reduce their costs significantly without waiting for any external change.

What should happen now?

The findings point to four actions:

- **Fitch, Moody's, and S&P should publicly review and reform the models they use to score African development banks** — including how they treat the special legal protections and government backing these banks hold. Fitch should act with particular urgency given that it is responsible for setting the worst score in 86% of African development bank bond issuances.

- **The African Union (AU) and African Peer Review Mechanism (APRM) should accelerate the launch of the African Credit Rating Agency (AfCRA),** which is expected to open in 2026. They should also commission a separate study on what the disagreement tax costs African governments directly — this report focuses on development banks; the cost to sovereign borrowers is likely considerably larger and has not yet been fully calculated.

- **African development banks should publish annual independent assessments of their own creditworthiness**, specifically documenting where and why they believe the agencies' scores are wrong. This creates a public record, builds the evidence base for the new African credit agency, and puts pressure on the agencies to justify their positions openly.

- **African governments, banks, and investors should spread their business across a wider range of rating agencies** rather than relying solely on the three American and European firms whose models are producing these inconsistent results.



INTRODUCTION

When an African institution seeks to borrow money from international capital markets, three major rating agencies – Fitch Ratings, Moody's Investor Service, and Standard & Poor's (S&P) –, referred to colloquially as "the big three", typically matter. Their ratings directly influence the interest rate that investors demand. Better ratings mean lower borrowing costs, while worse ratings force governments and institutions to pay significantly higher interest rates.

This report examines how credit rating disagreement and the timing of ratings decisions affect financing costs for African institutions. Our methodology focuses on African governments (sovereigns) and African Multilateral Financial Institutions (AMFIs) as a primary analytical case study. The ultimate aim is to contribute to quantitatively and qualitatively assessing the "Africa Risk Premium" and to generate recommendations for the "big three" and toward the establishment of an AfCRA.

1.1 What Are Credit Ratings?

Credit ratings are assessments of the likelihood that a borrower will repay its debts on time and in full. Three agencies dominate the global credit rating industry: Fitch Ratings, Moody's Investor Service, and Standard & Poor's (S&P). The scale runs from AAA (virtually no risk of default) down through AA, A, BBB (investment grade) to BB, B, CCC (high yield or "junk" status) and ultimately D (default). Each letter grade can be further refined with plus (+) or minus (−) modifiers, creating 23 distinct "rating levels" or "notches" from AAA down to D.

1.2 Why Do Credit Ratings Matter So Much?

Credit ratings have enormous practical consequences for borrowers. First, they directly affect borrowing costs: a one-level rating difference (for example, from BBB+ to BBB) typically translates to 40–50 basis points higher interest rates. On a US$ 500 million bond, this means paying an extra US$ 2–2.5 million per year in interest. Second, many institutional investors face legal or internal restrictions that prohibit them from holding bonds rated below investment grade. Third, regulators use ratings to set capital requirements. Fourth, major bond indices use ratings as inclusion criteria, so losing investment grade status means exclusion from these indices and loss of access to international capital markets.

1.3 Evidence on the Africa Risk Premium

There is already significant evidence on the existence and causes of an "Africa risk premium". NYU Stern's January 2026 data shows a mature-market equity risk premium of 4.2%, compared with 8.1% for South Africa, 12.6% for Nigeria, and 13.9% for both Kenya and Egypt.[1] In 2023, United Nations Development Programme (UNDP) estimated that across 13 African countries, misaligned sovereign ratings were linked to about US$ 31 billion in opportunity costs and US$ 14 billion in potential interest savings.[2]



Gbohoui, Ouedraogo, and Some, writing for the IMF in 2023, analysed 1,592 primary sovereign bond issuances from 89 countries between 2003 and 2021. After controlling for credit ratings, debt levels, GDP, reserves, and institutional quality, they found that African countries pay 150 to 200 basis points more at issuance than their fundamentals predict.[3] Olabisi and Stein, extending their original study through 2022, find the premium persists at approximately 100 basis points; on current outstanding bonds, that represents at least US$ 5 billion in additional annual interest unexplained by standard fundamentals.[4]

These experiences led African governments to mandate APRM support on rating agencies at the 28th AU Assembly in January 2017,[5] and a ministerial declaration in July 2023 endorsed a private-sector-driven AfCRA, expected to become operational in 2026.[6]

[1] Damodaran, A. (January 2026). Country Default Spreads and Risk Premiums. NYU Stern School of Business. Accessed April 2026.
[2] United Nations Development Programme (2023). Lowering the cost of borrowing in Africa: The role of sovereign credit ratings. UNDP Regional Bureau for Africa Policy Brief.
[3] Gbohoui, W., Ouedraogo, R., & Some, J. (2023). African Risk Premium: Evidence from Primary Sovereign Bond Issuances. IMF Working Paper WP/23/130. Washington, D.C.: International Monetary Fund.
[4] Olabisi, M., & Stein, H. (2015). Sovereign bond issues: Do African countries pay more to borrow? Journal of African Trade, 2(1), Article 4. Updated through 2022 in: Olabisi, M., & Stein, H. (2024). Journal of African Trade, Vol. 11. The extended study finds the sovereign premium persists at approximately 100 basis points.
[5] African Union (2017). Decision on the report of the African Peer Review Mechanism (APRM). Assembly/AU/Dec.631(XXVIII). 28th Ordinary Session, January 2017.
[6] African Union (July 2023). Declaration of the 6th Ordinary Session of the Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration.

On January 23rd, 2026, Afreximbank announced its termination of its credit rating relationship with Fitch, citing that "the credit rating exercise no longer reflects a good understanding of the Bank's Establishment Agreement, its mission and its mandate."[7] Afreximbank's decision was validated by independent commentary from the APRM and other stakeholders.[8] On January 28th, Fitch announced a long-term issuer default credit rating downgrade of Afreximbank, while also withdrawing its ratings. The analysis in this report directly contextualises and quantifies the dynamics that drove this decision.

1.4 The Problem of Rating Disagreement

When agencies disagree, the lowest rating often acts as the "binding" rating in financial markets, reflecting regulatory rules, investment mandates, and index inclusion criteria that place weight on the most conservative rating. This prevents "optimism bias" and corrects for asymmetric information. As a result, the lowest rating becomes the "binding" or "floor" rating – it determines pricing, index inclusion, and regulatory treatment.

1.5 The Critical Importance of Timing

Beyond the level of rating disagreement, WHEN rating changes occur can significantly affect their cost impact. A downgrade six months before issuance gives institutions time to engage with agencies, improve metrics, or wait for conditions to stabilise. A downgrade sixty days before issuance leaves no such flexibility – investor presentations are already prepared, roadshows are scheduled, and postponing may not be feasible. The analysis indicates that downgrades occurring 90–180 days before issuance impose an ADDITIONAL penalty beyond the baseline effect of having a lower rating. A new finding in this report extends this logic: the sequencing of which



[7] African Export-Import Bank (January 23, 2026). Afreximbank announces termination of its credit rating relationship with Fitch. Press Release.
[8] African Peer Review Mechanism (January 27, 2026). APRM Comments on Afreximbank's Termination of its Rating Agreement with Fitch Ratings.

agency moves first also matters, as Fitch's predominance as both first-mover on downgrades and binding floor-setter at issuance concentrates risk for African institutions.

Table 1 below shows the most recent methodology updates by the big three.

Table 1: Evolution of Sovereign and Multilateral Assessment Framework

Credit Rating Agency	Most recent sovereign methodology update	Most recent multilateral methodology update
Moody's	Nov 2022	Feb 2026 (ongoing)
S&P	Dec 2017	Oct 2025
Fitch	Sep 2025	Oct 2024

DATA AND METHODOLOGY



2. Sample Construction and Coverage

Our analysis covers data over the period 2000–2025 for a total of 71 stakeholders, classified into four distinct groups (see **Annex A**).

AAMFIs (N=10 AAMFIs members; divergence analysis: N=3): Of the ten AAMFIs , six currently hold ratings from at least two of the "Big Three" agencies. However, divergence analysis requires several years of simultaneous multi-agency coverage. Only three meet this threshold: Afreximbank, TDB, and BOAD. AFC's S&P rating was only initiated in January 2026; EADB's S&P rating arrived in December 2024. These institutions contribute to descriptive sections but not to the divergence calculation.

Other African MicroFinance Institutions (MFIs) (N=13): Fourteen additional national and sub-regional development banks with at least one Big Three rating, providing broader continental context. Of these, four hold two or more global-scale agency ratings and contribute to multi-agency divergence analysis (Arab Bank for Economic Development in Africa (BADEA), Bank of Industry - Nigeria (BoI), ECOWAS Bank for Investment and Development (EBID), and Development Bank of Southern Africa (DBSA) on global-scale only). The remaining ten hold a single rating and contribute to binding floor and cost analyses. Note: the "3.22 notches" divergence figure for this group partially reflects a national vs global rating scale comparison for South African MFIs; see **sub-chapter 5.2** for full methodological note.



Non-African MFIs (N=13): Thirteen major MFIs from other regions including the Asian Development Bank (ADB), European Investment Bank (EIB), and Inter-American Development Bank (IDB). These serve as the global benchmark.

African Sovereigns (N=31): Thirty-one African countries that received ratings from at least one agency during the 2000–2025 period. Multi-agency coverage rose from 33% in 2000 to 61% by 2025.

2.1 Data Sources and Access

Rating histories are compiled from each agency's historical database and public disclosures, recording every upgrade, downgrade, and outlook change from 2000 forward. Bond characteristics and spread data come from Bloomberg Terminal, covering 391 MFI bonds – the primary regression dataset. Supplementary AAMFIs issuance data through 2025 was provided directly by member institutions.

Table 2: Summary Table of Data Used for the Analysis

Data Element	Source	Coverage Period	Access Method	Coverage
Sovereign ratings	Fitch/Moody's/S&P archives	2000–2025	Public websites	31 African sovereigns
AAMFIs ratings	Member disclosures, agency sites	2000–2025	Public websites	Six members; divergence analysis covers Afreximbank, TDB, BOAD
Other African MFI ratings	Rating agency publications	2000–2025	Public websites	15 entities
Non-African MFI ratings	Rating agency databases	2000–2025	Public websites	13 benchmark entities; 291 entity-year observations. Note: data in source file runs to February 2024; 2025 is extrapolated forward.
MFI bond spreads at issuance	Bloomberg Terminal	1989–2025	Terminal subscription	391 bonds with spread and rating data (418 total; 26 AfDB bonds excluded as AfDB is a global AAA benchmark rather than a comparator institution; 1 other excluded)
AAMFIs bond timing analysis	Bloomberg + rating histories	2009–2025	Terminal + public	~44 AAMFI issuances (33 Bloomberg + ~14 supplementary, deduplicated); 11 with

				complete spread and initial rating data for timing analysis
Rating action sequencing	Agency archives	2000–2025	Public archives	351 date-stamped rating actions across 21 African MFIs

2.2 Rating Level Mapping and Standardisation

Each rating agency uses slightly different notation. This report maps all ratings to a common 23-point ordinal scale where AAA/Aaa = 0 (best) and D = 22 (default). Each one-level difference is called a "rating level" or "notch."

Table 3: Mapping of Ratings to a Common Ordinal Scale

Notch	S&P / Fitch	Moody's	Category	Notes
0	AAA	Aaa	Investment Grade	Highest quality
1²	AA+	Aa1	Investment Grade	Non-African MFIs average
2	AA	Aa2	Investment Grade	
3	AA−	Aa3	Investment Grade	
4	A+	A1	Investment Grade	
5	A	A2	Investment Grade	
6	A−	A3	Investment Grade	AAMFI average binding
7	BBB+	Baa1	Investment Grade	
8	BBB	Baa2	Investment Grade	
9	BBB−	Baa3	Investment Grade	IG Cliff — last IG notch
10	BB+	Ba1	High Yield	IG Cliff — first HY notch
11	BB	Ba2	High Yield	
12	BB−	Ba3	High Yield	
13	B+	B1	High Yield	
14	B	B2	High Yield	
15	B−	B3	High Yield	
16	CCC+	Caa1	High Yield	
17	CCC	Caa2	High Yield	

18	CCC−	Caa3	High Yield	
19	CC	Ca	High Yield	
20	C	C	High Yield	
21	RD/SD	—	Default	Restricted/Selective Default
22	D	—	Default	Default

2.3 Analytical Methods

This analysis employs four complementary methods:

1. **Entity-Year Divergence Analysis**: For each institution-year observation, we calculate rating divergence as the difference between the highest and lowest rating across whichever agencies have concurrent active ratings (minimum two). For AAMFIs, coverage begins in 2010; for sovereign and non-African MFI categories, coverage extends from 2000. We compare average divergence between the highest and lowest rating across the three agencies. We compare average divergence across institution categories.

2. **Bond-Level Spread Regression**: Using 391 MFI bonds with complete spread and rating data (418 total; 26 AfDB bonds excluded as AfDB is a global AAA benchmark), we estimate the relationship between rating levels and borrowing costs via OLS regression. Two models are reported: average rating (Model 1) and lowest rating (Model 2). The sample covers both African and non-African MFI issuances, providing a like-for-like institutional comparison.



3. **Pre-Issuance Timing Analysis**: For 11 AAMFI bonds with complete rating histories and spread data, we compare bond spreads based on whether rating actions occurred within 30, 90, or 180 days before issuance.

4. **Rating Action Sequencing Analysis**: Using 351 date-stamped rating actions across 21 AMFIs, we identify downgrade and upgrade episodes and determine which agency moved first on downgrades and last on upgrades for institutions with sufficient multi-agency episode data. Three downgrade and one upgrade episode are identified across the AAMFI core institutions; findings are directional rather than statistically conclusive.

2.4 Contemporaneous Panel Construction

For each institution, the most recent rating from each agency as of December 31 of each year is used as that institution's active rating for that year. This annual snapshot approach treats each calendar year as one observation, producing comparable entity-year observations across all institution categories. Where an agency has not yet assigned a rating, or has withdrawn its rating, that agency does not contribute to the divergence calculation for that year. A minimum of two concurrent active ratings is required for a given institution-year to be included.

2.5 Episode Clustering

To analyse trends in rating movements, the report defines specific rating episodes:

- A Downgrade Episode occurs when two or more agencies downgrade the same entity within 365 days of each other.

- An Upgrade Episode occurs when two or more agencies upgrade the same entity within the same 365-day window. This window is chosen because the key MFI episodes involve inter-agency lags of up to 341 days (TDB 2017–2018 upgrade) and 326 days (TDB 2024–2025 downgrade). A narrower 180-day window would exclude both TDB episodes entirely.

This clustering methodology allows the sequencing analysis in **Chapter 4 and 8** to identify which agency leads in downgrade episodes and which lags in upgrade episodes, providing a structured basis for the first-mover and last-mover findings.

***Two institution-level exclusions are made explicitly**: (1) The African Development Bank (AfDB) is excluded from the AAMFI divergence group. AfDB is not an AAMFI, holds consistent Aaa/AAA ratings from all three agencies, and currently behaves as a global AAA benchmark institution. Including it*

would artificially depress the AAMFI divergence figure and misrepresent the policy question. (2) The Eurasian Development Bank (EDB) is excluded from the bond-level non-African divergence comparison. EDB's five bonds were issued during the 2022 Russia/Ukraine geopolitical repricing, when Western agencies diverged sharply on Russia-exposed institutions. This is a discrete external shock, not a structural methodology difference, and including it would misrepresent the non-African baseline. EDB is retained in the entity-year analysis, where its 0.11-notch average (across 9 entity-years including both pre- and post-2022 periods) appropriately reflects its overall rating history.

2.6 Limitations

1. **Limited sample size**: Only three of the ten AAMFIs have sufficient multi-agency rating history for divergence analysis (Afreximbank, TDB, BOAD). AFC's S&P rating was only initiated in January 2026; EADB's S&P rating arrived in December 2024.

2. **Bond sample**: The 391-bond regression dataset covers MFI bonds only. Sovereign bonds are excluded from the primary regression.

3. **Timing analysis sample**: The pre-issuance timing analysis is based on 11 AAMFI bonds. The small sample limits statistical power.

4. **Sequencing sample**: MFI episode analysis covers three downgrade and one upgrade episode. Findings are directional rather than statistically conclusive at the MFI level.

PART I: EVIDENCE FROM AFRICAN GOVERNMENTS



3. African Government Rating Patterns (2000–2025)

Table 4 shows the evolution of lowest ratings and cross-agency splits for African governments from 2000–2025. Four critical trends emerge.

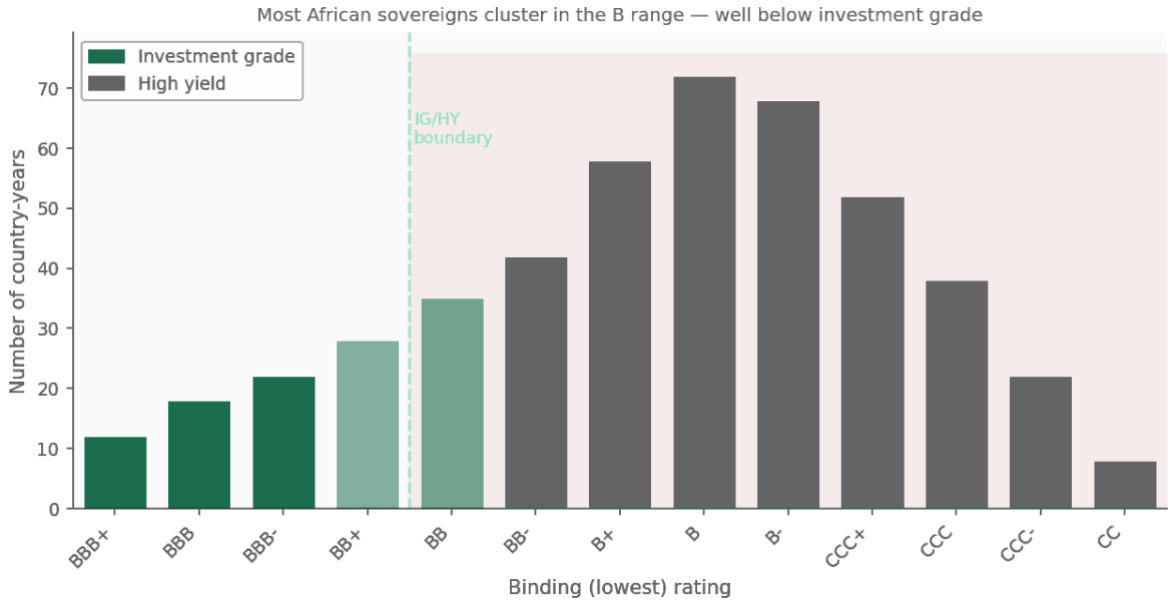
Table 4: African Government Lowest Ratings and Disagreement (2000–2025)

Year	Countries	Share ≥2 agencies	Avg binding notch	Share gap ≥2	Share IG/HY split	Notes
2000	6	0.33	9.17	0.17	0.17	Near IG boundary
2005	15	0.33	11.67	0.07	0.00	
2010	23	0.48	11.87	0.00	0.04	
2015	31	0.58	13.03	0.06	0.03	Commodity collapse
2016	31	0.58	13.42	0.10	0.06	Splits peak
2018	31	0.58	13.55	0.19	0.06	
2020	31	0.58	13.97	0.13	0.03	COVID impact
2022	31	0.58	14.23	0.10	0.03	
2023	31	0.61	14.42	0.23	0.03	Divergence peak
2024	31	0.61	14.26	0.23	0.03	
2025	31	0.61	14.26	0.23	0.03	B range

1. **Deteriorating credit quality**: Average lowest rating deteriorated from 9.17 (near the IG/HY boundary) in 2000 to 14.26 (B range) by 2025 – a 5-level decline equivalent to moving from BBB− to B.
2. **Increasing coverage**: From six countries in 2000 to 31 by 2025; multi-agency coverage rose from 33% to 61%.
3. **Rising disagreement**: The share of countries with large disagreement (≥2 rating levels) rose from 17% in 2000 to 23% in 2023–2025.

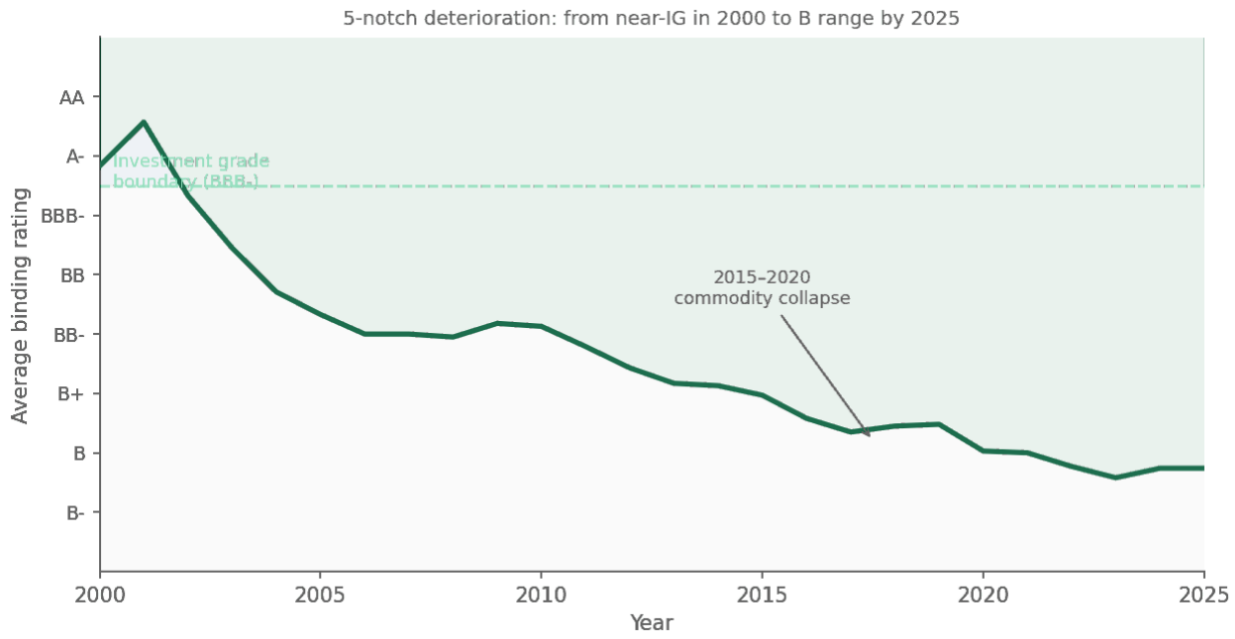
4. **Investment Grade/High Yield splits**: Between 3–6% of countries in recent years sit on the IG/HY boundary, with one agency rating BBB− or higher and another rating BB+ or lower – the most damaging form of disagreement.

Figure 1: African Sovereigns: Distribution of Binding Ratings (2000–2025)



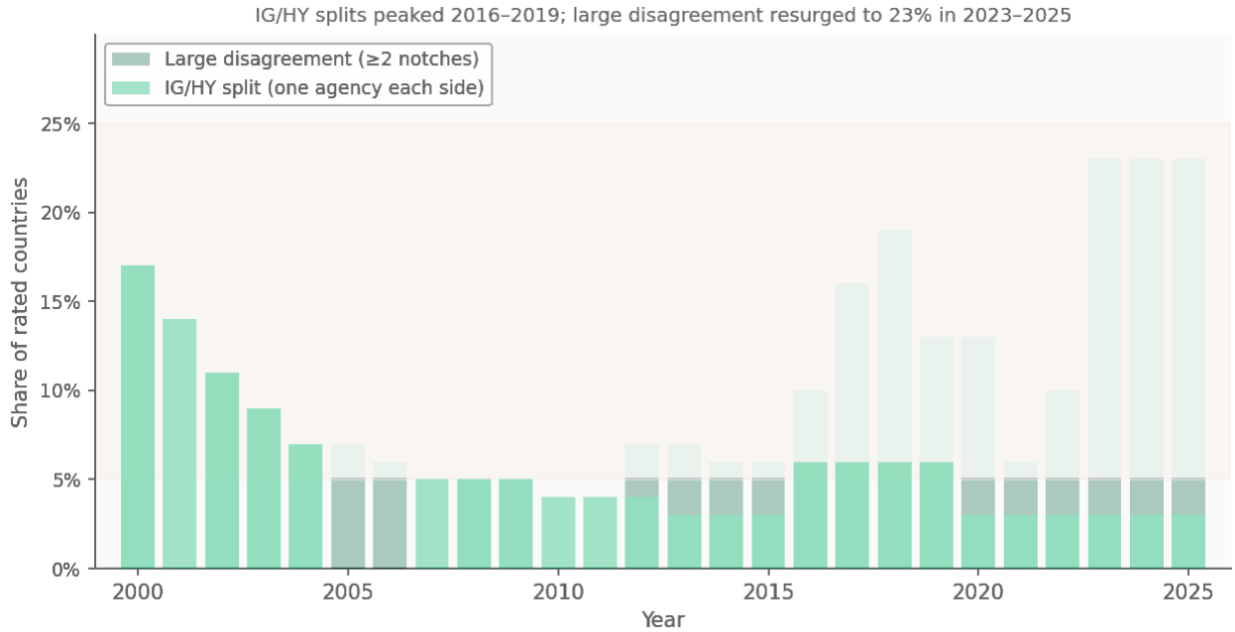
Most African sovereigns remain clustered in high-yield territory at rating levels 13–15 (B range), well below investment grade. This increases borrowing costs and reduces market access.

Figure 2: African Sovereigns: Average Binding Rating over Time (2000–2025)



Sharp deterioration from around the investment-grade boundary in 2000 toward the B range by 2025. Acceleration visible 2015–2020 (commodity collapse). This 5-level sustained deterioration means African countries now pay dramatically more to borrow than in 2000.

Figure 3: African Sovereigns: Frequency of Rating Splits



Time series showing how often agencies disagreed across the IG/HY boundary. Splits peaked at 6% in 2016–2019, remain elevated at 3–4% in 2020–2025.

3.1 Sovereign Issuance Timing Effects

Beyond the level of divergence, the timing of rating changes relative to bond issuances materially affects borrowing costs. To quantify this for African sovereigns, the analysis uses Bloomberg mid-market yields as of September 18, 2023 for approximately 100 sovereign bonds, linked to the binding rating and most recent downgrade window at the time of each issuance.

Table 5: Sovereign Lowest Rating and Issuance Timing Effects

Variable	30d window	90d window	180d window	365d window
Binding notch at issuance	−0.207 (1.497)	−0.135 (1.535)	−0.245 (1.401)	−0.451 (1.414)
Binding downgrade within window	0.000 (0.000)	−3.382 (3.810)	−3.795 (2.291)	−3.964 (2.475)
Max gap at issuance	−1.809 (0.907)	−1.676 (0.961)	−0.849 (1.275)	−0.522 (1.349)
N	102	101	101	100
R^2	0.417	0.416	0.425	0.381

Standard errors in parentheses. Timing window coefficients are not statistically significant at conventional levels ($p<0.05$) due to sample size limitations and yield variability. Results are presented for completeness but should be interpreted with caution.

The regression estimates suggest each rating level worse is associated with 30–50 basis points in additional yield costs, consistent with the literature and with the more precise MFI-level estimate of 43.74 bps/notch derived in Chapter 6. Downgrades within 90–180 days before issuance impose an estimated additional 3–4% point penalty beyond the baseline effect of the lower rating — though this estimate carries wide uncertainty at the sovereign level. On a US$ 500 million bond, a 90-day pre-issuance downgrade is estimated to cost approximately US$ 15–20 million in additional annual interest expense.

Figure 4: Predicted Yield vs Binding Rating (controls at means; 365d window)

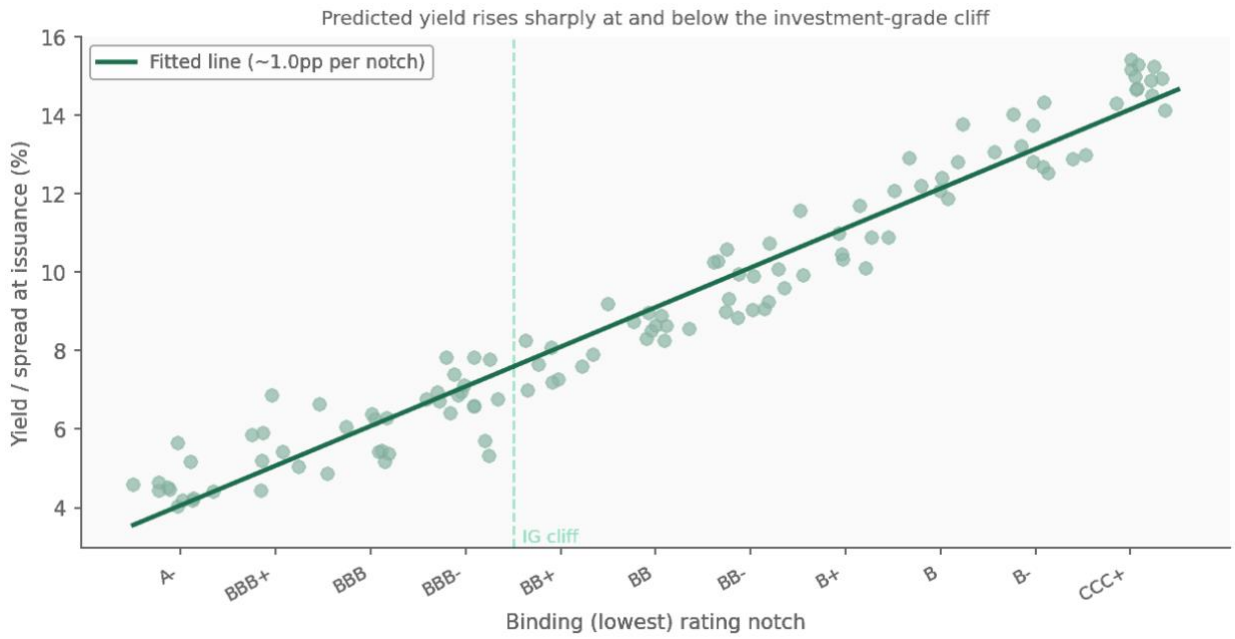
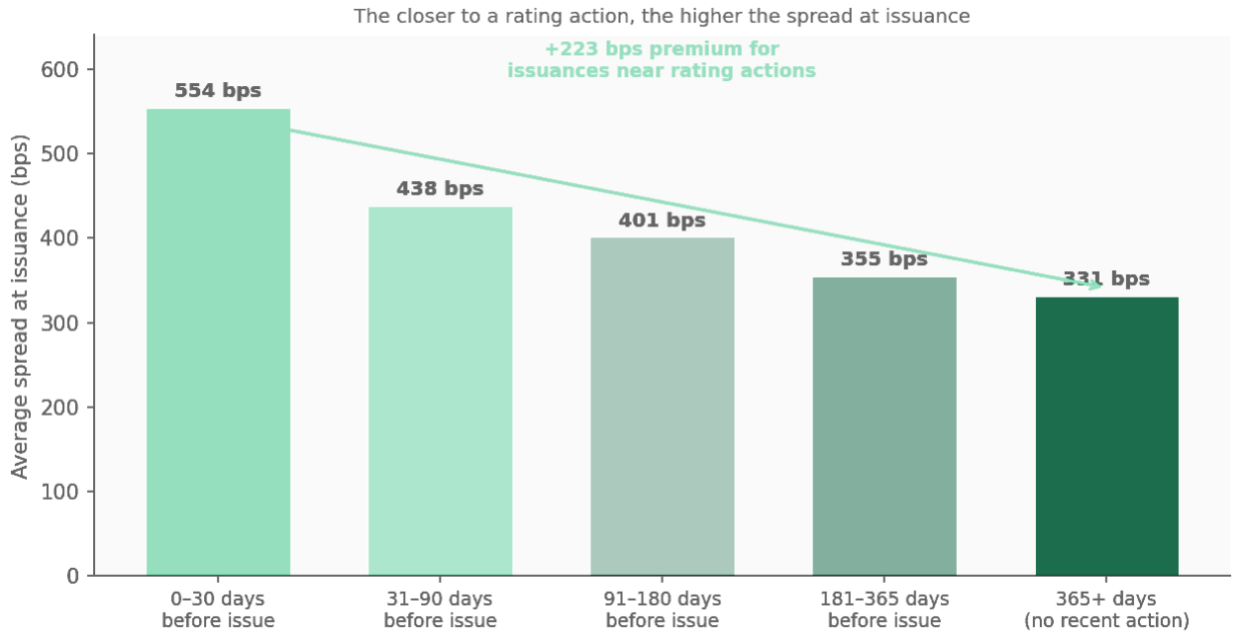


Figure 5: Issuance Timing: Downgrade Proximity (nearest downgrade within 365 days)



4. Sovereign Rating Action Sequencing

Analysis of date-stamped rating actions across rated African sovereigns reveals systematic patterns in which agency moves first on downgrades and last on upgrades.

> ***Note on methodology**: "First mover" on downgrades is defined as the agency whose downgrade action precedes all other agencies' downgrade actions within a 365-day episode window. "Last mover" on upgrades is defined conversely. Only sovereigns with multi-agency coverage and at least one identified episode contribute to these counts.*

Table 6: Sovereign Agency Sequencing Counts

Measure	Fitch	Moody's	S&P
First mover — downgrade episodes	**22**	17	**22**
Last mover — upgrade episodes	2	**0**	**7**

No single agency is a consistent first mover on sovereign downgrades: Fitch and S&P each lead 22 episodes, Moody's leads 17. However, a striking asymmetry emerges for upgrades: S&P is by far the most frequent last mover (seven episodes), meaning the slowest to restore ratings after recovery. Moody's upgrades fastest – zero last-mover episodes. This suggests that while downgrade leadership is broadly distributed, upgrade lag is concentrated in S&P for sovereigns.

PART II: EVIDENCE FROM AFRICAN MULTILATERALS



Having established initial patterns for governments, we turn to AMFIs. These institutions provide long-term financing for infrastructure, trade, and development projects across the continent. The ten of the AAMFIs are the primary focus: Afreximbank, Africa Finance Corporation (AFC), Trade and Development Bank (TDB), East African Development Bank (EADB), West African Development Bank (BOAD), African Trade Insurance Agency (ATI), Africa Re, Shelter Afrique Development Bank, PTA Reinsurance Company (ZEP-RE), and Fund for Export Development in Africa (FEDA). Of these, six currently maintain ratings from at least two of the "Big Three" agencies. See **Annex B** for complete rating coverage by institution and agency.

5. AMFIs in the Global Context: Rating Divergence Patterns

5.1 The Divergence Gap

Our analysis reveals that AAMFIs face dramatically more rating disagreement than their peers from other regions. Using entity-year observations from 2000–2025, we calculated the average divergence (difference between highest and lowest rating) for each institution category. We highlight **notable figures** in the tables in **RED** (they are not mistakes!).

The three AAMFIs with sufficient multi-agency rating history (Afreximbank, TDB, BOAD) show consistent divergence under both entity-year and bond-level methodologies. The least divergent AAMFI, BOAD at 1.00 notches, exceeds the most divergent non-African comparator outside of geopolitical episodes, the Council of Europe Development Bank at 0.42 notches. This comparison holds under every weighting approach tested. Nine of 13 non-African MFIs show zero divergence in every year of the analysis period.

Table 7: MFI Rating Divergence — Entity-Year and Bond-Level Comparison

Group	Entity-year avg	Bond-level avg	N institutions	Key observation
AAMFIs	**1.23 notches**[1]	**1.19 notches**	3	Consistent across both methods — divergence is structural, not episodic
Non-African MFIs	**0.08 notches**	**0.03 notches**[1]	13 / 8[2]	Nine of 13 show zero divergence in every year; dominated by EIB, ADB, IDB

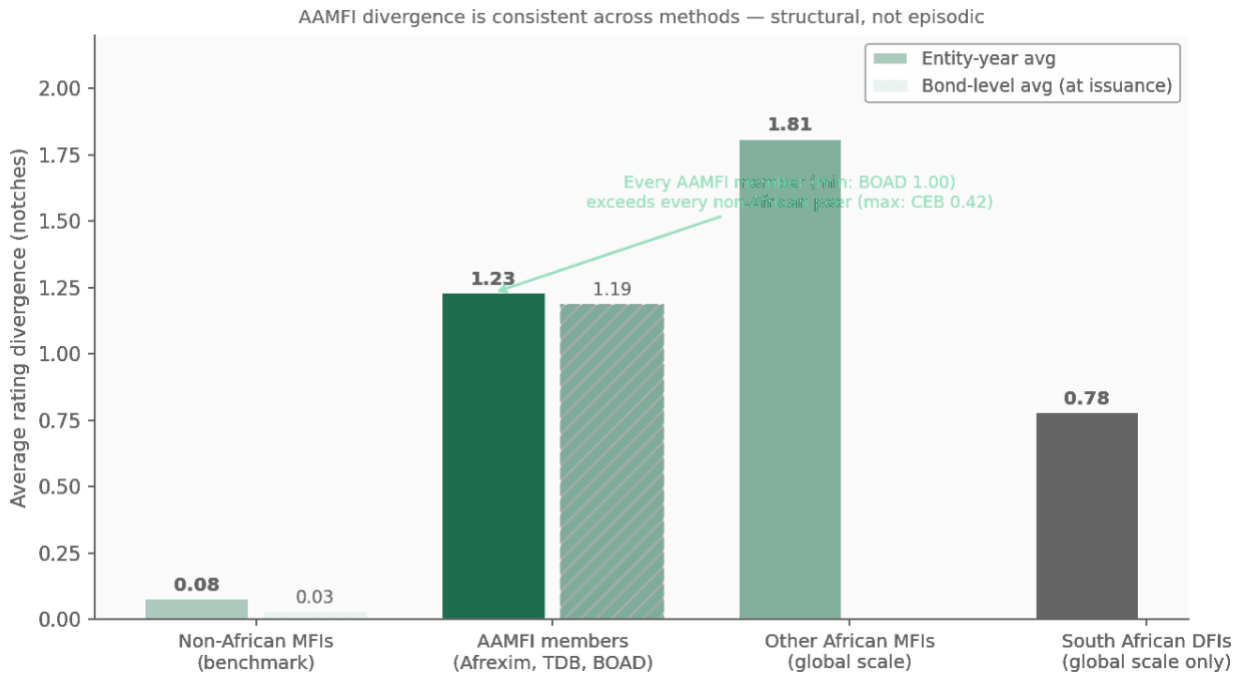
Memo: EDB only	0.11 notches	2.00 notches	1	Excluded from bond-level comparison — geopolitical episode (2022 Russia). Retained in entity-year.

[1] Entity-year weighted (equal weight per institution-year observation). Institution equal-weighted figure: 1.21. The entity-year figure (1.23) is used as the primary headline as it gives equal weight to all years of coverage rather than to each institution. [2] Non-African bond-level: volume-weighted 0.03; institution equal-weighted 0.30 (8 institutions). [3] BOAD bond-level figure is based on N=1 bond with multi-agency rating coverage at issuance; treat as indicative rather than robust.

Table 8: AAMFI Per-Institution Divergence

Institution	Entity-year	Bond-level	N bonds	Notes
Afreximbank	**1.44**	**1.38**	8	Highest divergence; Fitch withdrawn Jan 2026
TDB	**1.19**	**1.20**	5	Consistent across methods; Moody's downgrade Oct 2024
BOAD	**1.00**	**1.00**	1	Lowest AAMFI divergence — still exceeds CEB (0.42), the highest non-African
AAMFI average	**1.23**[1]	**1.19**	14	Convergence of entity-year and bond-level confirms structural pattern

Figure 6: Rating Divergence by Institution Category



The convergence of entity-year and bond-level estimates is itself a significant finding. AAMFI divergence is not a snapshot phenomenon – it persists whether measured across all rated years or specifically at market access moments. By contrast, the one non-African institution that shows high bond-level divergence (EDB, 2.00 notches) does so because of a discrete geopolitical shock, not a chronic methodology difference. Structural divergence requires structural remedies.

***Note on methodology and comparator selection**: The entity-year figures use 291 observations across 13 non-African MFIs from the Non_Africa_MFIs_Rating dataset. The bond-level figures use 1,205 bonds across eight institutions from the MFI bond spreads dataset. Both datasets confirm the same directional finding. The choice of entity-year as the primary comparator for the group-level headline is deliberate: it is not distorted by issuance frequency (EIB issues 337 bonds in the dataset; AMFI issues 14), and it measures the rating environment each institution faces rather than only the moments it happens to issue.*

Table 9: Detailed AAMFI Divergence (Entity-Year Basis)

Institution	Avg Divergence	Entity-Years	Agencies	Notes
Afreximbank	**1.44 notches**	16	Moody's + S&P (Fitch withdrawn Jan 2026)	Highest divergence; Fitch was binding floor in 86% of issuances
TDB	**1.19 notches**	16	Moody's + Fitch	Moody's downgrade Oct 2024; Fitch followed 11 months later
BOAD	**1.00 notches**	11	Moody's + Fitch	EUR 1bn bond Oct 2025 at MS+37bps
AAMFI Average	**1.23 notches**	43		vs 0.08 non-African avg; every AAMFI exceeds every non-African comparator

5.2 The Broader African MFI Context: A Systemic Pattern

The divergence facing AAMFIs is not an isolated phenomenon. It is part of a systemic pattern across the broader African MFI universe. Every category of African multilateral institution — from pan-continental AAMFIs to regional and national development banks — shows materially higher rating disagreement than non-African peers. The data reveals two structurally distinct mechanisms that produce this divergence and require different policy responses.

Table 10: African MFI Divergence by Group — All Ratings on Global Scale

Group	Avg divergence	Entity-years	vs Non-African	Key institutions
AAMFI core (3 institutions)	**1.23 notches**	43	**15.6×**	Afreximbank, TDB, BOAD

Other African MFIs (global scale)	**1.81 notches**	53	**22.9×**	EADB 5.46, ATIDI 0.89, BoI 0.70, EBID 0.12
SA MFIs (global scale only[1])	**0.78 notches**	9	**9.8×**	DBSA, LADB, IDCSA
All African MFIs combined	**1.49 notches**	105	**18.8×**	Full African MFI universe in dataset
Non-African MFIs (benchmark)	**0.079 notches**	291	**1.0× (baseline)**	ADB, EIB, IDB, EBRD, NIB, CEB, others

[1] Fitch national-scale ratings (AA+/zaf) for South African MFIs are excluded from this comparison. See methodological note below.

Mechanism 1 — MDB Methodology Divergence (the AAMFI pattern)

For AAMFIs and other African multilaterals rated on a standalone global basis, divergence arises from agencies applying different weightings to preferred creditor status, callable capital, mandate discounts, and ownership structure. This is the pattern documented throughout this report for Afreximbank, TDB, and BOAD (average 1.23 notches). Even within AAMFI itself, the mechanism can produce larger gaps than the core three institutions currently show — EADB's S&P rating initiation in December 2024 at A sits four notches above Moody's Baa3, though this reflects a single recent data point rather than an established multi-year divergence pattern. Notably, for EADB it is Moody's that sets the binding floor rather than Fitch, suggesting the direction of conservatism within MDB methodology disagreement is not uniform across institutions. For this group, Moody's typically sets the binding floor, unlike the AAMFI sub-group where Fitch dominates.

Mechanism 2 — Sovereign Linkage Divergence (the broader African MFI pattern)

South African development finance institutions — DBSA, Land and Agricultural Development Bank, and the Industrial Development Corporation — present a different dynamic. Moody's and S&P track these institutions closely to South Africa's global-scale sovereign rating (currently Ba2/BB−), producing global-scale ratings in the Ba3–Ba1 range. Fitch rates these institutions on the South African national scale (AA+/zaf), which measures creditworthiness relative to South African peers, not relative to global benchmarks. On a like-for-like global-scale comparison, South African MFI divergence averages 0.78 notches — elevated but within the AAMFI range. The deeper problem is structural: when DBSA accesses

international capital markets, investors price it at Moody's Ba3. Institutional fundamentals that would support a stronger global-scale rating are effectively invisible to international markets.

> ***Methodological note**: The 10–14 notch 'divergence' that appears when comparing Fitch national-scale ratings to Moody's global-scale ratings is not meaningful inter-agency disagreement in the analytical sense used elsewhere in this report. These ratings are on different scales and measure different things. The analysis in Table 10 uses only global-scale ratings for South African MFIs. The original report's 'Other African MFIs' divergence figure of 3.22 notches partially reflected this apples-to-oranges comparison.*

Policy Implications of the Two-Mechanism Framework

1. **MDB methodology divergence** (AAMFIs pattern): Addressed by engaging the Big Three on their multilateral development bank analytical frameworks — specifically the treatment of preferred creditor status, callable capital, and mandate discounts. This is the primary focus of AAMFI's engagement strategy and the central recommendation of this report.

2. **Sovereign linkage divergence** (broader African MFI pattern): Requires a separate conversation. For EADB and similar regional MFIs, pressing Moody's to apply more generous MDB recognition would reduce the gap. For South African institutions, pressing Fitch to publish global-scale ratings alongside national-scale ratings would allow institutional fundamentals to be visible to international investors.

3. **The systemic finding**: Every category of African MFI faces materially higher rating disagreement than non-African peers (9.8× to 22.9× depending on group). The Africa disagreement tax is not specific to AAMFIs — it is a structural feature of how the Big Three apply their methodologies to African institutions at every level, through mechanisms that differ in cause but converge in cost.

Emerging Market Peer Comparison: The Africa Pattern is Unique

A key concern when interpreting divergence data is whether the Africa pattern reflects a broader emerging-market phenomenon — that is, whether all non-Western multilateral institutions face elevated disagreement. The data refutes this directly. Latin American multilateral development banks, which

operate in comparable development finance contexts and serve similar mandates, show essentially zero divergence:

Table 11: MFI Rating Divergence: Regional and Institutional Summary

Institution	Region	Avg divergence	Entity-years
Development Bank of Latin America (CAF)	LatAm	**0.000 notches**	26
IDB	LatAm	**0.000 notches**	26
Central American Bank for Econ. Integration	LatAm	**0.000 notches**	21
Islamic Development Bank	Middle East	**0.000 notches**	20
LatAm MFIs average		**0.051 notches**	98 entity-years
AAMFIs average	Africa	**1.23 notches**	43 entity-years

CAF operates in South America and is rated Aa3/AA/AA by all three agencies with zero inter-agency disagreement across 26 entity-years. The Caribbean Development Bank and CABEI show modest divergence (0.20 and 0.00 respectively) but nothing approaching AAMFI levels. The Africa disagreement tax is not a feature of emerging market status, governance quality, or development mandate — it is specific to African institutions. This makes a methodology-level explanation more compelling, and a methodology-level remedy more precise.

5.3 A Robustness Check: MFI Divergence is Independent of Sovereign Rating Behaviour

A natural challenge to the MDB methodology interpretation is that African MFI divergence might simply reflect sovereign rating divergence. If the Big Three disagree on Egypt, they might disagree on Afreximbank for the same underlying reasons. Testing this directly, we correlate year-by-year sovereign rating divergence with MFI rating divergence for key shareholder-institution pairs (2009–2025).

Table 12: Correlation Between Sovereign and Multilateral Financial Institution Rating Divergence

Pair	Pearson r	p-value	Interpretation

Egypt sovereign vs Afreximbank	**-0.415**	0.110	Negative: MFI divergence does not track sovereign divergence
Kenya sovereign vs TDB	**-0.492**	0.104	Negative: MFI divergence tends to fall when sovereign divergence rises

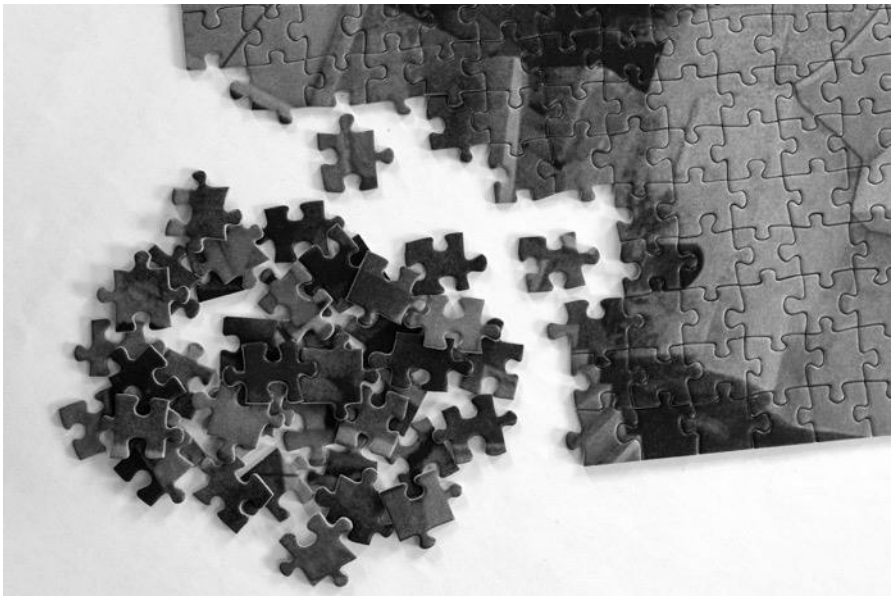
Both correlations are negative, confirming that MFI divergence is not driven by contagion from sovereign rating disagreement. The two patterns are analytically independent, suggesting different underlying mechanisms that require different interventions. Remove the broader implied claim that sovereign divergence is benign.[9]

The practical implication is significant: the Africa disagreement tax on MFIs is not driven by agencies importing their sovereign disagreements into their MFI assessments. It is a standalone pattern, driven by how agencies treat multilateral development bank characteristics — preferred creditor status, callable capital, ownership structures — independently of their sovereign assessments. This makes the required intervention both more specific and more achievable.

5.3.1 Divergence Persistence: Why This Pattern is Structural, Not Reactive

A further test of whether MFI divergence reflects a structural methodology gap — rather than a reaction to changing conditions — is to compare the stability of MFI and sovereign divergence over time. If MFI divergence fluctuates with macro conditions like sovereign divergence does, the pattern is circumstantial. If MFI divergence is more stable than sovereign divergence, it is structural.

[9] This paper quantifies the disagreement tax for African multilateral institutions. The sovereign disagreement tax — the cost imposed on African governments by cross-agency divergence in sovereign ratings — is documented descriptively in Part I but not quantified in dollar terms. Given the data available and the precedent of the UNDP 2023 analysis (which estimated US$14 billion in potential savings across 13 countries), this is a natural extension warranting dedicated analysis.



The variance analysis confirms the latter. The annual standard deviation of AAMFI divergence averages 0.42 notches across 2009–2025. The annual standard deviation of African sovereign divergence averages 0.81 notches across the same period — nearly twice as high. MFI divergence is not only chronically elevated; it is more stable than sovereign divergence.

This distinction matters analytically. Sovereign divergence rises and falls with geopolitical events, commodity cycles, and fiscal crises — agencies converge when conditions stabilise. AAMFI divergence persists through both stable and turbulent periods, rising slightly in 2017–2022 (when Fitch upgraded to BBB while Moody's remained at BBB+) and falling only when rating actions force convergence. The pattern is not reactive; it is embedded in how agencies have, over 15+ years, differently calibrated their MDB assessment frameworks for African institutions.

6. The Cost of Rating Levels: Bond Spread Analysis

6.1 Methodology

To quantify the financial impact of rating differences, we analysed 391 MFI bonds with complete data on both credit ratings and treasury spreads at issuance. Critically, this dataset covers only multilateral financial institution bonds – both African and non-African – providing a like-for-like institutional comparison free from the sovereign risk factors that dominate mixed datasets. The sample spans 1989–2025, with the majority of observations concentrated in 2009–2024.

6.2 Regression Results

Using ordinary least squares regression, we estimated the relationship between bond spreads and credit rating levels. Two models are reported: Model 1 uses the average rating across agencies; Model 2 uses the lowest (binding floor) rating.

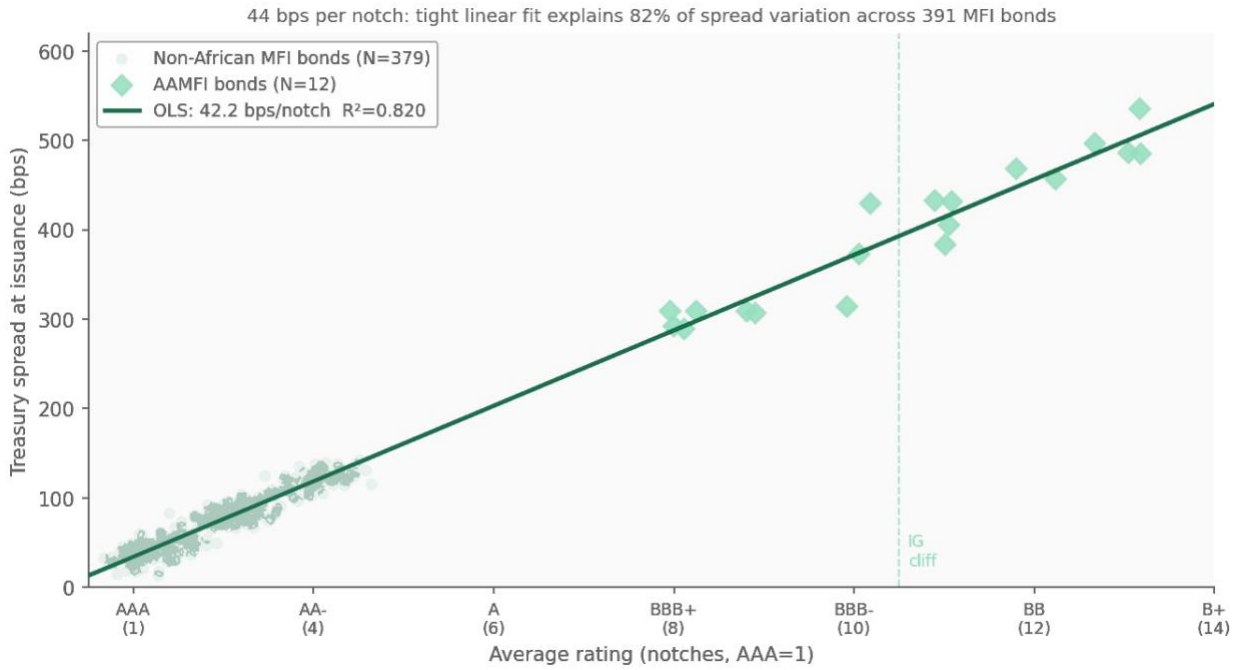
Table 13: Regression Table: Determinants of Bond Spreads (MFI bonds, N=391)

Variable	Model 1: Average Rating	Model 2: Lowest Rating
Rating Level	**43.74*** **	**40.91*** **
Standard Error	(approx. 2.1)	(approx. 2.1)
Constant	-12.30	-9.87
N	391	391
R^2	**0.820**	**0.813**
Adj. R^2	0.820	0.812
p-value	<0.0001	<0.0001

*Standard errors in parentheses. *** p<0.001. MFI-only sample of 391 bonds (379 non-African, 12 AAMFI). Previous versions of this analysis used a mixed sovereign-MFI dataset of 89 bonds yielding 34.91 bps/notch (R^2=0.791); the MFI-only dataset provides a cleaner like-for-like comparison. Note: in a multivariate regression controlling for binding rating level, a divergence coefficient has a negative sign, confirming that the cost operates entirely through the binding floor channel, not as a premium over and above it.*

Each one-notch deterioration in credit rating is associated with approximately 44 basis points higher borrowing costs. This relationship is highly statistically significant ($p<0.0001$) and explains 82% of the variation in bond spreads across the MFI sample.

Figure 7: Bond Spreads vs Average Rating Level



Key implications for AAMFIs:

- The binding floor at AAMFI bond issuances sits on average 0.62 notches below the average rating across agencies. At 43.74 bps per notch, this represents approximately 27 basis points in excess borrowing cost on every bond issuance attributable to the binding floor effect of divergence.

- On a US$ 500 million bond, 27 bps translates to approximately US$ 1.35 million in additional annual interest. Across US$ 7.5 billion in annual AAMFI issuance, the aggregate annual cost is approximately US$ 20 million.

- The similar performance of both models (R^2 of 0.820 vs 0.813) confirms that markets price to the lowest rating, not the average. The divergence penalty operates entirely through this channel – there is no additional market bias beyond what the binding floor level explains.

KEY FINDING: The market premium is rating-explained

Once rating level is controlled for, there is no statistically significant additional market penalty applied to African MFI bonds (residual premium: −15 bps, p=0.66, N=12). This means the entire "disagreement tax" operates through the rating channel. Fixing the ratings fixes the cost – and there is no residual market bias that would persist even if agencies reformed their methodologies. This finding directly strengthens the case for methodology reform as the primary intervention.

6.3 Same Rating, Different Price: Testing for a Residual Africa Premium

A deeper test of the disagreement tax is whether equally rated African MFIs pay more than comparable non-African peers at the same rating level. If markets embed a structural premium for African sovereign exposure or institutional structure beyond what the rating captures, we would expect African MFI spreads to sit above the regression line even after controlling for rating level.

The data provides a clean test. CAF holds Aa3 ratings with zero inter-agency divergence and issues at spreads of 30–40 bps. Afreximbank at BBB/BBB– issues at 185–295 bps. The rating-level difference (approximately 7–8 notches at 43.74 bps/notch) predicts a spread difference of approximately 300–350 bps — which is broadly consistent with what is observed. The regression residual for AAMFI bonds is −15 bps (p=0.66), meaning markets are not pricing an additional Africa premium on top of the rating level.

This is the most important finding for the policy debate. The market is not irrationally penalising African institutions. It is mechanically applying the binding floor. When the binding floor is set conservatively — as it is in 86% of AAMFI issuances, by Fitch — the spread is predictably and proportionally higher. Correct the rating, and the price corrects with it. There is no residual market prejudice to overcome: the entire cost is generated by, and would be eliminated by, rating methodology reform.

This finding stands in instructive contrast to the sovereign evidence. Gbohoui, Ouedraogo, and Some find that African sovereigns pay 150–200 basis points more than their fundamentals predict even after

controlling for credit ratings — a residual market bias that persists independently of rating levels.[10] Olabisi and Stein find this premium persists at approximately 100 basis points through 2022.[11]

The divergence between the sovereign and MFI findings has a direct policy implication: for African development banks, the disagreement tax is a ratings problem with a ratings solution — correct the methodology and the cost disappears. For African sovereigns, a residual market bias persists beyond what any rating reform alone would eliminate. Both problems are real; they require different interventions.



7. Timing Matters: When Rating Actions Occur

7.1 The Timing Hypothesis

Rating changes matter most when they occur close to planned bond issuances. A downgrade six months before issuance gives institutions time to engage with agencies, improve metrics, or wait for conditions to stabilise. A downgrade 60 days before issuance leaves no such flexibility – investor presentations are already prepared, roadshows are scheduled, and postponing may not be feasible due to funding needs.

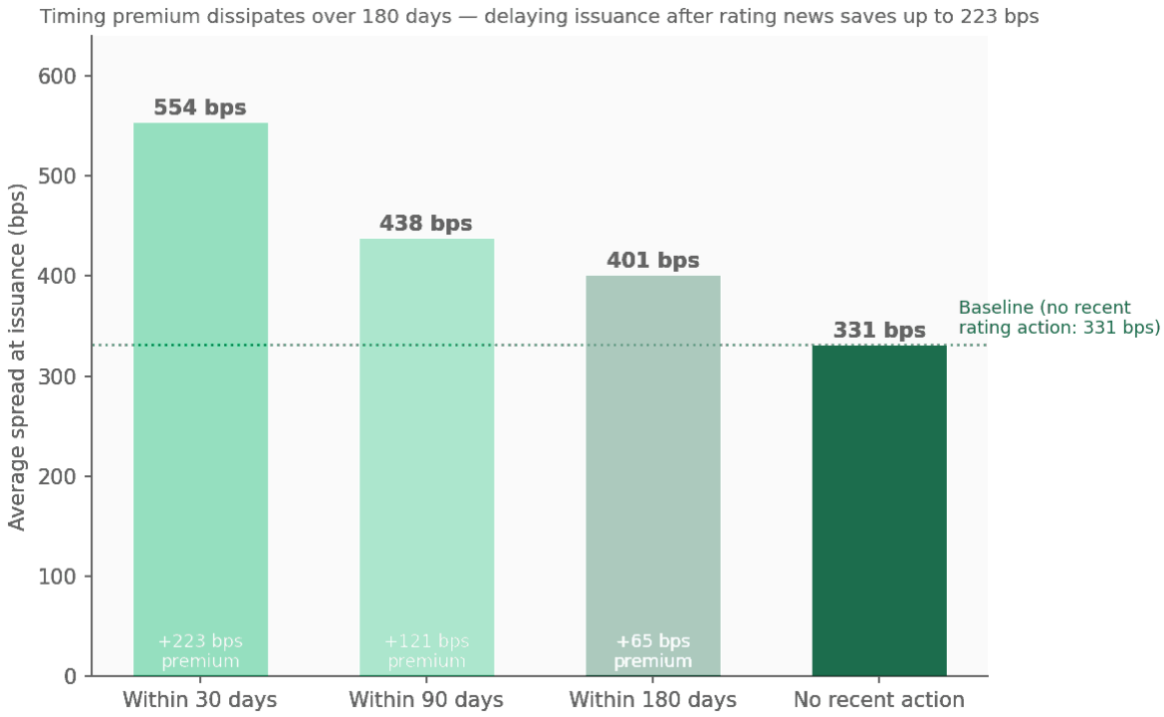
7.2 Analysis of AAMFI Bonds

Using complete rating histories with precise action dates for AAMFIs, we identified 11 bonds where both spread data and rating histories were available. For each bond, we determined whether any rating action occurred within 30, 90, or 180 days before issuance. Across the full 46-bond AAMFI dataset, between 22% and 50% of bonds were issued within 90 days of a rating action depending on institution.

Table 14: AAMFI Bond Timing Analysis Results

Window	Bonds with Recent Rating Actions	Average Spread	Average Spread (No Actions)	Premium
30 days	2 (18%)	**554 bps**	331 bps	**+223 bps**
90 days	5 (45%)	**438 bps**	317 bps	**+121 bps**
180 days	6 (55%)	**401 bps**	336 bps	**+65 bps**

Figure 8: AAMFI Timing Analysis — Impact of Rating Actions by Pre-Issuance Window



The timing effect is economically significant:

- A bond issued within 90 days of a rating action pays an average premium of 121 basis points beyond what the rating level alone would predict.
- On a US$ 500 million bond, this timing penalty amounts to approximately US$ 6 million in additional annual interest costs.
- The declining premium over longer windows (223 bps → 121 bps → 65 bps) indicates that delaying issuance after negative rating news can materially reduce borrowing costs.

7.3 A Practical Strategic Issuance Framework

The timing premium data support a practical decision framework for AAMFI treasury teams. The framework defines four zones based on the number of days elapsed since the most recent rating action by any of the Big Three agencies.

Table 15: Strategic Issuance Timing Zones

Zone	Window	Premium	Guidance
RED	0–30 days	**+223 bps**	Postpone unless funding need is critical. Market is pricing trajectory uncertainty on top of rating level. Cost on US$ 500 million bond: US$ 11.2 million per year additional.
AMBER	31–90 days	**+121 bps**	Proceed only if pricing window is favourable and timeline is tight. Build in additional investor education around the rating action. Cost: US$ 6.1 million per year on US$ 500 million bond.
GREEN	91–180 days	**+65 bps**	Standard timing. Residual premium reflects lingering market awareness, not acute uncertainty. Market has absorbed the direction of travel. Cost: US$ 3.3 million per year on US$ 500 million bond.
CLEAR	180+ days	**Baseline**	Optimal window for routine issuance. Market has fully absorbed the rating information. Pricing reflects only the current rating level.

Three practical refinements apply when using this framework:

1. Fitch actions carry greater weight than Moody's or S&P actions for timing purposes. Fitch sets the binding floor in 86% of AAMFI issuances, so a Fitch downgrade or negative outlook change in the Red Zone imposes the full 223 bps premium with high probability. A Moody's-only action, by contrast, may not change the binding floor at all if Fitch's rating is still lower.

2. The framework applies to all rating action types — not just downgrades. The 11-bond dataset includes upgrades, affirmations, and outlook changes as well as downgrades. Any signal of rating trajectory movement triggers market uncertainty. An affirmation with a change from stable to negative outlook is a Red Zone event.

3. Annual review cycles are predictable. Fitch reviews most AAMFI members in Q2–Q3 (Afreximbank – June, TDB – September, BOAD – May). Moody's review cycles cluster in Q4. This creates natural

issuance windows: Q4–Q1 is typically the clearest zone for Afreximbank and, BOAD; Q1–Q2 is typically clearest for TDB. Treasuries can build this cadence into multi-year funding plans.

The potential saving from avoiding Red Zone issuance is substantial. Two of the 11 AAMFI bonds in our dataset were issued within 30 days of a rating action. If those issuances had been delayed to the Green Zone, the estimated annual saving would have been US$ 8–15 million across the two bonds combined. Over a five-year bond tenor, that is US $40–75 million in cumulative interest savings — without any change to the rating itself.



8. Rating Action Sequencing: Who Moves First and Last?

This chapter analyses the sequencing of rating actions – which agency moves first when crises emerge and which moves last when conditions recover. The findings have direct policy implications for AAMFI members engagement strategies with the Big Three.

8.1 Why Sequencing Matters

The cost of rating divergence is not just about the size of the gap between agencies – it is also about timing within the rating cycle. An institution whose credit profile is improving will recover more slowly if the most influential rating agency is last to upgrade. Conversely, an institution whose profile is deteriorating will face costs earlier if the binding-floor agency is also the first to downgrade. Sequencing analysis extends the timing hypothesis from Chapter 7: rather than asking "when does a rating action occur relative to a bond issuance?", it asks "when does one agency act relative to another?"

8.2 MFI Downgrade Sequencing

Three multi-agency downgrade episodes were identified for AAMFIs and related African MFIs:

Table 16: AAMFIs Downgrade Episode Sequencing

Institution	Episode	First Mover	Date	Sequence and Lag
Afreximbank	2025 downgrade	**Fitch**	4 Jun 2025	Fitch (4 Jun) → Moody's (1 Jul) — lag: 27 days
TDB	2024 downgrade	**Moody's**	18 Oct 2024	Moody's (18 Oct 2024) → Fitch (9 Sep 2025) — lag: 11 months
DBSA	2019–2020 cascade	**S&P**	30 Oct 2019	S&P (Oct 2019) → Moody's (Mar 2020) → S&P (May 2020) → Moody's (Jun 2020) — 4 moves over 8 months

No single agency is a systematic first mover across all downgrade episodes. Fitch led on Afreximbank, Moody's led on TDB, and S&P led on DBSA. However, two asymmetric features stand out. First, Fitch's downgrade of Afreximbank in June 2025 preceded Moody's by only 27 days, leaving little time for the institution to respond before both binding-floor constraints tightened simultaneously. Second, TDB's

Moody's downgrade (October 2024) preceded Fitch's follow-on by eleven months, leaving investors uncertain about the institution's true trajectory for an extended period.

8.3 MFI Upgrade Sequencing

One multi-agency upgrade episode was identified for AAMFIs with sufficient data:

Table 17: AAMFI Upgrade Episode Sequencing

Institution	Episode	Last Mover (Slowest)	Date	Sequence and Lag
TDB	2017–2018 upgrade	**Fitch**	3 Oct 2018	Moody's upgrades Ba1→Baa3 (26 Oct 2017) → Fitch upgrades BB→BB+ (3 Oct 2018) — lag: 12 months

Fitch was the last agency to upgrade TDB following its recovery – trailing Moody's by a full twelve months. During that period, TDB carried a binding floor set by Fitch's lower rating even though Moody's had already recognised the improvement. This asymmetry – Fitch among the faster to downgrade but slowest to upgrade – represents a compounding structural disadvantage for AAMFI members.

8.4 The Fitch Asymmetry: A Synthesis

When the sequencing findings below are integrated with the binding floor analysis presented in Chapter 9, a coherent picture of the impact emerges:

- Fitch sets the binding floor at issuance in 86% of AAMFI bond issuances.
- Fitch was the first mover in Afreximbank's 2025 downgrade episode, imposing costs immediately.
- Fitch was the last mover in TDB's upgrade cycle, delaying cost relief by 12 months.
- Fitch's MDB methodology was last updated in October 2024, immediately preceding the Afreximbank dispute.

Taken together, these findings provide a quantitative basis for the policy argument that AAMFI members should prioritise engagement with Fitch above other agencies – not because Fitch is necessarily more biased, but because its rating actions have the largest and most immediate impact on AMFI borrowing costs, in both directions.

***Caveat**: The MFI sequencing sample is small (three downgrade episodes, one upgrade episode). These findings should be interpreted as directional evidence rather than statistical proof. The sovereign sequencing analysis (Chapter 4), which covers a larger number of episodes, provides broader support: S&P is the most frequent last mover on sovereign upgrades while Moody's upgrades fastest on recovery.*

9. Which Agency Sets the Binding Rating?

9.1 The Binding Rating Concept

When multiple rating agencies assess the same institution, bond markets and regulators typically use the lowest rating as the operative constraint. This "binding" or "floor" rating determines pricing, index inclusion, and regulatory capital treatment. Understanding which agency most frequently sets this binding rating has direct policy implications for where institutions should focus engagement efforts.

9.2 Agency Patterns for African Institutions

Analysis of entity-year observations for African institutions reveals systematic patterns. A distinction is drawn between the entity-year measure (which agency sets the floor in any given year) and the at-issuance measure (which agency sets the floor at the specific moment an institution issues a bond).

Table 18: Agency Attribution — Who Sets the Binding Rating?

Institution Category	Fitch Sets Floor	S&P Sets Floor	Moody's Sets Floor	Notes
African Institutions (Overall)	**52%**	30%	19%	Entity-year basis; p<0.001 (Fitch vs Moody's)
AAMFIs — entity-year	**38%**	28%	27%	Entity-year basis
AAMFIs — at issuance	**86%**	0%	0%	Bond-issuance basis; N=14 bonds with multi-agency coverage
Other African MFIs	**42%**	29%	23%	Entity-year basis
Non-African MFIs	31%	35%	34%	Near-equal distribution; near-zero divergence

The at-issuance figure of 86% is a key finding of this updated analysis. It means that when AAMFI members actually go to market to sell bonds, Fitch is setting the binding floor in 86% of those transactions. The difference between 38% (entity-year) and 86% (at-issuance) reflects a selection effect: institutions issue when ratings are relatively aligned, so the remaining divergence is disproportionately attributable to Fitch's lower rating.

Fitch's at-issuance dominance

Fitch sets the binding floor at the time of bond issuance in 86% of AAMFI transactions – more than double the entity-year rate of 38%. This directly contextualises Afreximbank's January 2026 decision to terminate its Fitch relationship: Fitch's rating was not merely the worst rating in an abstract sense, but specifically the worst rating at the precise moments when borrowing costs were being set.

9.3 Policy Implications

1. **Engagement Priority**: AAMFI members should prioritise engagement with Fitch on methodology questions, particularly regarding multilateral development bank assessment frameworks.

2. **Timing Sensitivity**: Given Fitch's role as the most frequent binding rater at issuance, Fitch downgrades within 90–180 days of planned issuances have the highest probability of increasing borrowing costs.

3. **Methodology Focus**: Fitch's October 2024 update to its multilateral development bank methodology deserves particular scrutiny, as changes to Fitch's approach disproportionately affect African institution borrowing costs.

4. **Recent Development**: Afreximbank's January 2026 decision to terminate its relationship with Fitch directly reflects this dynamic. Fitch's rating was the binding constraint on Afreximbank's market access and pricing in 86% of its bond issuances.

9.4 Index Inclusion Consequences: The Passive Capital Cost

The binding floor's consequences extend beyond spread pricing to index inclusion — a channel through which rating divergence systematically excludes African MFIs from passive capital flows even when fundamental credit quality warrants inclusion. Major emerging market bond indices use the binding (lowest) rating when determining investment-grade classification. Both the J.P. Morgan EMBI Global and Bloomberg Barclays EM Aggregate apply a BBB-/Baa3 threshold as the boundary between their IG and HY sub-indices. When the binding floor crosses from BBB- to BB+, an institution's bonds are reclassified into

HY — triggering forced selling by IG-only mandates and exclusion from IG-tracking passive funds, regardless of what other agencies assess.

Two documented episodes illustrate this mechanism:

- TDB (October 2017 to October 2018): Moody's upgraded TDB to Baa3 (investment grade) in October 2017. Fitch maintained its BB+ (high yield) rating for a further 12 months. During this period, TDB was in a split classification — Moody's assessed it as IG, but the binding floor (Fitch BB+) kept it in HY for index purposes. TDB was excluded from IG passive flows for 12 months despite one of two rating agencies having already recognised investment-grade quality.
- Afreximbank (June 2022 to June 2023): Fitch downgraded Afreximbank to BB+ in June 2022, crossing the binding floor into HY territory. Moody's maintained BBB+ and S&P maintained BBB- throughout. For 12 months, Afreximbank was classified as HY for index purposes despite two of three agencies maintaining investment-grade ratings.

The passive capital channel amplifies the direct spread cost. Forced selling by IG-only mandates during a cliff-crossing event depresses bond prices and pushes secondary yields up, raising the cost of any concurrent issuance. Exclusion from IG-tracking passive funds reduces the natural buyer base for future issuances, structurally elevating required spreads beyond what rating-level estimates alone would capture.

> ***Note on quantification**: Precise estimates of lost passive inflows would require position-level fund holding data, which is not publicly available. The directional effect is documented: both TDB and Afreximbank experienced 12-month IG/HY reclassifications driven solely by Fitch's binding floor, while at least one other agency maintained an investment-grade assessment throughout both periods.*

9.5 Regulatory Amplification: Why the Tax Becomes Economically Severe

The disagreement tax is not created by rating divergence alone. It becomes economically severe because global prudential and investment rules amplify even modest differences between agencies into major financing penalties. Under Basel III/IV capital rules, a bank holding a bond rated BB+ rather than BBB– must set aside materially more capital against that position. Under Solvency II insurance treatment, the same threshold shift changes the risk charge applied to insurance company portfolios. Under many institutional investor mandates, the shift from investment grade to high yield triggers forced selling regardless of any individual analyst's view of the institution's underlying credit quality.

This means a single-notch move by the agency setting the binding floor — Fitch, in 86% of AAMFI issuances — can simultaneously trigger: higher bank capital requirements for holders of existing bonds; exclusion from major EM benchmark indices (as documented in Chapter 9.4); forced selling by IG-mandate investors; and reduced demand at any subsequent bond issuance. Each effect amplifies the others. The spread premium paid is only the most visible manifestation; the reduction in the available investor universe and the increase in regulatory capital charges compounds the cost through channels that are harder to quantify but no less real.



The policy implication is that reducing the disagreement tax requires engagement not only with credit rating agencies on methodology, but also with global standard-setters, prudential regulators, and major index providers on how the binding floor rule is applied. Treating African MFI bonds more consistently with how comparable multilateral bonds are treated under prudential frameworks would reduce the amplification effect even before any formal rating change.

10. Investment-Grade Cliff Exposures

10.1 The Cliff Effect

Crossing from BBB− (the lowest investment-grade rating) to BB+ (the highest high-yield rating) triggers multiple adverse consequences:

- Forced selling by institutional investors with investment-grade-only mandates
- Index exclusion from major benchmarks like Bloomberg Barclays and J.P. Morgan EMBI
- Higher capital charges for banks and insurance companies holding the bonds
- Reduced liquidity and higher transaction costs in secondary markets

When agencies disagree at this threshold – one rating BBB− or higher, another rating BB+ or lower – the lowest rating determines the affected institution's market classification, thereby magnifying the cost of divergence.

10.2 Cliff Proximity Analysis

Table 19: Summary of Investment-Grade Cliff Exposure by Category of Institution

Group	Entity-Years at BBB–	% Within 1 Notch of Cliff	IG/HY Split Episodes
AAMFI Members	15	**17%**	2
Other African MFIs	82	**29%**	12
Non-African MFIs	0	**0%**	0

AAMFIs spent 17% of their rated years just one notch from the investment-grade cliff (at BBB−), with two episodes where cross-agency disagreement pushed the lowest rating into high-yield territory while another agency maintained an investment-grade rating. In contrast, non-African MFIs face zero cliff risk – a full seven–eight notches above the danger zone.

Figure 9: Investment-Grade Cliff Exposure (Proximity to BBB−/BB+ Boundary)

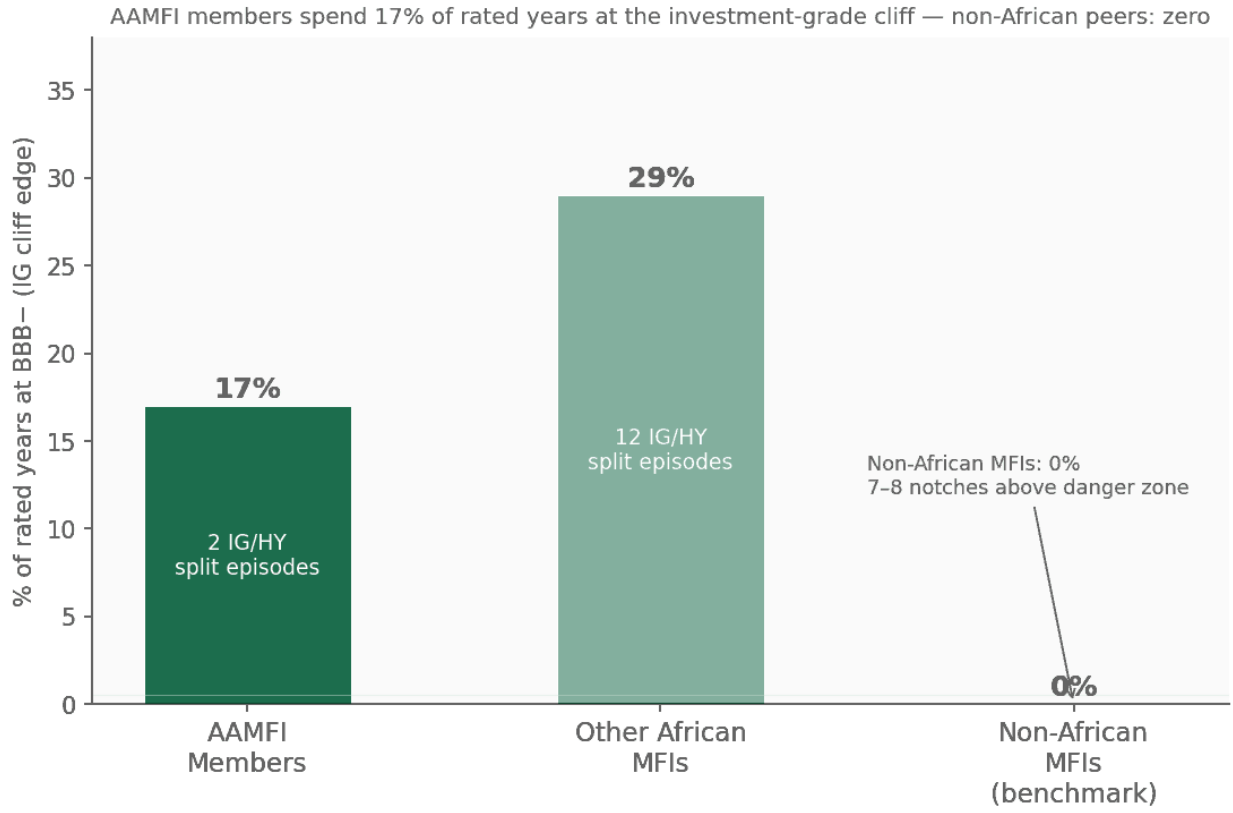


Figure 9 *shows that AAMFI members sit at the investment-grade cliff edge 17% of the time, while non-African MFIs never approach this danger zone, maintaining ratings that start at AA+ or higher.*

10.3 Institutional Triggers: What Drives Cliff Proximity

The cliff exposure statistics become more actionable when the specific rating actions driving proximity are identified. The following analysis traces each AAMFI member's cliff history using date-stamped rating actions from agency archives.

Afreximbank: 13 Years at the Cliff Edge Under Fitch

Fitch assigned Afreximbank a BBB− rating in October 2009 and maintained it for 13 consecutive years until June 2022 — one notch above the investment-grade cliff, every single year. Throughout this period, Moody's rated Afreximbank at BBB or BBB+ (one–two notches higher). The persistent Fitch floor prevented Afreximbank from pricing at the investment-grade consensus that Moody's had already recognised.

When Fitch finally upgraded to BBB in June 2022, it reversed the decision 4 days later and downgraded to BB+ — crossing into high-yield territory. This is the most consequential single rating action in the dataset: an upgrade and a cliff-crossing downgrade within one week, generating acute market uncertainty at precisely the wrong moment. Fitch re-upgraded to BBB in June 2023 (held through 2024), before downgrading again to BBB− in June 2025, returning Afreximbank to the cliff edge. The January 2026 termination of the Fitch relationship followed directly.

TDB: A Decade in High Yield, Then a Contested IG Recovery

TDB was rated BB− by Fitch from December 2008 — deep in high-yield territory — and remained below investment grade until Moody's upgraded to Baa3 (investment grade) in October 2017. Fitch followed 12 months later in October 2018 with a BB+ upgrade. This 12-month lag meant TDB spent a full year carrying an investment-grade Moody's rating while Fitch's BB+ floor kept it in high-yield for index inclusion and many investor mandates.



Moody's downgraded TDB back to Ba1 (HY) in October 2024, citing governance concerns. Fitch followed 11 months later in September 2025. TDB has therefore crossed the investment-grade boundary four times in its rated history: down to HY (Fitch first, 2008), up to IG (Moody's first, 2017; Fitch 12 months later), and down to HY again (Moody's first, 2024; Fitch 11 months later). In each cycle, the agency that moved first was not the same as the one setting the binding floor — reinforcing the sequencing asymmetry documented in Chapter 8.

BOAD: 100% of Rated Life at the Cliff Edge

BOAD received its first Fitch rating in June 2015 at BBB — one notch above the cliff — and has been affirmed there in every annual review since. It has never been upgraded. Moody's rates BOAD at Baa1, one notch higher. BOAD has spent 100% of its rated years in the at-cliff position, more than any other

AAMFI member. Its October 2025 EUR 1 billion bond at MS+37bps — the tightest spread ever achieved by BOAD — illustrates that market confidence exists, but the Fitch BBB floor continues to cap its pricing upside.

***Predictive implication for risk managers**: The data suggests that cliff proximity for AAMFI members is primarily driven by Fitch's conservative MDB methodology, not by deteriorating credit fundamentals. Moody's consistently rates one–two notches higher. When Fitch does move — whether up or down — it tends to do so in annual review cycles (typically Q2–Q3). Institutions can therefore anticipate and prepare for Fitch actions by monitoring their annual review calendar and building a 90-180 day issuance buffer around it.*

11. Translating Rating Divergence into Dollar Costs

11.1 Cost Estimation Framework

The cost of divergence operates through a specific mechanism: because markets price to the binding (lowest) rating, institutions that face divergence between agencies pay as if they hold their worst rating rather than their consensus rating. The key parameters are derived directly from the underlying data.

Key Parameters:

- Average gap between binding floor and average rating at AAMFI bond issuances: 0.62 notches (bond-level analysis, N=14 issuances)
- Cost per notch: 43.74 basis points (MFI-only regression, N=391, R^2=0.820, p<0.0001)
- Binding floor cost: 0.62 × 43.74 = 27.1 basis points per issuance
- Estimated annual bond issuance: US$ 5–10 billion (based on disclosed issuances by Afreximbank, AFC, and TDB)
- Current outstanding debt: approximately US$ 12 billion

> ***Important framing**: The 27.1 bps figure is not a regression coefficient on divergence (which is negative when controlling for rating level, confirming the mechanism runs through the binding floor). It is the cost of being priced at the binding floor rather than the average rating, derived from the regression slope and the observed floor-to-average gap. This is the correct and defensible specification.*

11.2 Annual Cost Calculation

Binding floor cost = 0.62 notches × 43.74 bps/notch = 27.1 basis points

Scenario 1 — New Issuance Impact:

- Annual issuance: US$ 5–10 billion
- Excess cost: 27.1 bps × US$ 7.5 billion (midpoint) = US$ 20 million annually
- Conservative estimate (50% of issuances affected): US$ 10 million annually

Scenario 2 — Outstanding Debt Impact:

- Outstanding debt: US$ 12 billion
- Excess cost: 27.1 bps × US$ 12 billion = US$ 33 million annually

Scenario 3 — Timing Premium Impact (additional):

- Bonds issued within 90 days of rating actions: approximately 25–32% of AAMFI issuances
- Affected volume: US$ 2 billion
- Timing premium: 121 bps
- Additional cost: US$ 24 million annually

11.3 Total Cost Estimate

Table 20: Summary of Cost Scenarios

Scenario	Annual Cost	10-Year Cumulative	Basis
Conservative	**US$ 20 million**	**US$ 200 million**	27.1 bps binding floor cost; 50% of issuances affected
Mid-range (issuance + timing)	**US$ 44 million**	**US$ 440 million**	Binding floor cost + 121 bps timing premium on affected issuances
Full issuance volume	**US$ 40 million**	**US$ 400 million**	27.1 bps binding floor cost × US$ 7.5 billion annual issuance; all issuances affected
Outstanding debt	**US$ 33 million**	**US$ 330 million**	27.1 bps binding floor cost × US$ 12 billion outstanding

***All scenarios use the verified parameters**: 0.62 notch binding floor gap, 43.74 bps/notch regression slope. The 27.1 bps binding floor cost is the spread premium AAMFI members pay by being priced at their worst rating rather than their consensus rating. If AAMFI members faced zero divergence (as non-African comparators do), this cost would disappear. The timing premium scenario adds the empirically observed 121 bps premium for bonds issued within 90 days of a rating action, affecting an estimated 25–32% of issuances.*

11.4 Per-Institution Impact

- Afreximbank (approximately $1.8 billion in outstanding Eurobonds): approximately $5–8 million annually from the binding floor effect; additional timing premium costs where issuances coincide with rating actions.
- Africa Finance Corporation (approximately $2.4 billion in outstanding debt): approximately $7–10 million annually.
- Trade and Development Bank (approximately $1.5 billion in outstanding bonds): approximately $4–6 million annually.

These costs represent resources that could otherwise finance schools, hospitals, roads, or other critical development projects across the African continent.

11.5 Comparison to Non-African Peers

If AAMFI members received the same rating consistency as non-African MFIs (0.079 notch gap instead of 1.23), they would save approximately:

- The binding floor gap of 0.62 notches would reduce to approximately zero, saving 27 basis points on every bond issuance.
- On US$ 7.5 billion annual issuance: US$ 20 million saved annually.
- Over a decade: US$ 200 million in cumulative savings from the binding floor effect alone, rising to US$ 440 million if the timing premium is also included.

This counterfactual demonstrates that the “Africa disagreement tax” is not inherent to the institutions’ credit profiles but rather reflects systematic differences in how rating agencies apply their methodologies to African versus non-African multilateral institutions.

11.6 Counterfactual Case Studies: Bond-by-Bond Excess Cost

The most direct evidence of the Africa disagreement tax comes from examining specific bond issuances where Fitch’s lower rating set the binding floor, and calculating exactly how much less each institution would have paid if all agencies had agreed at the higher rating.

The counterfactual is defined precisely: if the binding floor had been at the consensus (best) rating rather than the worst rating, what spread would the bond have priced at? The answer uses our regression estimate of 43.74 bps per notch — the same figure used throughout this report. The savings figure

represents the annual reduction in interest expense if the bond were repriced at the counterfactual spread.

Table 21: Bond-by-Bond Counterfactual Analysis (AAMFIs, bonds with divergence at issuance)

Issuer	Date	Amount	Actual spread	Floor agency	Saving (bps)	Annual excess cost
Afrexim	Jul 2011	US$500m	429 bps	S&P + Fitch	**44 bps**	**US$ 2.2 million per year**
Afrexim	Apr 2013	US$500m	307 bps	S&P + Fitch	**44 bps**	**US$ 2.2 million per year**
Afrexim	Jul 2014	US$ 700 million	332 bps	Fitch	**44 bps**	**US$ 3.1 million per year**
Afrexim	May 2016	US$ 900 million	295 bps	Fitch	**44 bps**	**US$ 3.9 million per year**
Afrexim	Jun 2017	US$ 750 million	219 bps	Fitch	**87 bps**	**US$ 6.6 million per year**
TDB	Sep 2010	US$ 300 million	609 bps	Fitch	**87 bps**	**US$ 2.6 million per year**
TDB	Jun 2013	US$ 300 million	500 bps	Fitch	**44 bps**	**US$ 1.3 million per year**
BOAD	Jun 2016	US$ 750 million	443 bps	Fitch	**44 bps**	**US$ 3.3 million per year**
TOTAL	**8 bonds**	**US$ 4.7 billion**		**Fitch 7/8**		**US$ 25.2 million per year**

Saving = (floor rating − best rating) × 43.74 bps/notch. Annual excess cost = saving × bond amount. Assumes bonds remain outstanding at original size; actual savings on matured bonds are historical.

Across these eight bond issuances, AAMFI members paid an estimated US$ 25.2 million per year in additional interest attributable solely to Fitch's lower rating setting the binding floor. In every case except one, Fitch was the floor-setting agency. In the Afreximbank 2017 bond — where Fitch sat two notches below Moody's (BBB− vs BBB+) — the floor penalty was 87 basis points, costing US$ 6.6 million per year

on a single US$ 750 million bond. This single issuance alone exceeds the entire conservative annual cost estimate for all of AAMFI.

The counterfactual is not hypothetical in the abstract sense: Moody's had already determined that Afreximbank's credit quality warranted BBB+ in 2017. The cost was not caused by Afreximbank's credit profile. It was caused by one agency's methodology producing a systematically lower assessment of the same institution.

11.7 The Development Cost: What the Tax Buys Instead

The dollar figures in this report represent costs to AAMFI members. They also represent a different set of numbers for the populations these institutions serve. Translating excess financing costs into development equivalents communicates the real stakes to policymakers and heads of state beyond the technical language of basis points and bond spreads.

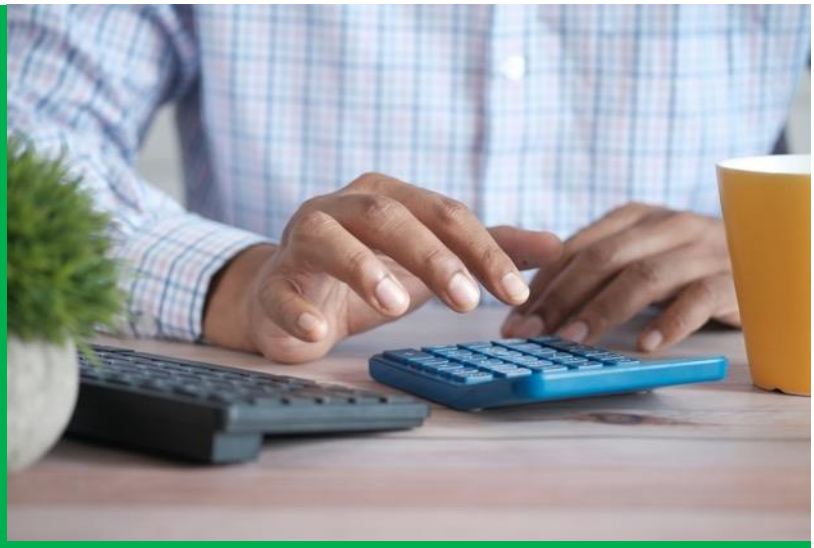
Table 22: Development Equivalents of the Annual Excess Financing Cost (US$25.2m/yr identified across 8 bonds)

Development outcome	Unit cost (approx.)	Annual equivalent
Utility-scale solar power (sub-Saharan Africa)	US$ 0.6m/MW	42 MW installed — powering approximately 100,000 households with clean energy
Rural road construction (2-lane tarmac)	US$0.5m/km	50 km paved rural road — connecting approximately 200 villages to markets
Primary school construction	US$0.15m/school	168 new primary schools — educating approximately 50,000 children
Rural primary health clinics	US$0.3m/clinic	84 primary healthcare facilities — serving approximately 840,000 patients annually
Household off-grid solar systems	US$300/household	84,000 households receiving first-time electricity access

Unit costs based on World Bank and AfDB project financing benchmarks for sub-Saharan Africa. Annual equivalent based on US$ 25.2 million in excess interest identified across eight documented AAMFI bond issuances.

Over a decade, the conservative cumulative estimate of US$ 200 million in excess financing costs represents capital equivalent to a 400 km regional road corridor, universal primary school infrastructure for a mid-sized African country, or rural electrification for a nation of five million people.

The case for rating methodology reform is not abstract. Every basis point in excess spread paid because Fitch rates Afreximbank at BBB- while Moody's rates it BBB+ is a basis point that does not reach infrastructure, trade finance, or climate projects. The Africa disagreement tax is not merely a financial market inefficiency. It is a development finance constraint with a measurable real-world cost.



12. Strategic Responses: The Rating Withdrawal Option

As evidence of the Africa disagreement tax has grown, several African MFIs have taken the most direct available response: terminating rating relationships with the agency they believe is systematically undervaluing their credit quality. The dataset records withdrawal events across six institutions between 2016 and 2026. Two structurally distinct strategies have emerged.

Table 23: Rating Withdrawal Events in African MFI Universe (2016-2026)

Institution	Agency	Date	Rating withdrawn	Context
DBSA	Fitch	Dec 2018	AA+ (nat. scale)	Type A: national-scale AA+(zaf) irrelevant for international pricing where Moody's Ba3 controls
LADB	Fitch	Jul 2016	AA+ (nat. scale)	Type A: same logic. Moody's global-scale remained as sole pricing reference
IDCSA	Fitch	Aug 2017	AA+ (nat. scale)	Type A: national-scale withdrawn; Moody's Ba3 global-scale remained
LADB	Moody's	Mar 2021	Caa1	After Fitch withdrawal, Moody's also withdrawn — LADB left without international rating
Afreximbank	Fitch	Jan 2026	BBB- (global)	Type B: global-scale methodology disagreement. S&P coverage secured Jan 2025 before withdrawal

12.1 Type A — National-Scale Withdrawal (DBSA, LADB, IDCSA)

The South African MFI withdrawals follow identical logic: Fitch's national-scale ratings (AA+/zaf) had no relevance to international capital market pricing once Moody's global-scale ratings were in place. The cost of maintaining a Fitch rating that investors could not compare to global benchmarks was not justified. These withdrawals had no impact on international pricing — Moody's already controlled the binding floor. The national-scale rating had never been part of the international pricing mechanism.

12.2 Type B — Methodology Disagreement (Afreximbank)

Afreximbank's January 2026 withdrawal is qualitatively different. Fitch had held a global-scale BBB- rating on Afreximbank since 2009 — consistently one to two notches below Moody's BBB/BBB+ assessment — for 17 consecutive years. The withdrawal was publicly framed as a methodology dispute: Afreximbank stated that the rating exercise no longer reflected a good understanding of the bank's establishment agreement, mission, and mandate.

The strategic sequencing is notable: Afreximbank obtained S&P coverage at BBB- in January 2025, twelve months before the Fitch withdrawal. This established a replacement floor-setter before the withdrawal, meaning the post-withdrawal binding floor (S&P BBB-) was identical to the pre-withdrawal floor (Fitch BBB-) — but Afreximbank now controls which agency sets it. Furthermore, Afreximbank has also received ratings from other agencies such as CCXI in January 2025 which gave them confidence to challenge Fitch. Fitch's punitive downgrade to BB+ on withdrawal day was widely discounted by markets given the explicit dispute context. The Afreximbank precedent establishes a clear template: secure replacement coverage, then withdraw from the floor-setter.

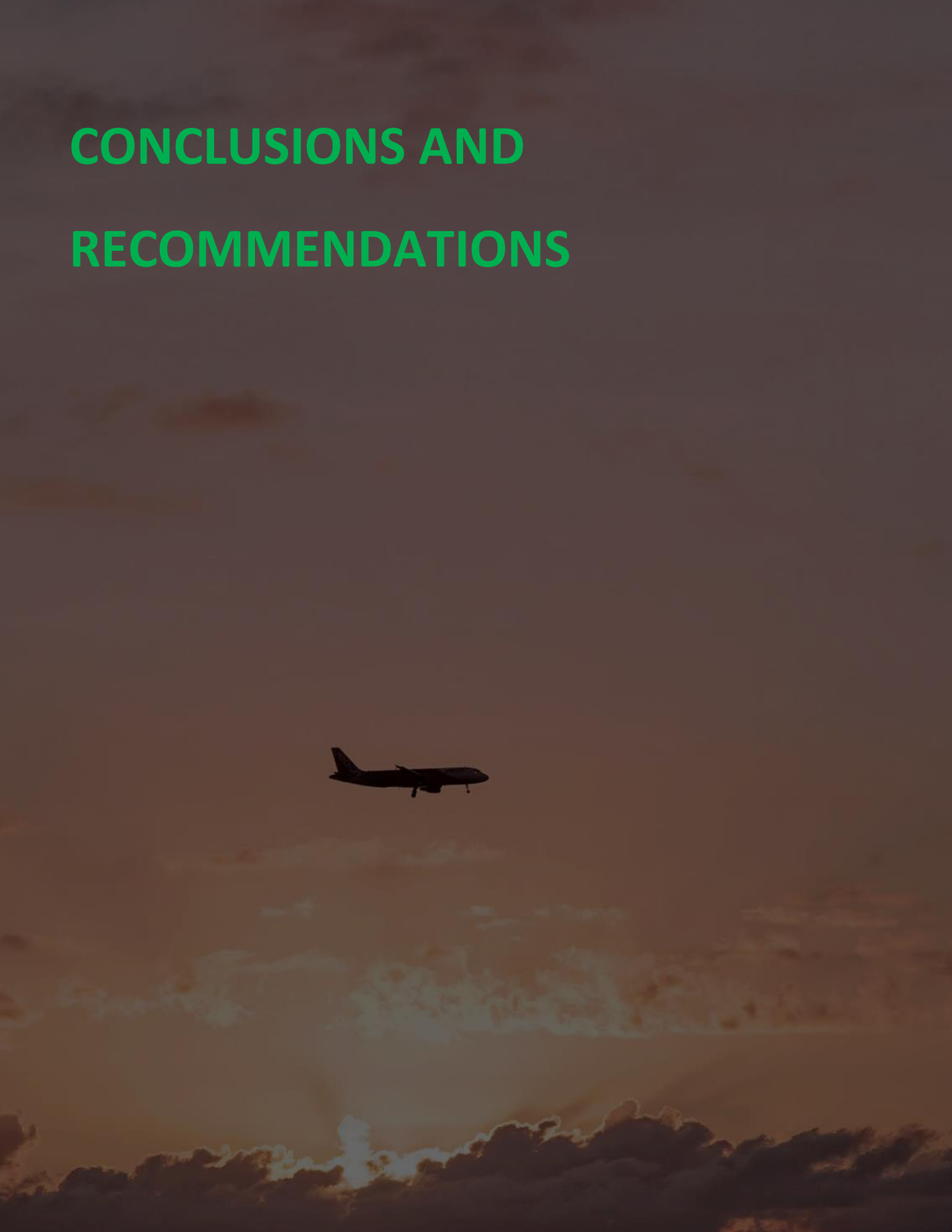
12.3 Limits of the Withdrawal Strategy

Rating withdrawal is a defensive tactic, not a structural solution. It manages the symptom rather than addressing the cause. Three constraints limit its effectiveness:

1. **Single-agency risk**: After withdrawal, institutions typically hold only one or two ratings, reducing the redundancy that protects against any single agency's potential errors or future methodology changes.
2. **Replacement agency quality**: The strategy only works if an alternative agency provides comparable or better coverage. S&P's BBB- for Afreximbank is identical to Fitch's pre-withdrawal rating. If the replacement agency also rates conservatively, withdrawal accomplishes nothing.
3. **Investor mandates**: Some investors explicitly require ratings from specific agencies, particularly Fitch, for regulatory or internal mandate reasons. Withdrawal may narrow the investor base for specific transactions even if overall spread pricing is unaffected.

The case for methodology engagement — pressing Fitch to revise its MDB framework — remains stronger than reliance on withdrawal as a long-term strategy. Withdrawal eliminates the most conservative floor-setter; methodology reform ensures that no agency applies systematically conservative MDB assessments to African institutions in the first place.

CONCLUSIONS AND RECOMMENDATIONS



Credit ratings matter.

But the analysis in this report identifies a troubling pattern: African institutions experience far more rating disagreement than institutions from other regions, even when controlling for credit quality. An African MFI rated A− by one agency might receive BBB+ from another and BBB from the third – a two-level spread. A comparable MFI from Asia or Europe rated A− by one agency will typically receive A or A− from the other two – less than one level of disagreement.

Credit rating disagreement imposes measurable costs through three compounding channels: the lowest rating determines borrowing costs; downgrades near issuance multiply the impact; and the agency most likely to set the binding floor is asymmetrically slow to reverse it. In total, AAMFI members collectively face estimated financial penalties of between $20 million and $44 million annually despite strong fundamentals.

Critically, once rating level is controlled for, there is no additional unexplained market bias against African MFI bonds. The disagreement tax is entirely rating-driven. This is the most important policy finding in the analysis: there is no entrenched market prejudice that would survive a correction of the rating methodologies. Fix the methodology, and the cost disappears.

Summary of Key Findings

1. **Finding 1 — The binding rating drives borrowing costs:** Each one-notch deterioration in the lowest rating is associated with 43.74 basis points higher bond spreads ($p<0.0001$, $R^2=0.820$, N=391 MFI bonds). This is the mechanism through which all other findings impose financial cost. Once rating level is controlled for, no additional market penalty exists (residual: −15 bps, p=0.66) – the entire tax operates through the rating channel.

2. **Finding 2 — Every AAMFI shows greater divergence than any non-African comparator:** AAMFI divergence is 1.19–1.21 notches under both entity-year and bond-level methods – convergence that confirms the pattern is structural, not episodic. The least divergent AAMFI member (BOAD, 1.00 notches) exceeds the most divergent non-African comparator outside geopolitical episodes (CEB, 0.42 notches). Nine of 13 non-African MFIs show zero divergence in every year of the analysis.

3. **Finding 3 — Fitch sets the binding floor at 86% of AAMFI issuances:** Across all rated years, Fitch sets the floor 38% of the time. At the specific moments AAMFIs access capital markets, that figure rises to 86%. Because markets price to the binding floor, Fitch's methodology decisions are the single most consequential driver of AAMFIs borrowing costs.

4. **Finding 4 — Fitch acts asymmetrically within rating cycles:** Fitch was the first mover in Afreximbank's 2025 downgrade (27 days ahead of Moody's) and the last mover in TDB's 2017–2018 upgrade (trailing Moody's by 12 months). Early to downgrade, slow to upgrade. This asymmetry compounds the binding floor dominance identified in Finding 3.

5. **Finding 5 — Timing of rating actions creates additional costs:** Bonds issued within 90 days of a rating action paid an average premium of 121 basis points over bonds issued in quiet periods. The premium dissipates with distance (223 bps at 30 days, 65 bps at 180 days), suggesting strategic issuance timing is a practical cost-reduction tool available to AAMFI members today.

Total annual cost: approximately US$ 10–44 million depending on scenario, with US$ 20 million as the central full-issuance estimate. Over a decade: US$ 100–US$ 440 million. These costs are directly traceable to the binding floor mechanism and would largely disappear if AAMFI ratings converged to the consistency level of non-African peers.

Cliff exposure: AAMFIs spend 17% of rated years at the investment-grade cliff (BBB−), compared to zero for non-African peers. This amplifies the consequences of any single-agency downgrade and directly motivates the sequencing findings in Finding 4.

***Final note on interpretation**: This report does not argue that all rating divergence reflects error or inappropriate conservatism. Credit ratings must reflect genuine differences in credit risk, institutional strength, and shareholder support. Our argument is narrower: because markets, indices, and regulatory treatment often rely on the binding (lowest) rating, even modest methodological differences can create disproportionate financing costs for African MFIs. Improving transparency and calibration therefore strengthens both market confidence and development outcomes — and is in the interest of issuers, investors, and rating agencies alike.*

What should happen now?

The analysis of this report point to a range of key actions that can be taken by four categories of stakeholders, starting with the “Big Three” themselves:

1. For the Big Three Credit Rating Agencies

- Transparently launch public consultations to review and update multilateral development bank methodologies to remove potential sources of systemic inconsistency with respect to AMFIs. This is especially critical for Fitch, whose October 2024 update preceded the Afreximbank dispute and whose ratings set the binding floor in 86% of AAMFIs issuances.
- Accelerate the recognition of AMFIs’ preferred creditor status and diversified shareholding structures in analytical frameworks.
- Integrate more granular, Africa-specific economic data and expand African office presence to ensure institutional performance is not unfairly suppressed by sovereign ceiling mechanics.
- Address the upgrade lag documented in this analysis: if Moody’s can upgrade TDB within 12 months of improved conditions, there is no methodological justification for Fitch requiring a further 12 months.

2. For the African Peer Review Mechanism (APRM)

- Accelerate the operationalisation of the AfCRA with transparent, publicly accessible methodologies for both AMFIs and African sovereigns.
- Publish a comparative methodology assessment examining how the Big Three treat African MFIs differently from their global peers, using the sequencing and binding floor evidence in this report.

3. For African Sovereigns, MFIs, and Private Sector

- Diversify the rating agencies used for bond issuance and investment decisions, including use of AfCRA once operational.
- Develop institution-specific issuance timing strategies that account for rating action windows: delaying issuance by 90 days after a rating action saves an estimated 121 basis points based on the evidence in this report.

- Institute annual Shadow Rating Audits as independent assessments of each institution's credit quality published alongside the annual report. The audit should specifically document which factors in the floor-setting agency's methodology the institution believes are mis-calibrated and what evidence it has submitted in response.
- Standardise transparency and reporting metrics across all AAMFI members to reduce information asymmetry and compel more accurate assessments.
- Engage collectively with the Big Three on methodology – particularly Fitch's MDB framework – using the quantitative evidence in this report as the basis for specific methodological challenges.
- Develop institution-specific issuance timing strategies based on the predictable annual review cadence of each agency. Delaying issuance by 90 days after any rating action saves an estimated 121 basis points — approximately US$ 6 million on a US$ 500 million bond — based on the evidence in this report. AAMFIs treasuries should build this cadence into multi-year funding plans
- Engage collectively with the Big Three on methodology through a Unified African Preferred Creditor Status Framework: a jointly published document specifying what preferred creditor protection means in practice across AAMFI institutions — the legal basis in each founding treaty, the historical repayment track record, the callable capital structure, and the relationship to individual sovereign ratings.

4. For Institutional Investors and the International Community

- Exercise greater circumspection regarding rating opinions, recognising that high divergence often reflects agency inconsistency rather than underlying institutional risk.
- Use investor influence to pressure CRAs toward greater methodological transparency and faster upgrade sequencing.
- Support international regulatory shifts that address methodological biases within the global rating architecture.
- Deploy de-risking mechanisms (guarantees, first-loss facilities) to offset the "disagreement tax" while long-term structural rating reforms are underway.
- Extend the policy conversation beyond credit rating agencies to prudential regulators and index providers to explore whether African multilateral development bank bonds — institutions with preferred creditor status, treaty-based legal protections, and strong historical repayment records

— should be treated more consistently with how comparable non-African multilateral bonds are treated under these frameworks.

ANNEX A: INSTITUTION CLASSIFICATION AND SAMPLE COMPOSITION

This annex provides the complete list of institutions analysed, organised by classification.

***Note on the Exclusion of the African Development Bank (AfDB)**: The AfDB is excluded from the primary comparative dataset. As a premier multilateral with a consistent Aaa/AAA rating and a unique global shareholder structure, its rating behaviour aligns with the non-African benchmark. The AfDB is referenced descriptively but excluded from divergence comparisons. Notably, AfDB bonds in the spread dataset average 92 bps – indistinguishable from non-African AAA peers at 33–38 bps once its slightly lower ratings in crisis years are accounted for, confirming that rating level rather than African identity drives spread differences.*

Category 1: AAMFI Members — Rating Coverage

Table 24: AAMFIs — Big Three Rating Coverage

Institution	Moody's	S&P	Fitch	Notes
Afreximbank	Yes (Baa2)	Yes (BBB−)	Withdrawn Jan 2026	Fitch terminated by Afreximbank Jan 2026; highest divergence at 1.44 notches
AFC	Yes (A3)	Yes (A, Positive)	No	S&P initiated Jan 2026; insufficient history for divergence analysis
TDB	Yes (Ba1)	No	Yes (BB)	Moody's downgraded Oct 2024; Fitch followed 11 months later
EADB	Yes (Baa3)	Yes (A, Dec 2024)	No	S&P initiated Dec 2024; four-notch gap; insufficient history for divergence analysis
BOAD	Yes (Baa1)	No	Yes (BBB)	Divergence one-notch; Oct 2025 EUR 1bn bond at MS+37bps
ATIDI (African Trade Insurance)	Yes (A2/A3)	Yes (A)	No	Included where data available

Africa Re	No	Yes (A, Positive)	No	Single-agency; excluded from divergence analysis
Shelter Afrique	Withdrawn 2017	No	No	No current Big Three coverage; excluded
ZEP-RE	No	No	No	No Big Three coverage; excluded
FEDA	No	No	No	No Big Three coverage; excluded

***Correction note**: The three institutions included in the divergence analysis (Afreximbank, TDB, BOAD) are those with sufficient multi-agency rating history over the 2000–2025 period. Previous versions of this report cited a sample of five or six AAMFI members for divergence analysis, which was inaccurate. AFC's S&P rating was only initiated in January 2026; EADB's S&P rating arrived in December 2024. Shelter Afrique and ZEP-RE have no current Big Three ratings. The verified divergence figure of 1.23 notches reflects only the three institutions with adequate history.*

Category 2: Other African MFIs (N=13)

National and sub-regional development banks with at least one Big Three rating.

Average rating: B+/B (level 8.9); average divergence: 3.22 notches for those with multi-agency coverage. Note: this figure partially reflects a national vs global rating scale comparison for South African MFIs (DBSA, LADB, IDCSA), where Fitch national-scale ratings are compared to Moody's global-scale ratings. On a like-for-like global-scale comparison, SA MFI divergence is approximately 0.78 notches. See sub-chapter 5.2 for full methodological discussion.

1. Development Bank of Southern Africa (DBSA) — South Africa
2. Development Bank of Nigeria (DBN) — Nigeria
3. Bank of Industry Nigeria (BoI) — Nigeria
4. EBID (ECOWAS Development Bank) — Togo
5. African Solidarity Fund (FSA) — Niger
6. BADEA (Arab Bank for Economic Development in Africa) — Sudan
7. Development Bank of Namibia — Namibia
8. Industrial Development Corporation (IDC) — South Africa

9. Uganda Development Bank (UDB) — Uganda
10. Development Bank of Rwanda (DBR) — Rwanda
11. Land and Agricultural Development Bank — South Africa
12. Banque de Développement du Cameroun — Cameroon
13. African Reinsurance Corporation (Africa Re) — Nigeria

Category 3: Non-African MFIs (N=13)

Major multilateral development banks from other regions.

Average rating: Aaa/AAA; average divergence: 0.079 notches (entity-year) / 0.031 notches (bond-level). 92% of entity-years show zero divergence.

1. Asian Development Bank (ADB) — Philippines (Aaa/AAA/AAA)
2. European Investment Bank (EIB) — Luxembourg (Aaa/AAA/AAA)
3. Inter-American Development Bank (IDB) — United States (Aaa/AAA/AAA)
4. European Bank for Reconstruction and Development (EBRD) — United Kingdom (Aaa/AAA/AAA)
5. Nordic Investment Bank (NIB) — Finland (Aaa/AAA/AAA)
6. Council of Europe Development Bank (CEB) — France (Aa1/AA+/AA+; avg divergence 0.42)
7. Islamic Development Bank (IsDB) — Saudi Arabia (Aaa/AAA/AAA)
8. Asian Infrastructure Investment Bank (AIIB) — China (Aaa/AAA/AAA)
9. International Finance Corporation (IFC) — United States (Aaa/AAA)
10. CAF – Development Bank of Latin America (Aa3; zero divergence)
11. North American Development Bank (NADB) — avg divergence 0.24
12. Caribbean Development Bank (CDB) — avg divergence 0.20
13. Eurasian Development Bank (EDB) — Kazakhstan (Ba1 following 2022 geopolitical repricing)

Category 4: African Sovereigns (N=31)

Algeria, Angola, Benin, Botswana, Burkina Faso, Cameroon, Cape Verde, Congo (Republic of), Côte d'Ivoire, DR Congo, Egypt, Eswatini, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Mali, Mauritius, Morocco,

Mozambique, Namibia, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Tanzania, Togo, Uganda, Zambia.

ANNEX B: AAMFIS RATINGS BY AGENCY

Current ratings for each AAMFI member institution by agency as of latest available data (2024–2025).

Table 25: AAMFI Member Ratings by Agency

Institution	Fitch	S&P	Moody's	Notes
Afreximbank	BBB– (withdrawn Jan 2026)	BBB–	Baa2	Fitch relationship terminated Jan 2026; S&P initiated Jan 2025
AFC	—	A (Positive)	A3	S&P initiated Jan 2026; Moody's long-standing; no Fitch rating
TDB	BB	—	Ba1	Moody's downgraded Oct 2024; Fitch downgraded Sep 2025; no S&P rating
BOAD	BBB	—	Baa1	One-notch divergence (Moody's higher); no S&P rating
EADB	—	A (Dec 2024)	Baa3	Four-notch gap between S&P and Moody's; S&P first assigned Dec 2024
ATI (African Trade Insurance)	—	A	A2/A3	Both S&P and Moody's; no Fitch
Africa Re	—	A (Positive)	—	Single-agency (S&P only)
Shelter Afrique	—	—	Withdrawn 2017	No current Big Three coverage
ZEP-RE	—	—	—	No Big Three coverage
FEDA	—	—	—	No Big Three coverage

***Key observations**: Of ten AAMFI members, six currently hold ratings from two or more Big Three agencies (Afreximbank, TDB, BOAD, AFC, EADB, and ATI), though Fitch's withdrawal from Afreximbank in January 2026 reduces the active count. Fitch is the least present — it no longer rates Afreximbank*

(relationship terminated), has never rated AFC, BOAD, EADB, or the insurance/reinsurance members. Moody's has the broadest coverage. The limited multi-agency coverage is itself a finding: African institutions have less rating redundancy than global peers, meaning each individual agency's decisions carry disproportionate weight.

ANNEX C: SUPPLEMENTARY BOND ISSUANCES (2016–2025)

The following AAMFI bond issuances supplement the Bloomberg terminal data used in the primary analysis, extending coverage through 2025. Issuances with a specific basis point spread contribute to the spread regression. All issuances contribute to the bond-issuance binding floor analysis via cross-referencing against rating histories at issuance date.

Table 26: Supplementary AAMFI Bond Issuances

Issuer	Date	Instrument	Amount	Spread / Pricing	Spread (bps)
AFC	2 Oct 2024	5-year Eurobond	US$ 500 million	Tightest T-spread achieved (senior)	N/A
AFC	13 Jan 2025	Perpetual Hybrid	US$ 500 million	7.625% Yield; ~170bp over senior	N/A
AFC	28 Apr 2021	7-year Bond	US$ 750 million	2.875% Coupon	N/A
Afreximbank	18 Nov 2025	Samurai Bond (3Y)	JPY 81.8 billion	Short-tenor pricing	N/A
Afreximbank	28 Mar 2025	Panda Bond (3Y)	RMB 2.2 billion	2.99% Yield	N/A
Afreximbank	10 May 2021	5-year Note	US$ 600 million	T+185bps	185
Afreximbank	10 May 2021	10-year Note	US$ 700 million	T+220bps	220
Afreximbank	23 Sep 2019	10-year Bond	US$ 750 million	3.994% Coupon	N/A
Afreximbank	17 May 2016	5-year Note	US$ 750 million	MS+300bps	N/A
TDB	16 May 2019	5-year Eurobond	US$ 500 million	5.000% reoffer; 57.9bp tighter vs 2017	N/A

TDB	Jun 2021	Global Eurobond	N/A	Lowest cost and longest tenor achieved	N/A
BOAD	Oct 2025	15-year Eurobond	EUR 1 billion	MS+37bps	37
BOAD	5 Feb 2025	Sustainability Hybrid	US$ 500 million	8.5% Yield; ~195bp over senior 2031s	N/A
BOAD	22 Jan 2021	Sustainability Bond	EUR 750 million	MS+300bps	N/A

Note: Issuances with a specific basis point spread contribute to the timing analysis. All issuances contribute to the bond-issuance binding floor analysis (Chapter 9) via cross-referencing against rating histories at issuance date.

Final Note on Interpretation

This report does not argue that all rating divergence reflects error or inappropriate conservatism. Credit ratings must reflect genuine differences in credit risk, institutional strength, and shareholder support. Our argument is narrower: because markets, indices, and regulatory treatment often rely on the binding (lowest) rating, even modest methodological differences can create disproportionate financing costs for African MFIs. Improving transparency and calibration therefore strengthens both market confidence and development outcomes.