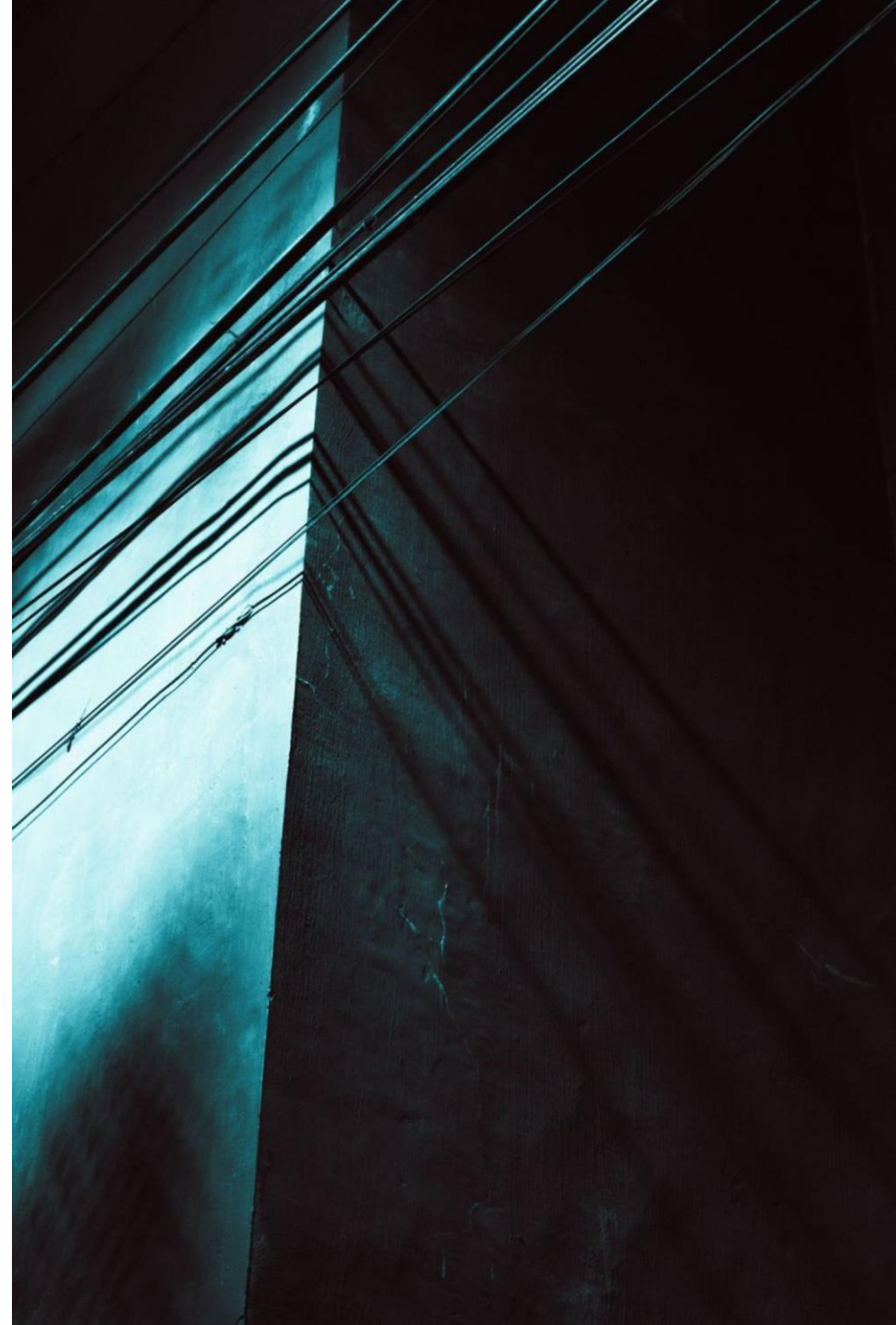


What Actually Drives an African Sovereign Rating?

Understanding the Methodologies

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APRM and Development Reimagined Webinar



The Central Proposition

A Sovereign Credit Rating Evaluates:

Capacity and willingness to service debt — a categorical opinion about creditworthiness.

A Credit Rating Does NOT Determine:

- Coupon rate
- Issue price
- Investor demand
- Primary or secondary yield
- Sovereign spread

Creditworthiness is not the same thing as the price of credit.

This presentation will distinguish three things routinely collapsed into one: how creditworthiness is **measured**, how that measurement becomes an **authoritative rating**, and how that rating enters the system through which sovereign borrowing is **priced**.

What a Sovereign Credit Rating Is — and Is Not

Moody's

"Current opinions of the relative future credit risk of entities... credit risk is the risk that an entity may not meet its contractual financial obligations."

Fitch

"A forward-looking assessment of the capacity and willingness to honour debt obligations to private-sector creditors... in full and on time."

S&P Global

Gauges "resources available for fulfilling commitments relative to their size and timing" — explicitly separating capacity from willingness to pay.

❏ Moody's states explicitly: ratings "do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility." (*Moody's Ratings*, 2026: 54)

Three Architectures, One Common Purpose

All three agencies share common analytical domains — economic structure, institutional quality, fiscal sustainability, external position. Their **architectures** diverge substantially.

Agency	Architecture	Key Feature
Moody's	Four-factor cascade: Economic Strength + Institutions → Economic Resiliency → + Fiscal Strength → Government Financial Strength → Susceptibility to Event Risk	Event risk uses a minimum function — can only lower the outcome. Fiscal metrics carry less weight for structurally weak economies.
Fitch	Regression-based Sovereign Rating Model across four pillars, followed by Qualitative Overlay (up to ±3 notches aggregate)	Structural features carry 53.7% of total weight before any qualitative adjustment is applied. (<i>Fitch Ratings, 2026: 6</i>)
S&P Global	Five factors scored 1–6: Institutional, Economic, External, Fiscal, Monetary → Indicative rating → Committee adjustment	Explicit, named committee discretion to depart from the score-implied indicative rating. (<i>S&P Global Ratings, 2023</i>)

None of the three treats its quantitative architecture as self-executing. Each publishes an architecture — and then a process for departing from it.

African-Specific Methodological Questions

Characteristic	Treatment
Natural capital	Narrow, asymmetric — Moody's only. Downward notching above commodity thresholds; upward adjustment capped at 2 notches. Weighted toward risk, not asset value.
Informal economic activity	Named by none of the three agencies — yet informality's size, when added to spread models, eliminates a statistically significant Sub-Saharan African effect. (<i>Gbohoui et al., 2023</i>)
Demographics	Convergent treatment across all three agencies.
Data quality	Explicit graded treatment at Moody's and S&P Global.

❏ The analytical question is not simply "do methodologies ignore Africa?" It is: **how can methodologies measure African creditworthiness more accurately while preserving the comparability that makes a global rating scale useful?**

A global methodology's comparability is a stated objective pursued through deliberate calibration — at an acknowledged cost in fit to any individual sovereign.

Methodology Is Not the Rating

PUBLIC / OBSERVABLE

- Published methodology
- Committee existence and composition rules
- Majority voting requirement
- Surveillance process and cycle
- Narrow appeal mechanisms

CONFIDENTIAL / UNOBSERVABLE

- Committee deliberations
- Individual votes
- Dissenting views
- Precise causal weight of any single consideration

"Rating committee composition, deliberations and voting results are kept confidential and limited to MIS employees." (*Moody's Investors Service, 2021: 4*)

Discretion is exercised at two levels: **methodological discretion** (designing the framework — centralised, infrequent) and **evaluative discretion** (applying it to an individual sovereign — continuous, local). The two must not be conflated.

The Rating Committee

Collective Decision

At the vast majority of CRAs, ratings are determined **only through rating committees by majority vote** — not by any individual analyst. This is an operative rule, not a description of usual practice.

Committee Structure

A Chair moderates and must encourage broad participation including dissenting views. The Lead Analyst presents and votes first. Each voting member carries one equally weighted vote.

Appeal Grounds

An appeal is available only where an issuer can provide **material information not previously available or considered**. No agency permits a sovereign to contest the analytical weight attached to accepted facts.

S&P Global's prohibition on appealing unsolicited ratings carries an express carve-out for sovereigns — traditionally many African sovereigns had unsolicited ratings, but this figure has dropped sharply in recent years.

The Evidence on an African Rating Penalty: Genuinely Contested

Finding	Study	Key Qualification
Consistent with disadvantage	Tennant, Tracey and King (2020): "threshold bias" against low and lower-middle-income countries — larger favourable shift required for upgrade.	Global income-tier finding, not Africa-specific. Effect disappears in the simplest specification; appears only once rating-stability behaviour is controlled for.
No significant African-specific effect	Lysenko (2025): Sub-Saharan African dummy "positive but not significant" once all rating drivers are controlled for. Ellis: no evidence of bias against African countries (this is a prime example of why being extra-critical in this space is important — Moody's connection).	Lysenko notes this answers whether criteria are applied consistently — not whether the criteria and their weights accurately reflect relative default risk.
Running in the opposite direction	Kraemer (cited in UNCTAD, 2025): realised default rates among B-rated Sub-Saharan African sovereigns roughly double the global average — argues ratings have been "in favour of Africa."	UNCTAD immediately qualifies: small sample, recency of many African ratings, mismatch with longer-run global baseline. (UNCTAD, 2025: 13)

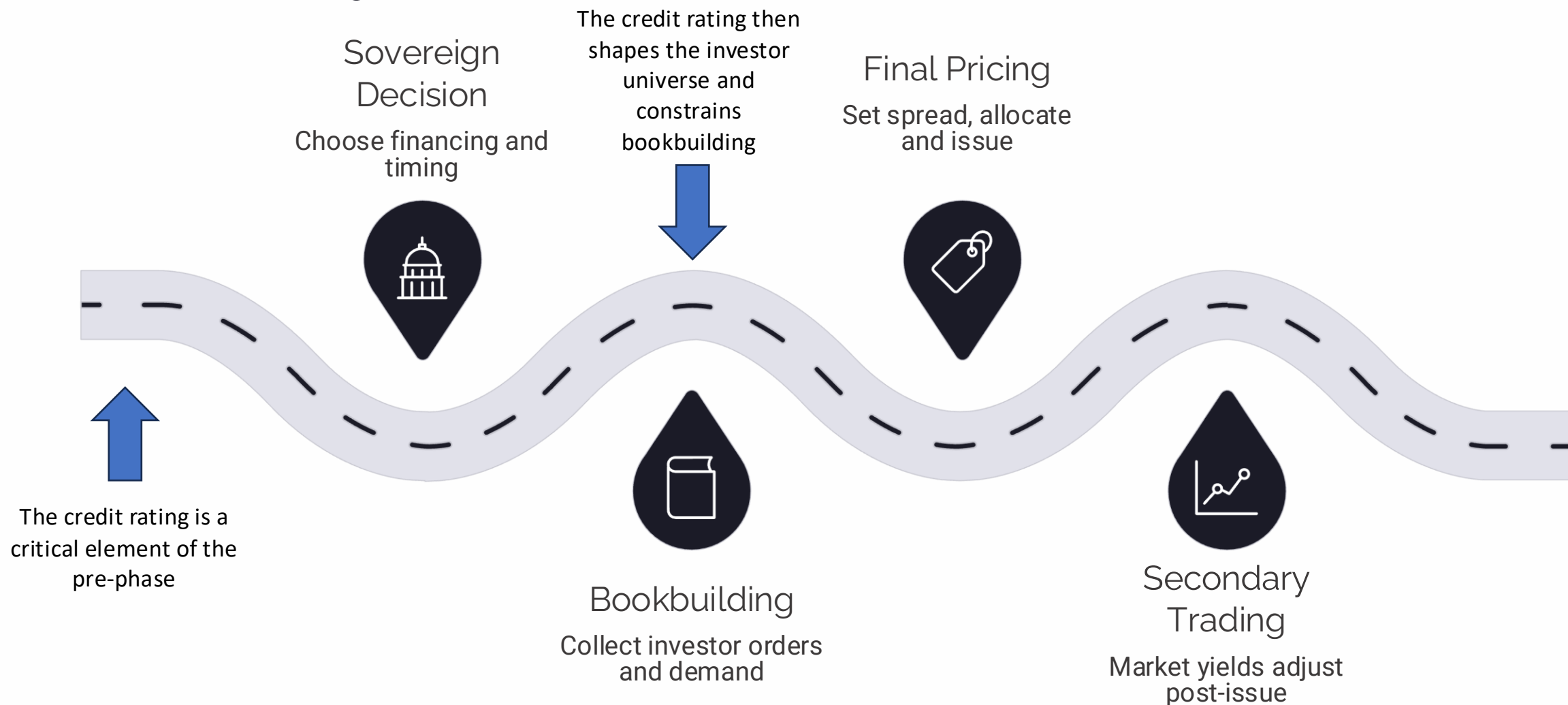
📄 A gap between an expected rating and an assigned rating is a starting point for investigation — not by itself evidence of bias.

Where the CRA Process Ends



At the credit rating, the process this presentation has been describing ends. A different system — with different actors, different logic, and a different institutional architecture — then begins. Marking that boundary explicitly is the central analytical contribution of this presentation.

From Credit Rating to Market Price



"Orderbook demand is the main factor in fixing the credit spread... any credit ratings only influence investors' general bond category bucketing... and so can impact pricing indirectly rather than directly." (ICMA, 2020, Annex 1: para. 10a)

CASE ILLUSTRATION

Kenya's February 2024 Eurobond

Verified Facts Only

S&P Global rating: **B, negative outlook** — already existed before the transaction was structured.

New issuance: **USD 1.5 billion**, six-year Eurobond

Coupon: **9.75%** | Yield: **10.3%**

Purpose: liability management against a bond maturing June 2024.

(Central Bank of Kenya, 2024: 1)

What Moved Without a Rating Action

In the same week, secondary-market yields on Kenya's existing Eurobonds fell by an average of **86.9 basis points**. The bond maturing in 2024 specifically fell by **92.1 basis points** — from 14.68% on 2 February to 9.397% on 15 February.

No rating action accompanies this movement anywhere in the central bank's account. The coupon on the new bond remains fixed; yields on other outstanding bonds moved sharply — for reasons the rating itself does not speak to.

Where Might an African Risk Premium Actually Arise?

The productive question is not why credit rating agencies impose an African Risk Premium — but **where, in the chain from sovereign conditions to the price of credit, an observed premium actually arises.**

1

CRA Methodology

Variable selection, calibration, weighting — including gaps such as informality and natural capital.

2

Analyst Interpretation / Committee Evaluation

Evaluative discretion exercised in translating methodology to rating.

3

Issuance Structure and Intermediation

Choice of comparators, distribution mechanics, price-discovery frictions.

4

Investor Perception

Independent credit analysis, portfolio mandates, risk appetite — beyond the rating.

5

Market Structure and Conditions

Liquidity, benchmark effects, investor composition, global risk appetite.

6

State Capability and Information

Institutional fragmentation, data gaps, coordination failures on the sovereign's own side.

❏ A residual premium in sovereign bond spreads is NOT automatically evidence of a residual penalty in sovereign credit ratings. These are different dependent variables, generated at different stages of the chain.

What the Evidence Actually Locates

Primary-Market Coupon Premium

Gbohoui et al. (2023): a Sub-Saharan African coupon premium persists even after controlling for the rating — pointing toward **intermediation or investor perception**, not the rating itself.

Secondary-Market Spread Premium

The same premium **disappears** once informal-sector size, financial depth, budget transparency and institutional quality are added. Investors appear to price real structural characteristics the rating scorecards do not name.

"Capital markets take account of much more than credit ratings, and the impact of these other considerations on bond pricing and borrowing costs tend to be more material than both the level of, and changes in, sovereign ratings." (*UNCTAD, 2025: iii*)

Within-Rating Spread Differential

UNCTAD (2025): developing-country bonds average roughly **77 basis points higher** than developed-country bonds within the same rating category — evidence of a market-pricing premium, not a rating penalty.

Evaluative Capability: The Institutional Response

Definition: The institutional capacity of a sovereign to understand, participate in, and respond effectively to the external evaluation processes that shape its financial position and access to capital.



Information Capability

Fiscal outturns, debt stock, contingent liabilities and external financing data — typically held across multiple institutions — coordinated on a standing basis, not ad hoc under deadline pressure.



Interpretive Capability

Understanding how a given evaluator interprets a development — and engaging substantively enough to be treated as a primary rather than a residual source of information.



Coordination Capability

Whether Finance, the DMO, the central bank and line ministries can operate coherently when an external evaluator treats them, correctly, as a single sovereign.



Engagement Capability

Using the specific channels the process actually provides — notification windows, methodology workshops — without compromising the evaluator's independent judgment.

Transparency Delivers Its Largest Benefit to the Weakest Sovereigns

10–14%

Spread Reduction

Cumulative reduction in sovereign spreads in the year following adoption of the IMF's Special Data Dissemination Standard. (*Gonzalez-Garcia, 2022*)

30–40%

For Weakest-Governance Quartile

Reduction concentrated overwhelmingly among weaker-governance countries
— against no significant effect for the strongest-governance quartile.

This finding inverts an intuitive but wrong assumption: sovereigns most often dismissed as too institutionally weak for transparency to help are, on this evidence, the ones most likely to benefit from adopting a formal standard.

The evidence speaks to **standard adoption specifically** — not to communication activity in general — and should not be broadened beyond that.

□ Rating readiness is part of evaluative capability — but is not equivalent to it.

Institutional Arrangements: Kenya, Zambia, Tanzania

The diagnostic question is whether responsibility for external evaluation carries **standing institutional authority and resilience** — or depends upon individuals and ad hoc coordination.

Country	Arrangement	Documented Gap
Kenya	No single formally named investor-relations unit. Engagement documented as a distributed activity across resource-mobilisation, debt-policy and debt-recording functions. Commitment to "strengthen structured engagement with CRAs." (<i>National Treasury, 2026: para. 26</i>)	Distributed authority — resilience depends on coordination across functions rather than a single named post.
Zambia	Formally named Credit Rating Liaison desk.	Staffed by a single officer; not yet formalised through binding terms of reference or ministerial directive. (<i>APRM, 2025a</i>)
Tanzania	Formally named Credit Rating Liaison Team.	Same pattern: single officer, no binding terms of reference. (<i>APRM, 2025b</i>)

No single country represents unambiguous best practice. A named function without standing authority is a documented institutional gap — not a solved problem.

AfCRA and APRM: Applying the Same Framework

Methodology

Can AfCRA capture dimensions of African economic structure inadequately represented elsewhere — informality most obviously — while maintaining the cross-sovereign comparability that makes a workable rating scale possible at continental scale?

Evaluative Translation

How will analyst judgment and rating committee decision-making actually operate inside a new institution? A published methodology is only ever the architecture within which judgment operates — not a guarantee of outcome. A new agency inherits that design problem rather than escaping it.

Evaluative Ecosystem

How will AfCRA's ratings interact with incumbent agencies, investors, and the benchmark and index systems that determine eligibility for large pools of capital? A rating unrecognised within that wider ecosystem carries limited financial consequence regardless of its analytical quality.

More context does not automatically produce a better rating. A better rating does not automatically produce a lower borrowing cost. Each link requires its own evidence.

Five Things to Retain

- 1 A sovereign credit rating evaluates creditworthiness — not the price of credit.
- 2 Published methodologies structure ratings but do not mechanically produce them.
- 3 Rating committees and institutional judgment matter — and their deliberations are permanently confidential and for valid reasons (legally, conceptually).
- 4 An African risk premium can arise at several distinct points beyond the credit rating itself.
- 5 African sovereigns need evaluative capability across information, coordination, interpretation, and engagement.

Three Closing Questions

Measurement

Are we measuring the characteristics that genuinely determine African sovereign creditworthiness? Where a characteristic material to African economies is absent or narrowly treated — as informality and natural capital are — is that a defensible feature of a globally comparable scale, or a genuine limitation of it?

Evaluation

How are those characteristics translated into authoritative rating judgments? Does the empirical evidence — genuinely split between studies finding disadvantage, studies finding none, and at least one finding the opposite — permit any confident general answer at present? Do we need to be more critical with 'evidence' in this sphere?

Capability

Are African sovereigns institutionally equipped — across information, coordination, interpretation, and engagement — to operate effectively within the wider evaluative ecosystem that already exists?

Better evaluation of African creditworthiness. Stronger African evaluative capability. Greater precision about where African financing costs actually arise. Not simply better ratings for Africa.

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Thank you

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Sovereign Credit Ratings · Development Finance · Evaluative Capability · Institutional Architecture

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