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IMPROVING FINANCIAL CONDITIONS IN AFRICA: THE ROLE OF AN AFRICAN CREDIT RATING AGENCY

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SECTION 1

INTRODUCTION

1. Introduction[1]

The African Union has launched an initiative to establish a new African credit rating agency (AfCRA). In September 2025, the African Peer Review Mechanism (APRM) selected Mauritius as the host and primary jurisdiction for AfCRA, with the first credit ratings expected to be released in 2026.

The overarching objective of this initiative is to improve the financing conditions for African economies. Numerous indications suggest that the three leading international rating agencies – Standard & Poor's, Moody's and Fitch (Big Three) – systematically assign an excessively high risk perception to African sovereign borrowers. This perception bias results in a systematic underperformance of African ratings relative to those of peer countries on other continents. With the immense influence the Big Three exert on global financial markets, this skewed perspective translates into generally higher and potentially exaggerated credit costs on the African continent. Consequently, they diminish fruitful investment opportunities and even draw, in some cases, governments into a vicious circle of high debt service costs and therefore even higher financing needs.

The Big Three, however, are not the only rating agencies operating in Africa. For instance, Agusto & Co., a Nigerian credit rating agency, maintains offices in several African countries; GCR Ratings, the continent's largest rating agency, was acquired by Moody's in 2022 now issues 'sovereign risk' scores rather than full sovereign ratings; and Sovereign Africa Ratings, a relatively small agency based in South Africa, also provide credit assessments. These agencies currently occupy niche markets and do not offer the full range of services provided by the three major agencies. Given this landscape, the question arises as to what role a new African rating agency can play in improving financing conditions on the continent. Proponents of this new agency stress that it is not intended to replace the Big Three but rather to complement them.

The success of this new agency will hinge on a convincing business plan. Based on the results of this study, it should contain the following elements.

- The new agency's primary objectives is to offer ratings for African countries that are either not yet rated at all or only inadequately rated by the Big Three.

- The new agency should provide significantly more intensive advice to governments throughout the entire rating process. A real added value would be to also provide guidance on implementing these measures and, ideally, to accompany or support the implementation process itself.

- Furthermore, there is a great need for ratings for state-owned and private companies in African countries. However, it would be beneficial for African countries if medium-sized and even smaller companies also had access to ratings in order to obtain loans at lower costs.

- The new agency must quickly establish its own reputation. To achieve this, it must be independent of financing from African states. Furthermore, its methods must be transparent. Regular evaluations by external experts could contribute to this.

Improving the ratings of African states requires more than just a new rating agency. Governments must utilize their existing resources to improve their ratings.

- An important building block for improving the ratings of African countries is the improvement of public institutions and governance structures.

- Governance structures that ensure debt repayment are particularly important. These include, for example, fiscal rules, fiscal supervisory institutions such as fiscal councils, and restructuring architectures.

[1] We would like to thank Andualem Admassie, Shakylesh Appa, Kathinka Kurz, Henry Kyeremeh, Christopher Legilisho, David Lubin, Liliane Mouan, Misheck Mutize, Collins Otoo, Ounishka Soobedar, Zayd Soobedar, Ali Zafar, Yeabsira Zewdie and participants of the conference "Africa's Rising Influence: Advancing Agency in Foreign Policy and Global Governance" for their helpfulcomments and input.
[2] https://www.undp.org/africa/credit-ratings-resource-platform/Methodologies/african-rating-agencies, 20.1.2026.

- A key prerequisite for an effective government structure is that its core elements are enshrined in the constitution. To promote rationalization, the processes – and especially the monitoring mechanisms – of public administration should be defined in greater detail.

In the following sections we evaluate these claims about the new AfCRA. We focus on sovereign ratings and financing conditions on the African continent. To do this, we proceed as follows:

In Section 2 we outline the methodology of sovereign ratings and identify potential sources of a rating bias against African sovereigns. The following section is dedicated to an empirical analysis that quantifies the Africa-bias. In Section 4 we outline strategies for improving credit ratings for African countries. In the following section 5 we discuss the opportunities and possible limitations of an AfCRA. A case study of the European rating agency Scope, which was strongly supported in the 2010s is intended to complete the picture. In Section 6 we draw some conclusions.

SECTION 2

SOVEREIGN CREDIT RATINGS – WHY AND HOW

2. Sovereign Credit Ratings – Why and How

2.1 The Relevance of Credit Ratings

2.1.1 Complexity Reduction

Credit rating firms serve as providers of information on the creditworthiness of bond issuers, aiming to bridge the knowledge gap between the insiders of e.g. a borrowing corporate, and potential external investors. Ratings compile and aggregate information in a structured ostensibly objective manner, thereby producing an easy-to-understand single-dimension measure of the credit quality (Reinhart, 2002). The aspect of complexity reduction may dominate the information providing-aspect, and the demand for credit ratings remains higher than ever, despite the ready availability of abundant sources of information.

Typical users of sovereign ratings are a broad set of financial market participants who need an assessment of a country's credit risk. The primary demand comes from institutional investors – such as pension funds, insurance companies, sovereign wealth funds, and asset-management firms – that allocate capital to government bonds and must meet internal risk-limits or regulatory capital requirements.

Commercial banks and investment banks also rely on ratings to price sovereign-linked loans, derivatives, and structured products, while multinational corporations use them to evaluate country risk when planning foreign investments, supply-chain financing, or export credit. In addition, regulatory bodies (e.g., central banks, prudential supervisors) and financial contracts (such as sovereign-linked swaps or credit-default swaps) require official ratings to trigger covenants or determine pricing. Finally, government treasuries and ministries of finance themselves monitor their own ratings to gauge market perception and pricing strategies.

Fitch (2025) summarizes the purpose of sovereign ratings as follows: "Sovereign Issuer Default Ratings (IDRs) are a forward-looking assessment of the capacity and willingness to honour debt obligations to private-sector creditors and public debt securities independent of ownership in full and on time." Consequently, a credit default rating seeks to measure the risk that a certain sovereign will fail to service its debt (interest and principal) in the future. The typical time-horizon covered by ratings is two to three years (Amstad and Packer, 2015).

However, in their characteristic as forward-looking risk-measures within a highly complex environment, sovereign ratings should be perceived more as "opinions" than as precise quantitative metrics. The accuracy of these assessments of creditworthiness is inherently heuristic and does not follow a cohesive theoretical framework, as the causes of sovereign default are diverse and the relevant risk factors depend heavily on the economic context. The flaws of this approach are obvious: Sovereign ratings are generally susceptible to subjectivity and biasedness. To mitigate these shortcomings, rating agencies committed – either voluntarily or under regulatory mandate – to formal decision-making procedures and to the highest possible degree methodological transparency.

2.1.2 Scales

Each rating loosely corresponds to a "probability of default" (PD), ranging from 0.0% for triple-A-rating to 100% in default.[3] A pivotal point in the continuous rating scale is the "subinvestment-grade" region, in which "junk bonds" are classified. The rating scales of Fitch and S&P are (apart from the default grades) identical, whereas Moody's employs a slightly different denotation (Table 1):

[3] *These PDs are not published as a part of the Sovereign Rating Methodologies, but they can be derived from transition matrices.*

Table 1: Rating Scales Comparison

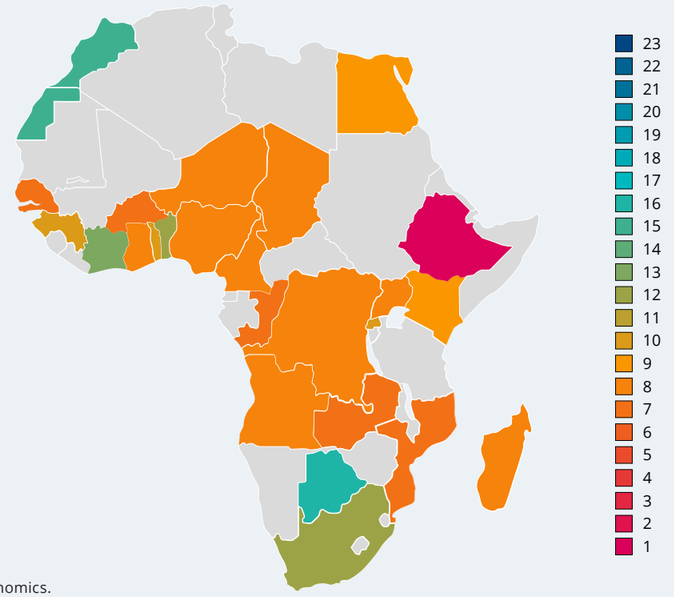
	Moody's	Fitch	S&P	Cardinal scaling	PDs (Approx. 5-Year-PD)
Investment Grade	Aaa	AAA	AAA	23	0.0%
	Aa1	AA+	AA+	22	
	Aa2	AA	AA	21	0.0%
	Aa3	AA-	AA-	20	
	A1	A+	A+	19	
	A2	A	A	18	1.35%
	A3	A-	A-	17	
	Baa1	BBB+	BBB+	16	
	Baa2	BBB	BBB	15	2.15%
	Baa3	BBB-	BBB-	14	
Subinvestment Grade/ "Speculative grade"/ "High Yield-Bonds"/ "Junk Bonds"	Ba1	BB+	BB+	13	
	Ba2	BB	BB	12	4.08%
	Ba3	BB-	BB-	11	
	B1	B+	B+	10	
	B2	B	B	9	17.36%
	B3	B-	B-	8	
	Caa1	CCC+	CCC+	7	
	Caa2	CCC	CCC	6	54.83%
	Caa3	CCC-	CCC-	5	
	Ca1	CC	CC	4	
	Ca2	C	C	3	
	Ca3			2	100%
Default	D	RD/D	SD/D	1	

Source: Own compilation. PDs are derived from S&P RatingsDirect Default, Transition, and Recovery (March 2025, p. 58).

The distinction between investment grade and sub-investment grade already indicates that credit ratings constitute a fundamental source of information for market participants. Numerous institutions use ratings as a key factor in their investment decisions and embed them in their investment statutes, often restricting allocations to investment-grade securities only.

Based on current ratings (Figure 1), in 2025 in Africa only Botswana and Morocco have investment grade status, while all other countries are rated below this level. Countries such as Benin, Ivory Coast, and South Africa have ratings just shy of investment-grade status. Even relatively modest improvements in these countries could have a significant impact. However, a number of countries are not rated at all, which means that they are effectively excluded from capital-market access.

Figure 1: S&P 2025 Sovereign Ratings



Source: Trading Economics.

2.1.3 The Special Role of Sovereign Credit Ratings

Within a country's rating universe, the sovereign rating often acts as an anchor for the ratings of banks, corporations, and sub-sovereign entities such as regional or municipal governments. These entities operate within the economic and institutional framework established by the sovereign, meaning their credit profiles are closely linked to the country's overall stability and financial conditions. For this reason, credit rating agencies regularly apply the concept of a "sovereign ceiling", which implies that domestic issuers are unlikely to receive ratings significantly higher than the sovereign itself.[4] This reflects the risk that government actions during periods of financial stress – such as capital controls, currency restrictions, or payment moratoriums – could affect the ability of domestic borrowers to service their debts, especially those denominated in foreign currency ("transfer and convertibility risk"). Sovereign credit ratings also reflect macroeconomic and political risk that affect investors. They incorporate factors such as economic growth prospects, stress in public finances, and the strength of political and legal institutions. These factors define the operating environment for all entities within the country, meaning that a strong sovereign rating generally indicates a stable environment in which businesses and financial institutions can operate and access financing. Conversely, a weaker sovereign rating may suggest higher systemic risk, which can negatively affect the credit standing of domestic issuers.

Sovereign ratings are even more directly intertwined with their sub-sovereigns and state-owned entities (SOEs) such as public banks and infrastructure companies. The government can set the legal framework for these entities, exert direct regulatory power over them, and – most importantly – it can interfere in their finances. In favorable cases, the central government regularly provides resources, financial surveillance and extraordinary support in times of need; then the baseline rating (based on its stand-alone strengths and weaknesses) receives one or more notches of state support uplift in its final rating. Conversely, if the central authority is deemed to

[4] However, the sovereign ceiling does not apply to companies that are largely independent of domestic constraints. For example, if their business model is internationally diversified and their funding does not rely on the home market, and if – which is a necessary prerequisite – the home country's government does not have the right or inclination to interfere in the company's finances, a corporate can be rated above the sovereign. Typical examples include subsidiaries in the raw materials sector and healthy international companies in countries with a stable regulatory framework experiencing an economic crisis.

interfere in a detrimental way and/or it draws on the resources of the lower-tier entities and SOEs to such an extent that it impinges on their ability to honor their debt obligations, the stand-alone-rating gets a downlift.

2.1.4 Rating Coverage

Credit ratings are a prerequisite for access to external financing, which can fund investment, expansion, and infrastructure projects that drive economic growth. By tapping credit markets, governments and sub-sovereigns can mobilize capital for public investment without relying solely on taxation or external aid. However, participation in these markets also exposes borrowers to financial risk, including default risk and currency risk. Borrowing on international markets amplifies vulnerabilities during economic downturns or shocks, increasing exposure to global market volatility, investor sentiment, and moral hazard – where entities may pursue riskier, all-or-nothing projects. In the context of weak law enforcement or corruption, financial flows might be diverted into inappropriate channels. Consequently, access to credit markets demands careful risk management and high standards of governance and accounting, all of which should ideally be reflected in the credit rating.

On the African continent, the rating coverage is extremely low: Only 32 of the 54 states have public ratings, as do a handful of sub-sovereign entities, major financial institutions and corporations. For instance, Moody's has only rated companies in Liberia, Mauritius, Nigeria and South Africa. In Liberia, the company in question is in the shipping sector.[5] In the other countries, ratings are prevalent in the mining, telecommunications, and finance sectors.

The reasons for the low rating coverage include the high cost of the solicited rating procedure, the complex documentation requirements and the need to comply with high accountancy standards. Bearing this in mind, a high rating coverage in a country is highly desirable for three reasons. First, and foremost, it would reduce entry barriers to capital markets. Second, it signals financial market aptitude and a general financial literacy, which bode well for a vibrant and ambitious economy. Thirdly, the rating process itself could have a positive impact on business leadership and enhance business practices through a trickle-down effect from rated to unrated entities.

2.2 Methodology – Ratings-Scorecard

In principle, constructing a rating-model is quite straightforward: gather all data surrounding historic sovereign defaults and their economic circumstances, feed these observations into an econometric model, let the model identify the relevant factors and quantify their explanatory contribution (i.e., the appropriate weights).

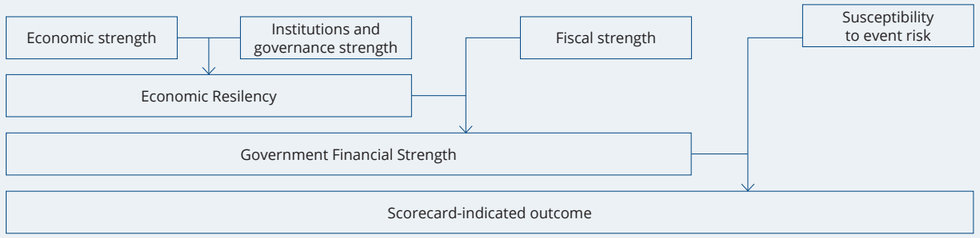
However, this procedure hinges on the fact that sovereign defaults are very rare, and the interpretation of macroeconomic indicators depends heavily on the specific background and circumstances of the respective economy. For example, the Maastricht rules raise a red flag for debt-to-GDP-ratios above 60%. Yet, the United Kingdom and the United States have exceeded 100% without defaulting, Japan has sustained a ratio of more than 210% for many years – and most developing countries wouldn't survive half of that level. Nevertheless, the public-debt ratio remains a key indicator, it simply has to be assessed in its proper context.

While abundant data is at hand on corporate or individual defaults, data on sovereign defaults is scarce. The few observations that are available are not "well behaved" in terms of correlation and representation of the statistical population of sovereigns, but they are clustered geographically and historically specific regions and time-periods. Consequently, technical caveats like omitted variables and heteroscedasticity arise. This warrants caution about the "truth" of a rating score. The (statistical) explanatory power of the PDs, particularly in their fractional portion, should not be overstated, given that ratings agencies themselves do not publish them with great confidence. There are so very few cases of highly-rated countries defaulting within short time (i.e. before having been downgraded), which makes it difficult to quantify the distance between solvency and default.

Because a purely econometric derivation of a sovereign rating model is infeasible, rating agencies rely on economic reasoning instead. In a plausible manner they blend theoretical inferences (e.g. that high debt increases interest cost, which might amplify debt burdens; or a persistent current-account deficit must be financed), historical experience (e.g., an ailing banking sector poses a systemic risk to the whole economy) and even political assertions (e.g., a strong civil society enhances a sovereign's credit profile) (Moody's, 2025).

In practice, each of the Big Three employs its own sovereign-rating model, which, in principle, consists of a scorecard comprising roughly twenty economic and financial variables. The observed values of these variables are first translated into scores. These scores are aggregated by assigning weights to each variable, multiplying them with the scores and summing them up, first to sub-scores of certain pillars (e.g. "economic structure" or "public finances"). Subsequently, the pillars are weighted and summed up, into a compound score that is finally mapped onto a rating grade. Moody's, for example, presents its scorecard as follows (Figure 2):

Figure 2: Moody's Scorecard



	Sub-factor	Sub-factor weighting	Metric	Metric weighting
Economic Strenght	Growth dynamics	35%	Average real GDP Growth	25%
			MAD Volatility in real GDP Growth	10%
	Scale of the Economy	30%	Nominal GDP (US$ bn)	30%
	National Income	35%	GDP per capita (PPP, Int USD)	35%
	Adjustment to Factor Score	0 to 9 notches	Other	
Institutions and Governance Strenght	Quality of institutions	40%	Quality of Legislative and Executive Institutions	20%
			Strength of Civil Society and the Judiciary	20%
	Policy effectiveness	60%	Fiscal Policy Effeciveness	30%
			Monetary and Macroeconomic Policy Effectiveness	30%
	Adjustment to Factor Score	0 to 3 notches	Government Default History and Track record of	
		0 to 3 notches	other	
Fiscal Strength	Debtburden	50%	General Government Debt/GDP	25%
			General Government Debt/Revenue	25%
	Debt Affordability	50%	General Government Interest Payments/Revenue	25%
			General Government Interest payments/GDP	25%
	Adjustment to Factor Score		Debt Trend: Historical Change in Debt Burden	
			Debt Trend: Expected Change in Debt Burden	
		0 to 6 notches	General Government Foreign Currency Debt/GDP	
			Other Non-Financial Public Sctor Debt/GDP	
			Government Financial Assets including Sovereign	
			Wealth Funds/GDP	
		0 to 3 notches	Other	
	Political risk	Minimum Function	Domestic Political and Geopolitical Risk	
	Government liquidity risk	Minimum Function	Ease of Access to Funding	
	Banking sector risk	0 to 2 scoring categories	Adjustment to Sub-factor Score High Refinancing risk	
Susceptibility to Event Risk	External Vulnerability risk	Minimum Function	Risk of Banking Sector Credit Event (BSCE)	
	Adjustment to Factor score	0 to 2 scoring categories	Total Domestic Bank Assets/GDP	
		Minimum Function	Adjustment to Sub-factor Score High Refinancing risk	
		0 to 2 scoring categories	External Vulnerability Risk	
		0 to 2 scoring categories	Adjustment to Sub-factor Score	

Source: Moody's Rating Methodology: Sovereigns Nov. 2022 p.2

[5] *The company in Liberia is the Liberian Registry, the international ship registry of Liberia. The registry is operated by the US company Liberian International Ship & Corporate Registry.*

2. Sovereign Credit Ratings – Why and How

The variables essentially cover three fundamental factors that determine a government's ability and willingness to meet its debt obligations (Amstad and Packer, 2015).

The assessment of economic strength is covered by variables that capture the overall economic development, notably GDP growth, inflation and the current account balance. Indicators such as GDP per capita and population reflect the income level and the size of the economy. All these variables are linked to government revenues and, consequently, to the government's ability to service its debt. Natural resource endowments is also regarded as a source of income generation.

Variables that reflect to the quality of institutions are intended to provide information about a sovereign's willingness to honor its debt (Institutions and Governance strength). A principal source for such indicators is the Worldwide Governance Indicators database of the World Bank (Kaufmann and Kraay, 2024) which provides six indicators in total. For example, the government effectiveness indicator captures "perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies" (Kaufmann and Kraay, 2024, p. 5). The rule of law indicator reflects "perceptions and views of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence" (Kaufmann and Kraay, 2024, p. 5).

Fiscal strength, again, gauges government's ability to repay its debt. The principal measures in this pillar are the debt-to-GDP ratio and the fiscal-deficit level. In addition, rating agencies incorporate information on whether a sovereign has previously experienced a default, as a further indicator of repayment risk.

However, even in this essentially arithmetic framework, a degree of discretion remains:

1. All three agencies have implemented mechanisms that allow them to override their model-driven outcomes through a "Qualitative Overlay" (Fitch) or "Adjustment Factors" (Moody's and S&P). In a more or less transparent manner, they can modify sub-scores or the final score within a predefined range for reasons that lie outside the quantitative model. The rationale for these adjustments is, as a rule, explained in the accompanying analysis. The extent to which such reasons are allowed outweigh the ordinary result sometimes remains opaque.

2. Some risk factors are inherently qualitative rather than quantitative as measured by official statistics institutions, notably "political risk" and "institutional strength" (and its sub-scores "rule of law", "corruption perception" etc.). The CRAs partially pass on this sensitive issue, by relying on WB's "World Governance Indicators", thereby shielding themselves from criticism regarding the construction of these metrics. Nevertheless, the agencies retain full discretion to label, for instance, the fiscal framework of a country as "stable" and whether the debt management as "competent".

3. Data gaps and data-quality issues constitute a major obstacle in less-developed countries. In economies that are to an overwhelming degree informal, the basis for most quantitative indicators becomes shaky, as many of them are normalized by GDP. Agencies therefore refer to internationally recognized data sources like the IMF, the World Bank and the Bank for International Settlements. Yet, the credibility of a rating diminishes as the underlying data set becomes thinner.

This holistic approach, adopted by all rating agencies in their sovereign-rating methodologies explains the divergences among their scorecards and resulting ratings: there is no "objective" measure of creditworthiness, therefore the relevance of particular explanatory variables can be debated (Reinhart, 2002), just as the question whether one preferably should employ e.g. real GDP growth rates, their rolling averages or estimates of their potentials. Nevertheless, the major inputs used to assess creditworthiness overlap substantially across agencies.

Interestingly, not only do the scorecard models of the Big Three come in the vast majority of cases to quite similar rating outcomes. Also, the smaller ratings agencies and the "independent" ratings models of financial institutions tend to align with Fitch, Moody's and S&P. This convergence occurs because lacking a better yardstick, these entities often calibrate their models to replicate the results of the Big Three. Likewise, a form of herd behavior emerges among the ratings agencies: when one lowers the rating of a sovereign, others are likely to follow suit.

This shows how deeply entrenched the power of the Big Three is. They do not only dominate the perception of rating grades and degrees of creditworthiness, but they also provide the common sense about how to evaluate creditworthiness and are the yardstick to all new attempts.

Marandola and Sinclair (2017), starting from other considerations, come to the same conclusion. They say that credit ratings "as a mental process and set of behaviors continues to be headquartered in the US and it is this to which all newcomers are compared. … (T)here is a strong incentive for all new firms to adopt these norms as this is what customers expect."

2.3 One Size Fits All

An intriguing commonality among the Big Three's sovereign-rating methodology is the use – in principle – of one single, universal scorecard for all countries worldwide. This approach assumes that developed countries and emerging market economies across all continents face the same risk factors for creditworthiness, placing every nation in the same bucket and implying no structural differences between them. The detrimental effects of, say, public debt on the ability to service that debt, is treated as identical in Switzerland and in Sub-Saharan Africa. Only the level of debt may differ and, of course, the concomitant circumstances. Nonetheless, the economic mechanisms that link high debt to reduced repayment capacity are considered the same everywhere. No distinction is made, for example, between (1) countries that investors regard as "safe havens" (safe destinations) and are therefore willing to accept lower yields, and (2) countries that urgently need credit and consequently have far less bargaining power. In a "one size fits all" rating-model, this and the many other ignored structural differences are squashed into the model's error term or are handled through overruling methods. Nevertheless, it has never been (publicly) examined whether acknowledging fundamental differences between groups of countries would improve the predictive power of rating grades.

In his study, Jeyi (2021) tested the significance and sign of correlations between several variables for developing and for developed countries. His results suggest that the two groups differ with respect to the relevant factors, the magnitude of their impact, and even the direction of the effect (positive or negative).

Thus, while the Big Threes' scorecards may deliver satisfactory results for a particular group of economies (e.g., market-based, advanced economies), separate scorecards tailored to other country groups (e.g. emerging markets, resources-based economies etc.) could possess a higher explanatory power for creditworthiness.

A new approach in this regard could be a worthwhile topic for discussion with the credit rating-users: wouldn't it be interesting to employ rating models that are specifically tailored to developing countries instead of simply labelling them as "speculative grade"? To keep the advantage of a universal rating scale and comparability of all rated entities, a secondary rating for entities in the subinvestment-grade could be interesting. This additional advancing-rating would be derived from a model built solely on data from countries that have already experienced arrears. In such a model, factors such as resource endowment, years since the last military conflict, demographic change, political stability and corruption perception would receive higher weight in the scorecard, while variables like unemployment and GDP per capita – whose statistical base are relatively weak – would be down-weighted.

SECTION 3

EMPIRICAL ANALYSIS OF RATING FACTORS

3. Empirical Analysis of Rating Factors

3.1 Research Question

The starting point for the discussion about an AfCRA is the weighting of the various rating factors. The analysis identifies areas where a new rating agency could potentially improve the ratings of African sovereigns. It can also be used to test whether African debtors are systematically rated lower than other countries by the Big Three – a phenomenon often referred to as a rating bias against African countries (e.g. UNCTAD, 2025).

Unlike many other empirical studies, the determinants of the ratings are known. As described in the previous section (2.2), the rating agencies publish the variables they use, allowing the rating process to be traced. However, the agencies reserve the right to overrule the purely technically derived results at their discretion, if they deem it to be necessary. This approach is common in many business fields, as expert knowledge is regarded as more comprehensive and, in some cases, more up-to-date than the data alone. The purpose of these adjustments is to improve the quality of the ratings, not to systematically downgrade a particular group of countries.

In a policy review, the United Nations (UNCTAD, 2025) compiled empirical evidence of rating bias against African countries. Although individual studies reach different conclusions, the preponderance of evidence points to a bias. In the following we analyze the quantitative significance of rating bias.

3.2 Data

The most important variables for this study are the rating scores of the Big Three. To make these variables accessible for quantitative analysis, the ordinal scales of the ratings are converted into numeric values from 1 (the lowest rating) to 23 (the highest rating). These numbers can then be interpreted as cardinal variables, as is customary in comparable studies (e.g. Fuchs and Gehring, 2017).

The explanatory variables are drawn from the indicators that the agencies use in their calculations. We follow the categories shown in Figure 2 – economic strength, institutions and government strength, and fiscal strength.

- Economic strength is measured by GDP per capita, the GDP growth rate and GDP growth rate squared, the inflation rate, the natural-resource endowments, population growth, trade openness, and the current account balance from the IMF and the World Bank.

- Public institutions and government strength is captured by the indicators: political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption from the World Governance Indicator database.

- Fiscal strength and susceptibility to event risk are represented by government debt and government deficit from the IMF. In addition, we constructed a default dummy based on the Systemic Banking Crisis database.

To test the hypothesis that African sovereigns are disadvantaged in their ratings relative to other nations, we create a dummy variable that equals 1 for African countries and 0 otherwise.[6] For comparison, we also generate similar dummy variables for Asian[7] and Latin American[8] countries. However, the analysis is restricted to developing economies, using the OECD definition to classify the countries.

3.3 Empirical Approaches

In our empirical analysis, we employ different types of econometric approaches.

The first model is a pooled OLS regression. For this approach we treat the rating scores as cardinal data. Using the time series dimension, we examine the explanatory power of a specific variable for

[6] Angola, Benin, Botswana, Cabo Verde, Cameroon, Chad, Congo, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Jordan, Kenya, Lebanon, Mali, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Togo, Trinidad and Tobago, Tunisia, Uganda, Zambia.
[7] Armenia, Azerbaijan, Bangladesh, Cambodia, China, Georgia, India, Indonesia, Kazakhstan, Kyrgyzstan, Laos, Malaysia, Pakistan, Philippines, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Uzbekistan, Viet Nam.
[8] Argentina, Belize, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Uruguay.

changes in ratings. An advantage of this method is that it allows us to estimate an unbalanced panel, i.e., we can use all available observations for each country. Hence, the length of the time series may differ across countries. We use different sample periods for the individual countries, starting no earlier than 1996 and ending in 2021.

To deal with challenges arising from missing data in certain countries, within the pooled OLS regressions, we estimate two variants: The first includes a data set that contains as many countries as possible for our estimates (Pooled large). The second restricts the sample to those countries for which all variables are available. (Pooled small).

A fundamentally different approach we employ is a panel Probit model. It analyzes the probability that a rating changes from one period to the next, thereby allowing us to interpret the ratings as ordinal variables. The Probit specification requires a balanced panel, meaning that every country in the analysis must have the same number of observations (i.e., the same time series length). To satisfy this requirement we reduce the data set to the years 2016 – 2021 because the number of observations varies substantially between countries.

We estimate the models separately for each of three agencies.

3.4 Results

The estimated equations are based on the rating scorecards, as exemplified in Figure 3. The fact that most variables are significant and have the expected sign (Table 2) suggests that the rating methods are relatively transparent. Only GDP growth and the public deficit exhibit the opposite sign, even though these variables are often used to justify the rating. Some caution is required when interpreting the results, because this approach does not exactly replicate the procedures used by the rating agencies. Differences in the variables may arise from the selection of variables, the data status at the time the rating was created, and the method used to determine the weight of the individual variables.

The results show that, among the explanatory variables used by Fitch and S&P, the Africa dummy variable is significantly negative in all specifications. In contrast, for Moody's, the Africa dummy is not significant. Overall, however, these findings – together with a number of other studies – suggest that African countries are treated with more caution than other countries. The magnitude of this coefficient ranges between 0.5 and 1, meaning that a rating without this bias would be 0.5 to one full notch higher.

In addition to these initial insights, we aim to obtain a clearer understanding of the relative importance of the various factors for the ratings. First, we calculate the mean values of the coefficients across the individual estimates. Then, we employ the government-deficit coefficient of -0.02 from Fuchs and Gehring (2017) to correct the counter-intuitive sign observed in our own estimates. We then insert the 2022 variable values for a given country into this adjusted equation.

By varying the values of individual variables while keeping the others constant, we can illustrate how each variable influences the rating. This also shows how much a variable would need to change in order to achieve a better rating. Accordingly, this exercise is a purely technical consideration and does not simulate the development path of a rated entity.

We begin with the variables related to economic strength. The most important measure is GDP per capita (in constant 2015 US-Dollar). In our 2023 sample it ranges from US $511 in the Democratic Republic of Congo at the lower end to US $98,700 in Ireland at the upper. African states clearly lie in the lower part of the distribution, other examples are US $933 for Uganda, US $935 for Chad, US $1,218 for Benin, US $2,067 for Ghana, US $4,030 for Egypt, US $6,527 for Gabon, and US $10,552 for Mauritius.

Given this wide spectrum, basing ratings on per-capita income levels typical of advanced economies (USD 30,000–70,000) penalizes African countries. In the present model, most African nations would need to raise their per-capita income to the level of Mauritius in order to achieve a one-notch improvement in their rating (all other factors held constant). For many countries this would require a very long time horizon. Although higher incomes in African countries are desirable for numerous reasons, they are no compelling prerequisite for a short-term improvement in creditworthiness, i.e., a rating upgrade.

In contrast, the variables that capture the institutions and government strength exert a greater leverage on the ratings than the purely economic variables. The most important of these is the government effectiveness metric. In 2023 its values range from -1.69 for the Democratic Republic of Congo to 2.32 for Singapore. Most advanced Western economies score between 1.0 and 1.5, whereas African countries tend sit at the lower end of the distribution: Nigeria -0.85, Zambia -0.66, Tanzania -0.55, South Africa -0.26, Ghana -0.09, Namibia 0.03, Senegal 0.07, Rwanda 0.39.

Given the weights in our rating equation, this means that Zambia could achieve a one-notch upgrade – purely mathematical – by reaching Ivory Coast's level of government effectiveness. Likewise, Senegal could improve its rating by attaining Rwanda's score. These examples illustrate that African countries can learn from one another and adopt best practices that create the conditions for better ratings. Nevertheless, institutional differences mean that a regulatory framework that works in one country cannot simply be transplanted to another.

The rule of law indicator also carries a substantial weight in the estimation equation. In 2023 its values span from -2.15 in Venezuela to 1.97 in Finland. Within Africa, the scores are similarly low: Democratic Republic of Congo displays -1.67, Angola -1.1, Uganda -0.47, Ivory Coast -0.46, Egypt -0.18, Namibia 0.45, Mauritius 0.81. Although important, the rule-of-law metric is less influential than government effectiveness: an improvement of just under one index point would trigger a one-notch rating upgrade, in other words, Uganda or Ivory Coast would have to reach Mauritius's level of rule-of-law performance to improve its rating by one notch. This puts the rating-potential of institutional reforms into perspective.

The third category of variables comprises fiscal strength indicators. The debt-to-GDP ratio is a key factor in sovereign ratings, but its distribution clearly shows that it cannot be evaluated in isolation: The range extends from Kuwait (2.9%) to Lebanon with 246%. Yet, some highly indebted economies – Japan (214%) and Singapore (154%) – receive very strong ratings. African countries are widely dispersed across this distribution: Botswana has a debt level of 21% of GDP, Uganda 50%, South Africa 70% and Mozambique 100%. However, the relatively low debt levels of many African states rather reflect limited access to external capital, a circumstance that is not captured by the debt-to-GDP indicator on its own.

Table 2: Empirical Results

	Pooled large			Pooled small			Probit		
	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P
Africa bias	-1.108*** (0.174)	-0.133 (0.173)	-0.515*** (0.154)	-1.028*** (0.221)	0.118 (0.257)	-0.964*** (0.215)	-0669*** (0.237)	-0.268 (0.225)	-0.744*** (0.238)
Asia bias	-0.916*** (0.197)	-0.490** (0.200)	-0.460** (0.191)	-0.613*** (0.204)	-0.156 (0.222)	-0.374* (0.205)	-0.407* (0.208)	-0.184 (0.206)	-0.235 (0.215)
Latin america bias	-0.456*** (0.182)	-0.022 (0.170)	-0.345** (0.157)	-0.048 (0.195)	0.624*** (0.212)	-0.168 (0.192)	-0.151 (0.219)	0.259 (0.216)	-0.030 (0.221)
GDP per capita	0.056*** (0.005)	0.057*** (0.006)	0.073*** (0.006)	0.091*** (0.007)	0.083*** (0.007)	0.083*** (0.007)	0.053*** (0.007)	0.043*** (0.007)	0.043*** (0.007)
GDP growth rate	-0.015 (0.016)	0.003 (0.014)	-0.001 (0.014)	-0.010 (0.017)	-0.013 (0.019)	-0.014 (0.017)	-0.014 (0.016)	-0.012 (0.016)	-0.027 (0.016)
GDP growth rate^2	-0.004*** (0.001)	-0.002** (0.001)	-0.004*** (0.001)	-0.004*** (0.001)	-0.003** (0.001)	-0.006*** (0.001)	-0.002 (0.002)	-0.002 (0.002)	-0.001 (0.002)
Inflation rate	-0.055*** (0.006)	-0.004** (0.002)	-0.047*** (0.006)	-0.054*** (0.006)	-0.005** (0.002)	-0.060*** (0.006)	-0.035** (0.016)	-0.028* (0.015)	-0.032** (0.016)
Natural resources	0.066*** (0.008)	0.054*** (0.007)	0.034*** (0.007)	0.062*** (0.008)	0.066*** (0.009)	0.065*** (0.008)	0.042*** (0.010)	0.036*** (0.009)	0.029*** (0.010)

Population	0.002*** (0.0003)	0.002*** (0.0004)	0.002*** (0.0004)	0.002*** (0.0004)	0.002*** (0.0004)	0.002*** (0.0004)	0.001*** (0.0003)	0.001*** (0.0003)	0.001** (0.0003)
Trade openness	-0.004*** (0.001)	-0.006*** (0.001)	-0.003*** (0.001)	-0.005*** (0.001)	-0.006*** (0.001)	-0.002** (0.001)	-0.004*** (0.001)	-0.006*** (0.001)	-0.003*** (0.001)
CA	0.006 (0.007)	0.014* (0.008)	0.034*** (0.008)	0.008 (0.008)	0.003 (0.009)	0.006 (0.008)	0.036*** (0.012)	0.033*** (0.012)	0.031*** (0.011)
Government deficit	0.639* (0.343)	1.538*** (0.342)	0.588* (0.320)	0.781** (0.376)	1.098*** (0.419)	0.298 (0.380)	1.702*** (0.502)	1.605*** (0.497)	1.107** (0.498)
Government debt	-0.028*** (0.001)	-0.031*** (0.002)	-0.033*** (0.001)	-0.032*** (0.002)	-0.035*** (0.002)	-0.033*** (0.002)	-0.024*** (0.002)	-0.023*** (0.002)	-0.022*** (0.002)
Default dummy	-0.850*** (0.120)	-0.584*** (0.126)	-0.236** (0.115)	-0.650*** (0.131)	-0.628*** (0.150)	-0.403*** (0.131)	0.034 (0.141)	0.086 (0.141)	0.131 (0.142)
Rule of law	1.203*** (0.235)	1.003*** (0.232)	1.342*** (0.204)	0.979*** (0.251)	1.035*** (0.274)	0.924*** (0.239)	0.826*** (0.289)	0.548* (0.284)	0.840*** (0.292)
Control of Corruption	-1.140*** (0.182)	-0.841*** (0.184)	-0.949*** (0.166)	-1.246*** (0.197)	-1.035*** (0.220)	-0.509** (0.198)	-0.590*** (0.215)	-0.065 (0.212)	-0.424* (0.219)
Political Stability	0.131 (0.092)	0.264*** (0.098)	0.208** (0.087)	0.266*** (0.095)	0.474*** (0.106)	0.326*** (0.091)	0.059 (0.119)	0.093 (0.120)	0.012 (0.120)
Gov. Eff.	3.504*** (0.213)	3.882*** (0.216)	3.194*** (0.201)	3.487*** (0.236)	3.767*** (0.255)	2.829*** (0.230)	2.020*** (0.278)	1.617*** (0.273)	1.937*** (0.284)
Constant	14.923*** (0.195)	14.272*** (0.189)	14.563*** (0.177)	14.600*** (0.202)	14.171*** (0.218)	14.646*** (0.200)			
Sample	1996 - 2021	1996 - 2021	1996 - 2021	1996 - 2021	1996 - 2021	1996 - 2021	2016 - 2021	2016 - 2021	2016 - 2021
Obs.	1720	1969	1835	1501	1585	1502	419	423	412
Cross-sec.	83	96	91	71	71	71			
R^2	0.84	0.81	0.85	0.84	0.81	0.85			
Pseudo R^2							0.36	0.32	0.35

Source: Own calculations. Significance at ***1%,** 5% and * 10%.

Analyzing the impact of government debt within the framework of this equation is challenging, because the deficit coefficient is insignificant yet positive. If we retain this coefficient, a consolidation policy, that reduces the deficit would drag down the rating, which is implausible. Under this specification, a reduction in debt – and consequently lower financing requirements – plausibly improves a government's creditworthiness.

SECTION 4

STRATEGIES FOR IMPROVING CREDIT RATINGS FOR AFRICAN COUNTRIES

4. Strategies for Improving Credit Ratings for African Countries

Credit rating agencies do not follow a strict quantitative procedure to derive their ratings; instead, they use a heuristic approach that combines a set of weighted indicators and expert judgements. Discussion strategies for the enhancement of African sovereigns' ratings, three levels of action can be distinguished, each differing markedly in the effort required. The simplest measure is to increase transparency between the sovereign and the rating agencies, which can be achieved, for example, through enhanced communication. A prerequisite for success would be that, for instance, the necessary piece of information exists but is not sufficiently disseminated. The second level of action is to improve the quality of the indicators. This strategy comes into play if, for example, not all relevant aspects of the variable are measured or measured adequately. Depending on the type of indicator, the effort needed to achieve improvements can vary considerably. Finally, improve the underlying economic conditions. This is the most demanding level, which necessitates concrete economic-policy measures. This step entails the greatest amount of effort and resources.

4.1 Communication

A straightforward yet highly effective measure is to strengthen communication between governments and rating agencies. When agencies do not conduct on-site consultations – or only do so at long intervals – it becomes even more crucial for governments to proactively provide information. The African Peer Review Mechanism (APRM) has issued recommendations for an appropriate relationship-management approach with rating agencies. During the rating process, discussions can reveal opportunities to improve specific aspects of the ratings. By keeping a close eye on these suggestions and following predefined processes for the consideration of those, the rated entity should take them seriously. (APRM, 2024).

It is essential to regard the exchange with rating agencies as a permanent and significant economic policy instrument, as it can noticeably reduce borrowing costs. Consequently, this exchange must be institutionally anchored within ministries. Clear responsibilities have to be defined and the required resources allocated.
A prerequisite for better communication is a deep understanding of rating criteria and the rating processes within the ministries. Staff first need to grasp how agencies operate and what information they require. Several international organizations currently offer training programs on this topic.

The exchange has to be understood as bidirectional. While the ministry's units are responsible for supplying the agencies with the necessary data, it is equally important that information provided by the agencies is promptly relayed by designated contact persons to the relevant authorities to trigger appropriate action.

Therefore, all relevant stakeholders should actively participate in the rating teams' on-site visits to ensure information consistency in both directions. Regular official statements issued by the Ministry of Finance further increase transparency and help curb media speculation. These statements should report on the Ministry's policy actions and on key macroeconomic developments.

4.2 Economic Strength

4.2.1 GDP per Capita

GDP per capita is one key indicator in the rating procedure. African countries could be at a disadvantage in terms of the measured size of GDP, because many countries have a large informal sector. In all emerging markets and developing economies on average 33% of GDP takes place in the informal sector. In Sub-Sahara Africa informal employment accounts for 62% (World Bank, 2019). This part of production is not recorded in the usual official statistics. If it is not included in any other way, the official GDP significantly underestimates economic activity.

Most African countries estimate the size of the informal economy and include it in the official statistics. The IMF Dissemination Standards Bulletin Board[9] provides an overview of whether and how estimates of the informal sector are made in African countries. However, the information provided is not always detailed enough to allow conclusions to be drawn about the specific method used. Nevertheless, it is possible to give some indication.

For Namibia, for example, it is stated that an Informal Sector Survey was conducted in 2001. Since then, the level of activity in the informal sector was extrapolated with information about the level of activity in the corresponding formal sector. In this case changes between the formal and informal sector can distort the measure for the level of GDP. South Africa uses a similar approach.

Illegal activities are also treated very differently when recording the informal sector. While some countries, like Angola and Rwanda explicitly exclude them from GDP calculations, others include some of these activities in GDP. For example, Benin states that re-exports and non-monitored imports of refined petroleum products are included in the GDP measure.

To counteract an underestimation of GDP and thereby increase the chances of a better rating, estimates of the size of the informal sector can be improved. This depends on the current procedure in each individual country. In general, the intervals between surveys on the size of the shadow economy should be shortened.

However, in the longer run it is more important to transfer the informal sector into the formal sector. This would not only improve GDP calculations, but also increase tax revenues, as the informal sector is not usually subject to direct taxation.

In this context, the digitization of the economy can have a positive effect. Since it is now virtually impossible for many companies, even small ones, not to have an online presence, this information can be used to update the company registers used for official statistics and by the tax authorities. Furthermore, the digitization of business processes offers additional opportunities to better record companies' economic activities and thus obtain more accurate information about value creation.

However, empirical studies show that e-invoicing alone, for example, does not lead to better recording of activities and thus to higher tax revenues. Tax revenues will only increase if the introduction of the new system is accompanied by improved auditing (Kotsogiannis et al., 2025). These findings can be generalized. It appears that digitalization is a necessary but not sufficient condition for reducing the informal sector. In particular, when digitalization is promoted to increase tax revenues, the advantages of simplified business processes are offset by the disadvantage of higher tax payments. Maiti and Khari (2025) conclude that the extent to which digitalization reduces the informal sector depends on the rule of law and effective judicial systems.

4.2.2 Economic Growth

Economic growth currently has not a strong effect on the rating. However, since ratings are about future solvency, it could be argued that economic growth, which reflects future solvency, could also be included in the ratings.

GDP growth is linked to GDP per capita, as higher GDP growth today leads to higher GDP per capita tomorrow. If both variables are taken into account in the rating process, this leads to a kind of double counting, or at least to a higher weighting of economic performance.

Another disadvantage of the GDP growth rate is that it is somewhat more volatile than GDP per capita, not least because economic fluctuations are directly reflected in GDP growth rates. This could tend to lead to cyclicality in the ratings, which is undesirable.

For this reason, it makes more sense to take trend growth or potential growth into account in the rating procedure. Cyclical fluctuations are factored out of both variables. Both variables therefore aim to measure longer-term economic growth.

Potential growth plays a major role in the fiscal surveillance procedure in the European Union. All member states are required to regularly submit estimates and updates of their production potential and potential growth. To ensure that the calculation of these variables is not left to the discretion of the ministries, the procedure for calculation and updating is specified by the European Commission. The underlying data and programs

[9] *https://dsbb.imf.org/*

are published to ensure maximum transparency.

If one follows the EU procedure for calculating production potential, variables such as capital stock are not currently available in many African countries. However, even in Europe, simpler methods such as the HP-filter, a pure time series method, are used in such cases.

4.3 Institutional and Regulatory Strength

Following the example of the major credit rating agencies, this study uses the Worldwide Governance Indicators (WGI) from the World Bank to gauge institutional and regulatory strength. By design, these are perception-based indicators (Kaufmann et al., 2024); they do not directly measure quantitative variables. The underlying rationale is that the perception of independent individuals or institutions regarding the quality of government and bureaucracy can serve as a proxy for the actual performance. However, such perceptions may lack objectivity. Furthermore, the indicators are derived from existing surveys, meaning that the data were not collected specifically for the WGI.

Our results show that these indicators are central to sovereign credit ratings. Indicators such as 'rule of law' are linked to a country's willingness to repay its debt (Hatchondo and Martinez, 2010). For example, Erce et al. (2024) demonstrate in an empirical study that sovereign defaults are more likely under domestic law than under foreign law. The low scores in the rule of law indicator are consistent with this finding.

The 'governance effectiveness' indicator captures a government's ability to plan and implement policies. In terms of credit ratings, a higher score implies that the government can take timely, effective measures to avert insolvency.

In a recent paper, Cash (2026) emphasizes the importance of governance structures designed to guarantee debt repayment. These include, for example, fiscal rules, fiscal supervisory institutions like fiscal councils, and restructuring architectures. Moreover, raising reporting standards for sovereign debt improves the information base for creditworthiness assessments. Where reporting is fragmented or opaque, agencies assess uncertainty in addition to risk. The independence and analytical capacity of financial supervisory authorities influence the credibility of borrowers.

Consequently, improvements in the quality of government institutions are considered crucial for the economic and social development of African countries (Mbaku, 2020). A key prerequisite for an effective government structure is that its core elements are enshrined in the constitution. To promote rationalization, the processes – and especially the monitoring mechanisms – of state administration should be defined in greater detail.

When implementing these structural reforms, the acceptance of the population or at least the directly affected groups should be taken into account. The simplest way to secure this is to provide information about the projects and the expected outcomes. Moreover, a transparent involvement of all relevant stakeholders is key for the external perception of a credible and meaningful reform process. All this can improve the perceived government effectiveness.

While some inherent weaknesses of quantifying qualitative indicators remain a challenge, we view the fundamental methodological shift announced by the World Bank in December 2025 as a positive development. The World Bank introduced several changes to the underlying methodology of its WGIs. In addition to procedural adjustments in the production of the WGI, the introduction of a new scale is the most significant change. Until now, the WGIs placed all 215 surveyed countries in a ranking based on their specific performance and then compressed that ranking onto a 1-to-100 scale. This scaling approach has a major drawback: changes in the country's situation become only visible in the index when they alter the relative ordering of countries. Consequently, an improvement in a country's index score could reflect either a genuine strengthening of for instance rule of law within that country or a weakening of the rule of law in the next-best country. The new methodology aims to provide an absolute measure of performance. A hypothetical country that fully meets the ideal rule-of-law conditions would receive a score of 100, while a country characterized by complete lawlessness would score 0. A score of 80 would indicate that the country has achieved 80% of the ideal state. This allows for meaningful cross-country comparisons, and time-series data will intuitively reflect each country's own development over time. We expect that these changes are going to improve the informative

value of the sovereign ratings and might even, in some cases, change the rating score.

4.4 Fiscal Strength

When assessing a country's solvency, debt plays a key role. As with other variables, the provision of data and transparency in debt management are of great importance here. IMF publications refer to this connection in detail (Eichengreen and Zoli, 2025; IMF and WB, 2015).

In addition, institutional frameworks are of great importance. In their guidelines IMF and World Bank (IMF and WB, 2015) state that the authority to borrow and to issue new debt should be laid down in the legal framework (IMF and WB, 2015). Moreover, "the organizational framework for debt management should be clearly specified and the mandates and roles well articulated".

In its latest Regional Outlook for Sub-Saharan Africa, the IMF makes several recommendations on how the financing situation can be further improved (IMF, 2025). A simple measure to implement is the timely and comprehensive publication of statistics on debt. These should also comply with international standards and take into account state-owned enterprises, for example.

4.5 Case Study: Rating Upgrade of Zambia after Debt Restructuring

Zambia's ratings have undergone remarkable development in recent years. During the debt crisis, S&P and Fitch, for example, downgraded Zambia's ratings from B- at the end of 2018 to default at the end of 2020. During this development, a series of measures were taken to stabilize the current situation and ensure the sustainable development of public debt in the longer term. As a result of these measures, the ratings were raised again at the end of 2025. For example, Fitch raises the rating to B-. This is an interesting case to see which factors influence these changes in the ratings.

A key factor in this process is undoubtedly the restructuring of debt to achieve sustainable debt development. In 2020, Zambia turned to the G20 Debt Service Suspension Initiative (DSSI) to temporarily freeze debt payments and formally applied for debt restructuring under the G20 Common Framework in 2021. In the following Zambia negotiated with official and private creditors about restructuring its debt. At the same time, discussions were held with the IMF about an Extended Credit Facility (ECF) that were approved in 2022 (Makhmatova, 2025). Given these measures and a favorable economic outlook Fitch expects a decline of government debt from 114% of GDP in 2024 to 93% in 2025 and 85% in 2026 (Fitch, 2025).
More important for the longer-term debt outlook and thus for the ratings is that the Zambian government has implemented a series of reforms to keep debt developments under control. An important step towards strengthening the institutional framework for borrowing is the adoption of the Public Debt Management Bill 2022. The law regulates the establishment of a debt management office within the Ministry of Finance and the responsibilities for borrowing. It also stipulates that the Ministry of Finance must draw up a medium-term debt strategy, which must be approved by the Cabinet. Based on this, an annual borrowing plan is drawn up, which must be approved by Parliament.
Moreover, with regard to credit ratings in particular, it is significant that the Zambian Ministry of Finance has now firmly institutionalized its dialogue with the rating agencies. However, from the APRM's point of view, one person is not enough for this task (APRM, 2025). The Ministry has also set up a Debt Management Office, which, among other things, provides timely information on debt developments, like medium-term debt management strategies and annual borrowing plans (IMF, 2024). Furthermore, measures were taken to increase tax revenues. For example, corporate income tax was harmonized, and measures were implemented to improve VAT compliance (IMF, 2024).
All these measures potentially have an effect on indicators such as rule of law and government effectiveness. However, as these indicators measure perceptions among the population and experts, these measures must also be communicated convincingly. At any rate, these measures seem to have created more trust than the renewed default has destroyed.

However, despite these improvements to the institutional framework, Mwiinga (2025) suggests following best practice, for example from Kenya, to enhance legislative oversight through measures such as the ratification of individual loan agreements, comprehensive to debt reporting, establishment of a public debt committee.

SECTION 5

OPPORTUNITIES AND LIMITATIONS OF AN AFRICAN CREDIT RATING AGENCY

5. Opportunities and Limitations of an African Credit Rating Agency

The discussion of rating procedures has shown that there is little empirical evidence for a "true" set of factors that objectively indicate a default on government bonds. The factors chosen by the rating agencies are based more on plausibility considerations than on coherent theories or broad-based experience. In addition, the variables chosen, such as GDP per capita, are subject to considerable measurement inaccuracies, particularly in African countries. Other variables related to institutions, and, for example, governance show general correlations and may not take sufficient account of the specific characteristics of African countries. Furthermore, there is room for maneuver when converting qualitative factors into quantitative indicators. These problems are ignored in the current procedures or mitigated by discretionary interventions in the ratings. In addition, one of the shortcomings of African countries that has been mentioned is that they communicate too little and too poorly with the major rating agencies. This is also due to the fact that the Big Three have a weak presence on the African continent. The rating bias suggests that these information deficits are interpreted by the major rating agencies to the detriment of African countries. An African Rating Agency could add value here.

5.1 Requirements

The task facing a new African rating agency is formidable. Because the rating procedures of the major agencies rely more on convention than on solid empirical evidence, it is difficult for a new agency to demonstrate that it can deliver credible ratings while avoiding the documented rating bias. With the Big Three being the yardstick for the "true" measures of sovereigns' creditworthiness, the new rating agency must decide, how to proceed:

- Follow the established methodical paths of the Big Three, by employing variants of the well-known set of variables. Then, the headroom to correct the Africa-bias will be limited to the "adjustment factors".

- Try to establish new rating-models, that better reflect the realities of African countries and diverge to some extent from the Big Threes' ratings. In this case, the new rating agency has more leeway but needs to justify its methodology far more.

In both cases, the African agency must choose, whether it seeks to mirror the Big Three's average of rating grades or not.
Behind these questions stands the inherent dilemma: The aim of the new rating agency is to produce better-informed ratings than the Big Three to improve the African countries' financial conditions. But if the new institution diverges too far from the Big Three, it is likely to be accused of favoritism. That would instantly undermine the reputation of being impartial.

This dilemma is not easily solved. The only viable solution is to build a strong reputation for integrity and deep-rooted expertise enabling AfCRA in the long run to pursue its own strategies without its results being judged solely against those of the Big Three. But how can a new company build such a strong reputation?

A study by Mazzola et al. (2006) offers insight into how a strong reputation can be built. The authors find that companies led by competent and respected individuals enjoy a strong reputation, transparent, comprehensive communication of business plans is essential; and credible, independent control systems are a prerequisite for lasting trust. These findings can be transferred to the new rating agency; the following criteria could help to increase its reputation:

- Independency

To build up its own reputation, it is crucial that the new rating agency is independent of the African governments it is supposed to rate. Neither its financing nor the personal connections of its employees between the rating agency and African governments should give rise to any suspicion that the ratings are influenced by the countries being rated.

- Transparency

An important prerequisite for producing convincing ratings is transparency of the processes and decisions. As with the major agencies, the process must be published, in particular the variables used and the weights. Furthermore, it might be useful to publish the minutes of the meetings in which the ratings are decided. Some central banks, such as the US Federal Reserve Board, publish the meeting minutes with a delay.

Moreover, to develop the agency's reputation, it could be helpful to have the rating procedures reviewed regularly by an external panel of experts. This would demonstrate independence and increase the transparency of the procedures when new information is processed.

The ECB, like other central banks, uses this tool and has its monetary policy strategy reviewed regularly. The Bank of England also has its models evaluated regularly by an external panel of experts.

- Stability

Ratings are a forecast of the probability of default on public debt securities. Ratings change when the influencing factors change. Since most variables are collected annually and are consistent with longer-term developments, erratic changes in most variables are not to be expected. However, many variables are subject to revisions, which should not lead to significant changes in ratings in the rating process. Ratings must therefore be designed in such a way that they exhibit a certain degree of stability. The same applies to misjudgments that have led, for example, to discretionary interventions.

- Competence

The agency must have a team that has proven expertise in producing independent and credible ratings. A prerequisite is professional competence, which includes many years of experience, at least on the part of the management team. It would also be advantageous if the country specialists accompanied the countries over a longer period of time, enabling them to acquire country-specific knowledge.

Furthermore, reputation of the new Agency can be enhanced by an accreditation at the several international banking supervisions agencies. The regulatory hurdles are quite high and differ between the European Banking Authority, the US equivalent and numerous others. However, being accredited is prerequisite for becoming part of the financial institutions' processes that are supervised by these authorities.

5.2 Opportunities

5.2.1 Improvement of Sovereign Ratings

Unter the premise that an independent rating agency can be established and quickly build its own reputation, several business opportunities arise. One advantage a new African rating agency could offer is lower-cost ratings compared with those of the major rating agencies, which would help mitigate the misperceptions generated by unsolicited ratings. Of the 32 sovereigns rated on the African continent, 12 carry unsolicited ratings. Solicited ratings are requested and paid for by the rated entity, whereas unsolicited ratings are issued by rating agencies without a formal request, based solely on publicly available information that may be incomplete or outdated. Moreover, unsolicited ratings are said to be produced with less effort and precision in order to reduce costs, frequently resulting in lower ratings that are perceived as punitive.

Solicited ratings – while quite costly – provide several advantages for the rated entity. The key benefit is that the rated entity (i.e. the sovereign) gets the opportunity to actively participate in the rating process, cooperating with the agency and supplying detailed, confidential, and up-to-date financial data. Notably in economies where the economic database is imperfect, the involvement of locally connected data-specialists who can link the external rating committee with the national statistics office is especially valuable. Additionally, spokespersons from the Ministry of Finance and other state insiders can offer a more nuanced overview of the country's strategies and objectives than official publications alone.

A new African rating agency, placing its primary emphasis on the specific characteristics of African economies could also be able to engage in a more profound dialogue with the rated countries than the Big Three have traditionally pursued. Such interaction would foster greater mutual understanding and improve the processes on both sides. This could potentially even influence the ratings issued by the Big Three.

Moreover, the new African rating agency could provide much stronger guidance to Governments throughout the rating process. This involves more than just offering suggestions on how to improve ratings. A real added value would be to also provide guidance on implementing these measures and, ideally, to support the implementation process itself.

Furthermore, there is a great need for ratings for state-owned and private companies in African countries. Typically, only large corporations are rated. However, it would be beneficial for African countries if medium-sized and even smaller companies also had access to ratings in order to obtain loans at lower costs.

In addition, the African Rating Agency plays a major role in fostering bank lending, private equity and portfolio investments in local markets. It also promotes the growth of domestic capital markets by supporting firms to improve their financial management. As there are many companies in Africa that are not yet rated and therefore have limited access to capital markets, there is great growth potential in this area (UNDP, 2025).

However, this would require the ministries in the countries to improve their institutions. With unclear responsibilities and frequently changing contact persons in the countries, it would also be difficult for an African rating agency to obtain the necessary information.

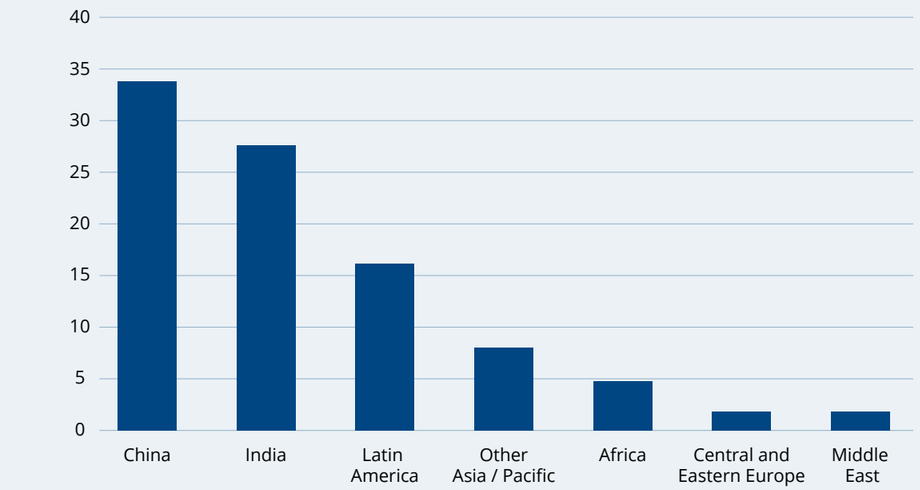
5.2.2 Promotion of Rating Coverage

African companies in general have very limited access to external financing. Compared to their international peers, African companies take on little debt and only companies from a few countries, such as South Africa, Mauritius, and Nigeria, participate in the capital markets (OECD, 2025). These restrictions to external funding and the need to rely on own resources, limit their investment opportunities and finally growth.

One reason is that investors want to diversify their investments, but the volume of individual investments must not become too small, otherwise the information and administrative effort become excessive. Since the volumes issued by African countries are relatively small on an international scale, investment opportunities are even more limited. For this reason, many international investors are unable to invest in African countries or can only do so to a very limited extent.

As the same investment frameworks – with regard to risk structure and minimum investment amounts– frequently also apply to large African investors, such as pension funds, they too are forced to make part of their investments outside Africa. It is therefore no coincidence that the majority of private investment is made outside Africa (Figure 3).

Figure 3: Private Capital Investment by Region in 2023 (billion US-Dollar)



Source: EIB (2024).

A new rating agency could fill this significant gap, if it succeeds in offering cost-effective ratings for medium-sized companies. Depending on the size and ambitions of the entities, a graduated system is conceivable, with a deeper analysis (and hence higher accounting standard requirements) for those aspiring to the capital markets, and a less sophisticated credit scoring system (in contrast to an individual analysis[10]) for those who only wish to get access to bank credit. Nevertheless, the requirement for meaningful data and a degree of financial literacy in the economy is an absolute necessity and will pose a significant challenge, particularly given the substantial informal sectors in many countries.

5.3 Limitations

The major hurdle for the AfCRA is to be seen in the overwhelming market power of the Big Three. In the US they are estimated to hold around 90% of market share, worldwide it might be less but still the Big Three dominate the rating world by public perception, opinion leadership, and ratings coverage (Hung et al., 2022). One reason is that institutional investors are often bound to ratings from the Big Three, which are entrenched in global financial regulations as benchmarks for eligibility, capital requirements and risk management (Erforth, 2026). But even if that is not the case, their war chest to fight hopeful competitors is presumably well filled.

In matters of trust, investors tend to confide to well-known names and "the standard". With three global agencies, they feel to have covered a reasonable part of the spectrum of opinions. It is probably no coincidence that Moody's has intensified its activities in Africa. Of course, the potential market growth for rating agencies on the African continent, which is likely to gain significant importance in the coming years, plays a role. This makes securing market share all the more crucial. It is unclear whether a new rating agency can withstand such competition.

Furthermore, the demand for new ratings among investors is likely to be limited (Lubin, 2025). Investors in Africa, as everywhere in the world, who are interested in internationally diversified investments, may prefer ratings that are created globally according to a comparable scheme. These investors compare investment opportunities in different regions of the world. In this case, it is advantageous to use ratings that are comparable. Using ratings generated by different agencies increases the effort required for investors. The ratings are then only of particular interest to investors who want to invest exclusively in Africa.

Finally, while section 4.3 demonstrated that measurement problems and a lack of transparency exist in many areas, which could be reduced through improved communication between rating agencies and governments, the extent to which ratings can be improved is difficult to assess. Furthermore, increased transparency and improved communication would also benefit the three major agencies. The advantage that the new agency could exclusively gain might be relatively small. This could jeopardize a sustainable business model.

One uncomfortable truth that must be acknowledged is that several African sovereigns and a large number of other borrowers on the continent will currently not obtain a favorable rating – regardless of whether they are rated by AfCRA or by the Big Three. The institutional prerequisites for accessing international capital markets are stringent, and these markets forgive neither mistakes nor misfortune. Long-dated contracts require a degree of political and economic stability that many African countries may not be able to sustain; corruption, climate change and a host of other challenges pose especially high risks for the region.

Bearing this in mind, the conclusion is that the new AfCRA could improve some of the rating assessments of some sovereigns to a certain extent. Rating coverage on the African continent might also improve modestly, with a slightly positive effect on capital-market access and borrowing costs. However, without substantial improvements in economic and political structures, these gains will remain incremental. Since this reflects a certain lack of readiness for international capital markets, a strategy of slow but hopefully steady progress may be the realistic path forward.

[10] For example, the German company SCHUFA evaluates creditworthiness based on data provided by contractual partners such as banks, telecom companies, leasing firms, and retailers, relating to credit cards, loans, bank accounts, and payment performance. SCHUFA then uses this data to apply statistical scoring models and estimate the probability that a borrower will repay their debts on time.

5. Opportunities and Limitations of an African Credit Rating Agency

5.4 Case Study: The European CRA "Scope"

Scope Ratings positions itself as "the leading European credit rating agency" and "the uncontested market leader among European rating agencies" (Scope, 2025). Its origins date back to 2002, when the company was initially founded as an analytics firm specializing in alternative investments.
Around 2012, shortly after the European sovereign debt crisis, Berlin-headquartered Scope expanded into credit ratings issuance with the explicit aim of providing a European-based alternative to the Big Three, which were perceived as biased against Europe and insufficiently attuned to European specifics. Backed by individual and institutional investors (insurance firms, banks and foundations from Germany and other European countries), Scope strives to prove its independence by shareholder structure and guarantee, and external assessment by the European CRA Supervision.
Over time, Scope pursued a series of strategic acquisitions, notably FERI EuroRating Services in 2016 and Euler Hermes Rating in 2021. Today Scope operates offices in Berlin, Frankfurt, London, Milan, Madrid, Oslo, Paris and Poznan. It provides roughly 750 issuer ratings and more than 12.500 bond ratings. In November 2023, the European Central Bank (ECB) accepted Scope Ratings as a new external credit-assessment institution, making its credit ratings eligible for use in ECB monetary policy operations under the Eurosystem Credit Assessment Framework (ECAF). In February 2024 the ECB further recognized Scope as the fifth external rating agency for its Eurosystem collateral framework. Despite these milestones, Scope's global market share remains below 1%.[11]
Scope has had to issue a lot of unsolicited ratings, as the demand for solicited ratings has been limited and for the long-term goal of becoming a notable market participant, a certain market coverage is prerequisite. Consequently, in many categories of financial instruments more than 70% of Scope's ratings are unsolicited.
In summary, even with solid capital backing, a clear long-term strategy, and despite some modest successes, Scope's impact on the public perception of credit risks in Europe is difficult to gauge, and it certainly has not yet succeeded in lowering the credit costs of European issuers.

[11] https://odi.org/en/insights/give-credit-where-it-is-due-africas-fight-with-the-big-three-rating-agencies-is-overblown/

SECTION 6

CONCLUSIONS

6. Conclusions

Ratings are a prerequisite for sovereign borrowing because many investors statutorily require them for their investment, and they are a key determinant of borrowing costs. Robust empirical evidence of an African rating bias, i.e., the systematic downgrading of African countries compared to their peers on other continents, despite similar macroeconomic, fiscal and institutional parameters, fuels expectations that a new African rating agency could improve financing conditions in Africa.

A basic requirement for a new rating agency is strict independence from the national governments it rates. Consequently, it must be privately financed. The owners of the European rating agency Scope comprise a mix of private individuals and institutional investors such as banks and insurance companies. We see this ownership structure as a role model for the AfCRA. We also support the AU's vision of the AfCRA as a private company with a clear business model, determined to generate profits. Financing – even during the start-up phase – by international development aid would create new dependencies and could induce an unrealistic short timeframe; therefore, we do not see this as a good option. Political considerations are also relevant, including possible reactions of particular countries if they perceive the AfCRA as influenced by "Europe" and its ratings as too harsh, as well as the ongoing reduction of development aid.

The growth potential of many African states and companies is considerable. However, the prerequisite for the success of an AfCRA will be that the ratings are more cost-effective than those of the Big Three, while maintaining highest quality standards. A specific advantage of an AfCRA could be better and closer contact with government representatives, which might improve the information content of the ratings.

Building a reputation as a provider of credible assessments of African countries' future solvency will take time. In the short-run the new agency will have to stay close to existing ratings and will inevitably operate in the shadow of the Big Three. The current debate about a new agency, however, seems to have already prompted the Big Three to intensify their activities in Africa; only time will tell whether this will reduce the rating bias.

Experience with the European rating agency shows that, even after an extended introductory phase, the impact of a newcomer remains incremental. The market dominance of the major agencies is so overwhelming that full displacement is unlikely. At best, the new agency can act as a supplement, provided investors are willing to use the new ratings. Initially, this willingness is expected to come mainly from African market participants.

The potential benefits of a new agency are further limited by existing initiatives on the continent that pursue the same objectives. For example, the AU – UNECA program that trains governments to professionalize their interaction with rating agencies already works on improving the transparency of economic and fiscal data. Recent reforms of debt-management frameworks – as illustrated by Zambia – have also contributed to better sovereign ratings, while the direct influence of rating agencies remains limited.

It's important to acknowledge that ratings are only one source of information among many. Institutional investors, such as banks, pension funds, and insurance companies, can read and interpret ratings in their own context and make decisions accordingly. Therefore, information about rating bias and the actual developments and prospects in Africa needs to be disseminated much more widely. It's crucial that a new, more positive narrative about Africa's future emerges.

Finally, countries must continue their broader transformation processes. Strengthening economic growth, formalizing the informal sector and increasing tax revenues and expand fiscal leeway will strengthen creditworthiness. At the same time, the development of domestic, liquid financial markets and the accumulation of capital will improve financing conditions and reduce capital costs – with rating agencies playing limited role. Consequently, while a new AfCRA could add value through greater independence and closer engagement with sovereign borrowers, its overall impact would be dwarfed by the far larger

positive effects broader structural reforms.

It is essential that African countries create the conditions and institutional framework necessary to mobilize domestic capital for sustainable economic development.

SECTION 7

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