DEVELOPMENT REIMAGINED · CREDIT RATING AGENCIES WEBINAR SERIES

How Should Africa Be Rated?

From Rating Outcomes to Rating Architecture

Trevor Lwere
Economist, Development Reimagined

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The question has changed

The question is no longer only:

Is Africa unfairly rated?

The deeper question is:

What should a credible assessment of African creditworthiness actually measure?

Fairness, coverage and access remain important — but they are no longer sufficient. The real issue is whether the rating architecture measures the right things, with the right evidence, distinguishing different kinds of risk correctly.

Ratings are not merely opinions — they operate as infrastructure

Rating methodology → Rating & outlook → Investor mandates & regulation → Cost of capital → Development capacity

A sovereign rating is formally an opinion. In practice it determines:

- Investor eligibility and benchmark inclusion
- Prudential and regulatory treatment
- Collateral and capital requirements
- Sovereign borrowing costs and market access
- Ratings of banks, corporates and public institutions
- The financing terms of national development

A methodological weakness does not stay inside a rating report. It is transmitted into real financing conditions.

Africa's rating ecosystem has four gaps — and “bias” names none precisely

Coverage *Who is rated?*

Unrated and single-rated sovereigns and institutions limit visibility, comparability and market access.

Calibration *How is risk interpreted?*

The same indicator can carry different implications across structurally different economies.

Data *What evidence exists?*

Weak, delayed or incomplete information invites conservative qualitative assumptions.

Architecture *Who produces & governs ratings?*

A concentrated system, hard-wired into regulation and mandates, amplifies single decisions.

The coverage gap in numbers: fewer than 35 of Africa's 54 sovereigns carry a Big Three rating — and a significant share of those rely on a single agency's opinion.

What conventional methodologies see

These indicators are not irrelevant. Debt-service capacity, liquidity, fiscal credibility and external resilience genuinely matter — the argument is not to abandon them.

The question is whether they are:

- correctly interpreted
- given proportionate weight
- assessed over the right horizon
- complemented by evidence on assets, capacity and transformation

Debt burden	**Fiscal balance**
External vulnerability	**Reserve adequacy**
Income & growth	**Institutional strength**
Susceptibility to shocks	**Debt affordability**

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What may be missed

- Infrastructure assets
- Natural capital
- Domestic revenue potential
- Regional market access

A liability is visible immediately.

The asset it finances may remain invisible for years.

- Demographic capacity
- Institutional reform trajectory
- Productive investment
- Long-term growth potential

The discipline: these factors must not be added as optimistic “African adjustments.” Each must be converted into measurable indicators of repayment capacity — realised revenues, export growth, project performance, implementation record.

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Liquidity stress is not solvency risk

Liquidity stress

- Temporary financing gap
- Market closure
- Exchange-rate shock
- Refinancing pressure
- Potentially reversible

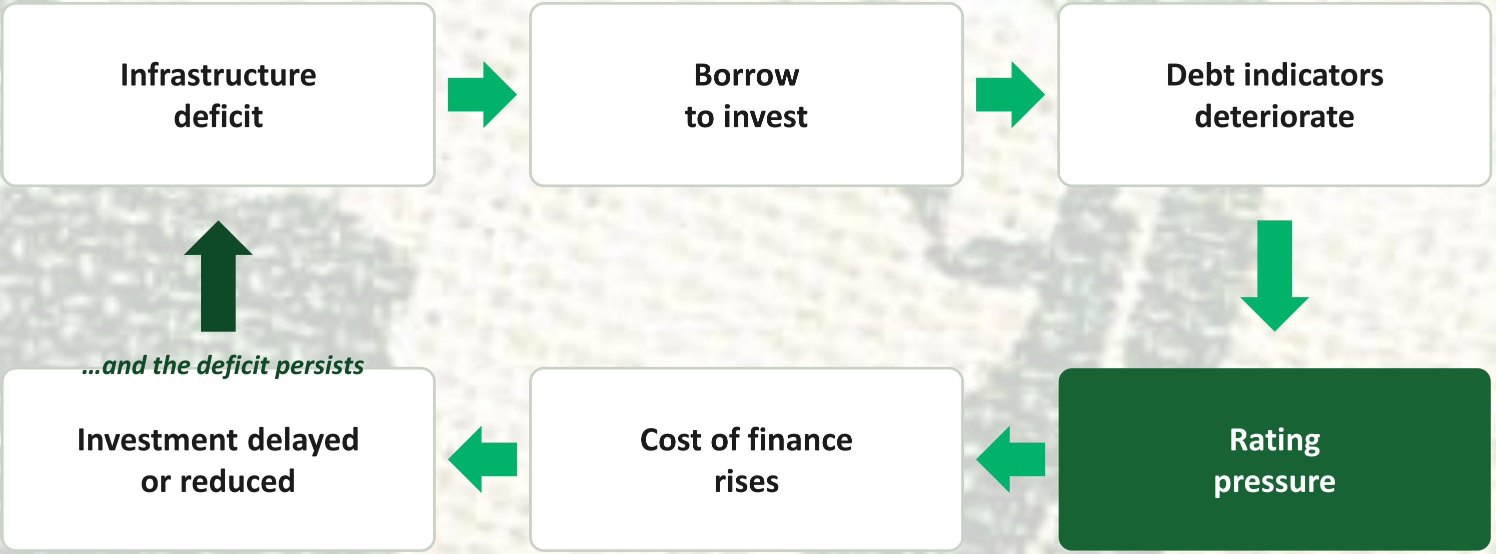
Solvency risk

- Persistent inability to repay
- Unsustainable debt dynamics
- Weak long-term resource envelope
- Structural fiscal insolvency
- Requires deep restructuring

A downgrade issued during a liquidity squeeze can raise borrowing costs, restrict market access — and deepen the very problem it describes.

What the timing data suggests: in DR's 2000–2025 ratings dataset, downgrades of African issuers cluster within months of a shock, while offsetting upgrades typically arrive years later.

The risk of a development-investment penalty



The task is to distinguish:

- consumption vs capital formation
- productive vs unproductive debt
- credible vs politically selected projects
- assets that generate revenue vs recurrent liabilities

A better system asks not only *"How much debt has been accumulated?"* but also ***"What assets, capabilities and repayment streams have been created?"***

US$200–440 million

every year

Estimated cost of the “binding-floor” effect for African multilateral financial institutions — where regulation and investor mandates default to the lowest of diverging ratings — through inflated interest payments and missed passive capital flows.

Source: Development Reimagined, The Africa Disagreement Tax (2026). Figure relates specifically to the AMFI disagreement-tax analysis — not the total cost of sovereign misrating.

≈ 2.9 percentage points — estimated premium African sovereigns pay beyond what fundamentals explain (Olabisi & Stein, 2015).

Rating architecture does not merely describe risk. In some circumstances, it contributes to producing the risk it describes.

What should a credible rating system measure?

Capacity
Can the borrower generate sufficient resources?

Commitment
Will institutions honour obligations?

Liquidity
Can payments be made when due?

Resilience
Can the economy absorb shocks?

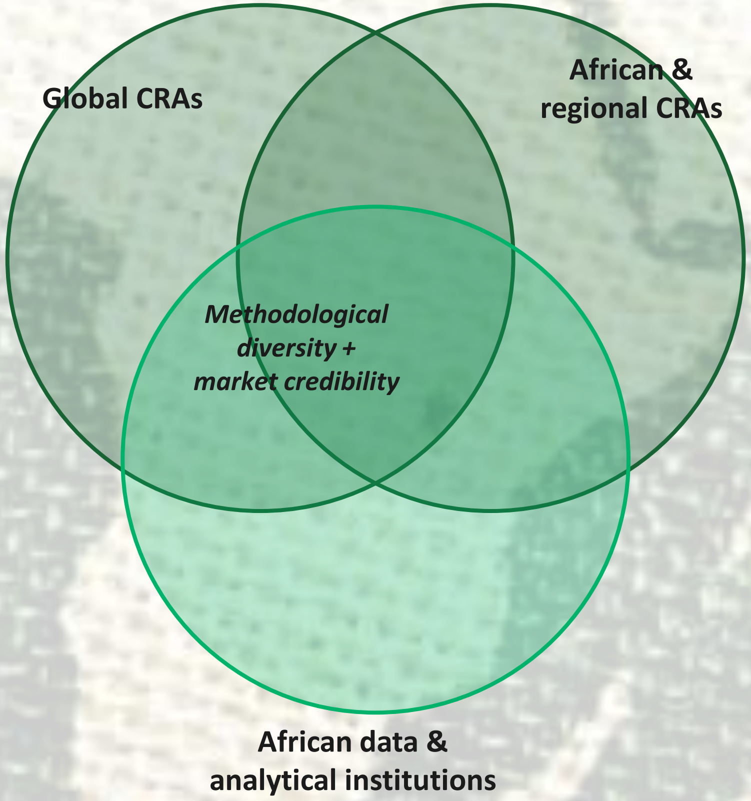
Transformation
Is investment expanding future repayment capacity?

the addition

Four of these are the fundamentals agencies already assess — this is standard credit analysis, not a new scale for Africa. **The fifth must be evidenced, not narrated:** *realised project revenues, export growth, productivity, implementation record.*

More rigour, applied to more of the balance sheet — not leniency.

AfCRA: additive, not merely alternative



AfCRA's value is what it adds:

- Wider coverage of unrated and single-rated issuers
- Deeper African data and contextual evidence
- Methodological competition and second opinions
- Better treatment of African institutions
- Stronger issuer analytical and negotiating capacity

Credibility will depend on:

- Independence and governance protections
- Transparent, published methodology
- Performance against default experience
- International regulatory recognition
- Willingness to issue unfavourable ratings where evidence warrants

Five questions for the panel

1. What do current methodologies measure well?
2. Where do they systematically lose information?
3. How should liquidity stress be distinguished from solvency risk?
4. How should sovereigns, corporates and AMFIs be treated differently?
5. What would AfCRA need to do to become genuinely market-credible?

A fair rating is not necessarily a higher rating.

It is a better-evidenced, better-calibrated and more transparent assessment of risk.

The series continues — methodology deep-dives, the cost of misrating, AMFI treatment, data systems, and the road to AfCRA.

Trevor Lwere · trevorlwere@developmentreimagined.com · developmentreimagined.com