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GUIDELINES FOR AFRICAN UNION MEMBER STATES ON DEALING WITH CREDIT RATING AGENCIES

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1 INTRODUCTION

These guidelines provide a framework to support African Union (AU) member states in their engagements with international credit rating agencies (hereafter called 'CRAs'). The guidelines were developed through a comprehensive process of consultations with key institutions of the African countries and the financial services sector. Institutions consulted include representatives from the CRAs, Central Banks, Government Ministries, Regulators of Financial Services, Institutes of Directors, representatives of international multilateral organisations in Africa, African multilateral development banks, National Chambers of Commerce, representatives of trader unions and representatives of civil society stakeholders.

It is envisaged that, if followed, these guidelines will improve capacities and address some challenges faced by African countries in engaging CRAs in periodic reviews and in implementing recommendations, minimising negative rating actions. The guidelines further identify gaps that could be weighing down Africa's credit ratings, as well as key success factors that could lead to positive rating outcomes and good practices that could be shared with peers.

2 BACKGROUND

CRAs play a key role in financial markets, providing investors with information that reduce asymmetries between issuers of financial instruments (borrowers) and investors (lenders), about creditworthiness. It is thus difficult to raise funding, especially from the international financial markets, without a credit rating from the three international rating agencies – Fitch, Moody's and S&P. Investors in long-term instruments require borrowers to have a credit rating from at least one of the three dominant international CRAs. Hence, in the turn of the 21st Century, African governments sought sovereign credit ratings to access global capital markets in pursuit of their broader objectives such as fostering deeper local capital markets, raising capital for public infrastructure projects, attracting foreign direct investments and supporting private sector access to the global capital markets.

The African Peer Review Mechanism (APRM) and the United Nations Economic Commission for Africa (UNECA) have been actively working to address these challenges. Both institutions, have been instrumental in advocating for fair, transparent, and development-focused credit ratings that accurately reflect the realities and potential of African economies. Additionally, they have been promoting the enhancement of transparency in credit rating methodologies and encouraging African countries to engage more effectively with international CRAs.

In January 2017, the Assembly of the African Union (AU) Heads of States and Governments adopted Decision Assembly/AU/Dec.631 (XXVIII) at its 28th Ordinary Session held in Addis Ababa, Ethiopia. This directing the African Peer review Mechanism (APRM) and its strategic partners, to support African Union Member States to improve their credit ratings. The Decision was necessitated by a collective interest among African countries to address the challenge of declining credit ratings by the leading three international CRAs - Standard and Poor's (S&P), Moody's and Fitch. The declining credit ratings have resulted in countries either having difficulties in accessing global capital markets or incurring huge borrowing costs on international financial markets. Consequently, these challenges impede African countries' drive for industrialization, infrastructure development and building economic resilience against shocks. The low ratings also exacerbate public debt burden, threatening the sustainability of public debt and access to both international and domestic lines of credit. Over the last ten years, several African countries have issued public statements rejecting the credit ratings assigned to them.

3 OBJECTIVES OF THE GUIDELINES

The key objectives of these guidelines include:

i. Enhancing transparency, objective and fair application of methodologies by the three international CRAs when assessing African sovereign credit ratings.

ii. Providing AU member states with best practices to engage more effectively with CRAs through adequate preparations and structured dialogues.

iii. Assisting member states in aligning with best practices in credit rating governance while advocating for more inclusive and context-based analysis to minimise negative rating actions.

iv. Supporting member states in strengthening their financial and economic institutions to provide accurate and timely data to CRAs, reducing reliance on external agencies for key economic information.

4 FACTORS WEIGHING IN ON AFRICAN GOVERNMENTS' RATINGS

From the analysis of rating drivers, the consultations concluded that among the main drivers of negative outlooks turning to downgrades are actions yet to be undertaken by the government. This includes addressing specific risk factors cited by rating agencies in previous rating reviews. Based on the findings of the consultations, the following is a summary of areas that require urgent attention.

It is naturally so for the function to engage international CRAs to be based within the Ministry responsible for Finance, economic affairs and planning. This is because the Ministry is the epicentre of the data and information required for the credit rating process. Despite the function being housed in other departments of government such as the Presidency or the Central bank in some countries, it is organic for experts in the Ministry to engage rating agencies. They coordinate such engagements with other government agencies. By virtue of their involvement in the debt management and part of the fiscal funding portfolio, they would appreciate the importance of credit ratings more than any other agency in government. They, therefore act as the primary liaison between the government and CRAs and should therefore coordinate with other government departments and agencies to ensure a cohesive approach to economic policy and data reporting.

It is acknowledged that there are many challenges posed by the credit rating agencies, however African governments have encountered challenges that have significantly contributed to the declining ratings on the continent. Consultations established the following factors:

4.1. Lack of capacity: National Treasuries have minimum to no capacity to to manage the complex requirements of the credit rating process, this includes engaging international CRAs on matters of fiscal developments, especially during the off-rating calendar periods. This is mainly because of lack of human capital, hence the National Treasuries have neither dedicated teams nor focal persons to provide requisite information to both investors and international CRAs when necessary, which we call a Credit Ratings Liaison team (CRL). Maintaining a competent CRL team would be more cost-effective than losing a good rating that could have been avoided.

    It is on this basis that the consultations concluded that there are capacity challenges and inadequate structures within the Ministries of Finance. This is needed to comprehensively engage rating analysts and convince them of perceived risk factors whose threats could be inaccurately overstated. It was further observed from consultations that, in countries that have set up the credit rating liaison teams, they have limited understanding of the granular details of the credit rating methodologies and process. This limits their chances of success in pitching for a rating upgrade. Consequently, a number of rating decisions may have gone against African countries either by presuming lack of communication and coordination, resulting in inconsistencies and gaps in the information provided, or due to a result of lack of understanding and inadequate preparation by the Ministries of Finance's credit ratings liaison teams.

4.2. No institutionalised function on credit ratings: while some Ministries of Finance across the continent views their current internal technical capacity as sufficient, there is often no institutional arrangements that governs the dealings with credit rating agencies. At best, Ministries have a team of two or three experts responsible for the work of credit ratings with no Terms of Reference and is coordinated on ad hoc basis, attending to specific enquiries by international CRAs on a need basis. This ad hoc exercise commonly happens prior to routine credit rating reviews when requested to provide information and coordinate other stakeholders that may be relevant in gathering the necessary information. Such teams are typically not always available to proactively engage international CRAs on matters of fiscal development, especially during the off-rating calendar periods. Weaknesses in the institutional arrangements could cause delays in the provision and verification of information requests by international CRAs.

4.3. No coordination between government agencies: the Ministries of Finance and the Central Banks are not coordinating in dealing with international CRAs as there is no established formal institutional arrangement. Part of the challenge is that, similar to the capacity challenges in the Ministries of Finance, the Central Banks also not have an established team responsible for credit rating matters. The majority of Central Banks consulted justified that, since the primary responsibility rests with their Ministry of Finance, there was no need for such a dedicated team. Hence, the various departments within the Central banks are engaged directly by the ministry on an ad hoc basis, depending on the information requests from international CRAs.

It was established that this widens the scope of responsibilities for the small team within the Ministry of Finance. Their other responsibilities include coordinating key stakeholders to prepare review meetings, consistently communicating government policy positions, issuing communiqués, engaging investors on public media platforms and proactively reaching out to international CRAs to avert possible speculations. This is especially important when there are significant fiscal developments. Due to the overwhelming responsibilities, the Ministries of Finance's credit rating liaison team is not able to either host prereview workshops, sit-in during international CRAs' stakeholder consultation meetings nor does it develop a comprehensive strategy for pitching for rating upgrades.

Thus, the consultations also established that it would be ideal for the Central Bank to complement the Ministry of Finance in addressing the capacity challenges. The Central Bank maintains its own dedicated team of key contacts at a very senior level, most ideally under the auspice of the Research Department or Directorate, to engage international CRAs on matters of monetary policy. A strong collaborative team in the Central Bank and the Ministry of Finance that proactively engages international CRAs through quarterly meetings to discuss monetary and fiscal developments is recommended and encouraged to ensure coherence of the government action and synergies in information exchange.

4.4. Lack of a National Strategy for dealing with international CRAs: developing a National Strategy for credit rating improvement would impact the country's rating positively. The majority of African governments are yet to develop a National Strategy for engaging with rating agencies which addresses on the downside risks raised in previous reviews and how relevant departments and agencies have addressed them. The Ministries are yet to develop focus areas and action plans to improve credit ratings and does not objectively monitor sovereign risk exposures. Without a unified approach, different government departments may provide conflicting information to CRAs, leading to confusion and potentially lower ratings.

A clear National Strategy is necessary to guide all stakeholders in their responses to all issues raised by international CRAs in previous reviews and how relevant government departments and agencies are addressing them. This strategy should outline clear objectives, roles, and responsibilities for all relevant government departments and agencies. It is crucial for governments to have ongoing internal engagements in the Ministry of Finance, in collaboration with the Central Bank, to deliberate on risk exposures highlighted by rating agencies and develop strategies to mitigate them.

4.5. Unavailable key data: The consultations also established that, investors and other stakeholders are more concerned about the consistent and timely publication of reliable economic data, which is the basis for investor sentiments, a key input to credit ratings process. In cases when there are delays in publication of important economic information, the asymmetries send downside signals to both rating agencies and investors who would resort to estimations and other speculative sources of data. Whilst monetary metrics from the Central Banks are usually up-to-date on the banks' websites, data on fiscal metrics that are issued by the Ministries of Finance are largely outdated by at least two or three years.

9. Beyond the rating process, effective economic policy-making requires accurate data. Inadequate governance can lead to poor decision-making and inefficient implementation of policies aimed at improving economic stability and growth. Timely publication of data is a key requisite for enhancing communication with investors, data provision and increase transparency on reporting government debt and other fiscal data. Hence, reports such as the Quarterly Public Debt Statistics Bulletins, Annual Borrowing & Recovery Plans, stock of public debt and Periodic Public Debt Reports must be published timely and consistently on government websites. It is recommended to establish robust data governance frameworks that outline clear roles, responsibilities, and processes for data management. This includes setting standards for data quality, accuracy, and transparency.

4.6. Non-responsiveness to information requests from rating agencies: in their monitoring of ratings, analysts constantly need updated data on risk factors being examined. It has been noted from consultations that the majority of African governments either take too long to respond or do not respond at all to information requests from analysts. A few that responds do not provide well thought and consistent information on the enquiries from rating analysts. In the absence of official responses and key data from the Ministries of Finance and Central banks on metrics such as total nominal public and publicly guaranteed debt, debt service costs, debt structure (domestic and external), debt composition (by currency and creditors category), etc, analysts are left with no choice but to rely on alternative source of data to make their projections. These tend to be pessimistic in nature. African governments should establish clear protocols for handling analysts' requests. Furthermore, monitoring and evaluating the responsiveness of government agencies to CRA requests, and using feedback to make the necessary adjustments, will further improve the credit rating process.

4.7. No framework on stakeholder consultation: the Ministry of Finance credit rating liaison team currently does not participate in meetings between stakeholders and rating agencies during the rating reviews. Hence, they do not have information on the topics discussed and outcomes. This is a grey area that can result in inconsistent information being provided to CRA due to lack of coordinated efforts in and outside government for a coherent interpretation of government policy. The CRL team also does not proactively make requests for analysts to meet with some key stakeholders that may have been excluded on the consultation list as part of the broadening and deepening of stakeholders.

4.8. No regulatory framework for credit rating agencies: it was noted that approximately half of African countries do not have regulations on credit rating agencies. In countries where regulation is in place, the regulatory bodies responsible for the licensing and regulation of CRAs does not regulate the operations of the three international CRAs. These CRAs do not need any approval nor license to operate in their jurisdictions. These circumstances arise from the current regulations in these AU member states, where government do not want debt instruments that they issue to be first approved by the regulator before issuance. Hence, any CRAs that assign ratings on such government instruments do not require licensing before conducting such business. This automatically places the three international CRAs outside the umbrella of regulations enforced by national regulators, hence they are not subject to any form of regulation in the majority of African countries, making accountability impossible.

4.9. Lack of integrity when dealing with investors and rating agencies: from consultations, it was noted that several government employees correspond official business are via private email services such as Gmail and Yahoo. This is generally due to the limited size of official emails and that government emails are unreliable. Private email accounts are less secure and may increase the risk of data breaches and unauthorized access to sensitive information. Despite the security risks associated with such practices, as sensitive information is stored on servers outside the government's jurisdiction, using private domain emails demonstrates lack of professionalism and integrity.

5 RECOMMENDATIONS FOR AU MEMBER STATES

5.1 Pre-ratings phase

Although the Ministries of Finance sometimes contract the services of external consultancy firms to manage the government's affairs with CRAs, it has not been effective despite the high costs of such services. It would therefore be in the interest of African governments to develop internal capacity, which will save them significant financial resources that are unnecessarily being lost through inflated debt service costs driven by negative rating actions. Thus, before the credit rating review exercise, it is important for governments to implement the following recommendations:

i. Establish and institutionalise a formally recognised Credit Rating Liaison team: There is need for a structured country liaison team of at least two experts to function as the primary contact office or person(s) in both the Ministries of Finance and the Central Banks. At least 50% of this team's responsibilities are to be primary contacts in the ongoing engagements between the sovereign, investors and CRAs, as well as coordinating relevant stakeholders to ensure consistency and transparency. The sovereign rating liaison team can be institutionalised and empowered through a Directive signed by the Chief Director or Permanent secretary. The Directive should be requiring all Directors and/or Coordinating Director(s) to attend all meetings or conference calls organised by the credit rating liaison team. This is especially important after the tabling of the main budgets and the medium-term budgets [Ministry of Finance and Economic Planning].

Terms of References for the Credit Ratings Liaison team

The credit rating review exercise is in an opportunity for a government to convince analysts that their downside risk factors are either addressed or in the process of being addressed. Hence, the people who represent government in this exercise will, to a larger extent, determine the outcome of the rating exercise. The role of the liaison team would include, amongst other responsibilities, host pre-review workshops, sit-in during international CRAs' stakeholder consultation meetings, develop a comprehensive strategy for pitching for rating upgrades, in collaboration with the Central Bank. It would also deliberate on risk exposures highlighted by rating agencies and develop strategies to mitigate them. The team should also coordinate all Directors to attend all meetings or conference calls with CRAs, especially after key economic events like the tabling of the main budgets and the medium-term budgets. The effectiveness of the Credit Rating Liaison team heavily depends on the expertise and qualities of its members. Here are the key qualities that experts in the CRL should possess:

1) Strong Analytical Skills: Members should have the ability to analyze complex financial data and economic indicators. This includes understanding the methodologies used by credit rating agencies (CRAs) and being able to interpret and present data accurately.
2) In-depth Knowledge of Financial Markets: Experts should have a thorough understanding of financial markets, including the factors that influence credit ratings. This knowledge is crucial for providing relevant and accurate information to CRAs.

3) Experience in Economic Policy and Fiscal Management: Members should have experience in formulating and implementing economic policies and managing public finances. This experience helps in effectively communicating the government's fiscal strategies and economic reforms to CRAs.
4) Excellent Communication Skills: Effective communication is essential for engaging with CRAs. Members should be able to clearly articulate economic policies, financial data, and responses to CRA queries. Strong written and verbal communication skills are a must.
5) Integrity and Professionalism: Maintaining high standards of integrity and professionalism is essential. Members should adhere to ethical guidelines and ensure that all interactions with CRAs are conducted transparently and professionally.
6) Proactive and Strategic Thinking: Members should be proactive in identifying potential issues and opportunities related to credit ratings. Strategic thinking is essential for developing and implementing effective engagement strategies with CRAs.

ii. Establish and maintain a government-wide Standing Committee on Sovereign Credit Ratings: In line with best practices from other African countries, it will be beneficial for all Ministries responsible for finance and economic planning to establish a Standing Committee on Sovereign Credit Ratings. This committee should be co-chaired by the office of the Deputy Governor of the Central Bank (or any Senior Director responsible for Research and Financial Markets) and the Chief Director (or Director responsible for public debt management). The Standing Committee need to be governed by clear Terms of Reference (TORs) and well constituted with representatives, both technical and policy-oriented, from both the Ministry and the Central Bank. Having such a committee addresses many possible information asymmetries which could arise between operations of central banking that often affects the debt management, such as the impact of policy rates on Treasury bills being the main funding instrument of government. On the other hand, the Central Banks hold in its monetary portfolio, bonds or financial instruments issued by the Ministry of Finance. Hence, the committee will guide the execution of government annual borrowing plan (strategy), which needs to be well coordinated with Central Bank monetary operations [Ministry of Finance and Economic Planning; Central Bank].

iii. Adequately prepare for credit rating reviews: The focal Ministry need to be adequately prepared for rating reviews, especially analysts in-country visits, based on the theme of rating review and areas of concerns highlighted by the CRAs. At the beginning of each ratings calendar year, the rating liaison team needs to engage the rating agency on the theme of their rating review visits, discussion topics and industry experts they want to interview during the in-country visit. As part of their preparations, the credit ratings liaison team should coordinate with all the stakeholders that the rating agency wish to engage to ensure coherence, especially on issues related to government policy position. It is the liaison team that should solicit relevant data from other government ministries, departments, and agencies for purposes of ensuring that proceedings and outcomes of the credit rating review are based on accurate, credible and legitimate records [Ministry of Finance and Economic Planning].

iv. Timely respond to information requests by analysts: Analysts usually request for information on several fiscal and monetary metrics before they conduct their in-country visit. It is therefore critical for the credit ratings liaison team to timely provide factually correct information as well as comprehensive responses to assist analysts in formulating their opinion before in country visits. Failure to cooperate with information requests, provide incomplete records and inconsistent information lays a basis for analysts to be sceptical during the in-country visit, which is prejudicial to the government when the rating outcome is negative [Ministry of Finance and Economic Planning].

v. Understanding the credit rating criteria and process: The credit rating liaison team should understand the sovereign rating methodology and models as good as a rating analyst. It will be easier to engage an analyst factually if the team understands the rating criteria and the ratings of sovereign peers. The team will also be able to guide senior government officials on rating triggers that could be addressed to influence future ratings' direction [Ministry of Finance and Economic Planning].

vi. Develop a strategic pitch for a rating review: In collaboration with other key government institutions such as the central bank, the Ministry of Finance should develop a strategy to pitch for a positive rating outcome – upgrade and/or positive change in outlook. The strategic pitch should be centred on risk exposures highlighted by rating agencies in previous rating reviews and how they have been mitigated. Developing a strategic pitch would ensure coherent messaging about the objectives and outcomes of government policy across all key institutions and actors. A coherent message is critical because CRAs constantly check for consistency, not only in data reporting, but also in messaging about key issues across all key actors [Ministry of Finance and Economic Planning].

vii. Establish official protocol for timely issuance of official communications: It is critical for the government to consistently issue official communications on the government's position on policy matters through public media interviews. Verify factual correctness on media queries that may impact investors' sentiments. In the absence of official communication from government, public media speculative analyses will drive investor sentiment. It is therefore to the government's advantage to initiate discussion topics with rating agencies to clarify and inform stakeholders on key risk areas such as budget reviews, policy proposals and other key macroeconomic events [Ministry of Finance and Economic Planning].

viii. Maintain integrity and professionalism: Government must invest in information technology (IT) infrastructure to ensure that officials access basic IT services such as emails and websites. This is important to safeguard security of data, accountability and professionalism. This practice protects national interests, enhances trust from stakeholders such as investors and rating agencies [Ministry of Finance and Economic Planning; Central Bank].

ix. Maintaining updated data sites: Timely publication of data is a key requisite for enhancing transparency with investors and rating agencies on reporting, especially on government debt and other fiscal data. Hence, reports such as the Quarterly Public Debt Statistics Bulletins, Annual Borrowing & Recovery Plans, stock of public debt and Periodic Public Debt Reports must be published timely and must be available on government websites. Governments that score high transparency indicators in the credit rating process publishes report on the External Public Debt Register, Debt and Borrowing Policy, Medium Term Debt Management Strategy, Development Partner Funding and Monthly Debt Bulletin, Annual Debt Management Reports. These should be accessible on the Ministries of Finance websites. Such reports disclose detailed information on total nominal public and publicly guaranteed debt, debt service costs, debt structure (domestic and external), debt composition (by currency and creditors category), which is usually prone to speculation by economic researchers. [Ministry of Finance and Economic Planning; Central Bank]

5.2 During the Rating process

When analysts visit the country for physical consultations, the in-country visit is usually to validate data and other information they would have included in their report. It is important to engage the analysts to ensure that the assumptions and conclusions they make at the end of this process are based on factual and correct information. To ensure that a government is assigned an accurate rating, we recommend the following guide:

i. Participation in all stakeholders' meetings: It is recommended for at least one expert from the credit rating liaison team to participate in all meetings of scheduled by the rating analyst during the in-country visits. The representative of the liaison team should come up with a comprehensive outcomes report to be shared with responsible government officials and members of the Standing Committee on Sovereign Credit Ratings. This is a basis for consistency and coherence in communicating government's position on policy matters to both investors and rating agencies [Ministry of Finance and Economic Planning; Central Bank].

ii. Suggest meetings with key stakeholders to rating analysts: Rating analysts usually have a list of stakeholders to meet during their in-country visits. It is however essential for the liaison team to suggest or propose for analysts to meet certain entities or individuals that might share critical information about certain sector, or any other risk factors being considered. This is important to avert negative impressions, asymmetries and assumptions that might shape the analysts ideas as they prepare their outcome reports to the rating committee. Most rating analysts do welcome such requests and suggestions [Ministry of Finance and Economic Planning].

iii. Pitch for rating upgrade: The liaison team should prepare and pitch for a positive sovereign rating action when they meet with the rating firms during scheduled reviews. The team should develop a strategy focused on key areas that the government is doing well, providing convincing details on how their governments are addressing, or have addressed, challenges raised in previous reviews such as meeting their budget targets, policy consistency, reversing prolonged economic slowdown and strengthening fiscal position. The team should have confidence in their pitch, which could be stronger and justifiable if based on peer sovereign indicators [Ministry of Finance and Economic Planning].

iv. Engaging rating agencies at all levels of government: In addition to adequate preparations, best practices from other regions that have averted possible rating downgrades. This shows that African governments need to engage agencies at the highest level of government, especially when issues to do with free and fair elections, rule of law, policy certainty, judiciary independence and anti-corruption drives are amongst the rating agency's concern. This signals government's commitment to addressing investor concerns and aid market confidence [All arms of Government].

v. Provide consistent and transparent information: It is the responsibility of the liaison team to ensure that all contacts and presenters to the rating analyst, especially those from government departments, understand the information requirement and have updated data. Financial system information, economic indicators must be consistent from all counterparties [All government departments and agencies].

vi. Verify factual correctness of information in the draft rating report: After completion of all consultations and presentation to the credit rating committee, the primary analyst shares the draft rating report with the liaison team. It is critical for the liaison team to verify correctness of fact and data in the draft within the specified time of 24 to 48 hours, failure of which the agency normally proceeds to publish the report without further input from government [Ministry of Finance and Economic Planning].

5.3 Post rating phase

Despite the outcome of the rating process, it is critical to understand that analysts are constantly monitoring fundamentals in the sovereign. Even when the current outcome is not favourable, the activities of a government post the current rating largely determine the analyst approach in forthcoming reviews. To increase the chances of positive ratings outcomes in future review, we recommend the following guide:

i. Addressing factors that lead to rating upgrades: Every rating outcome is accompanied by a detailed report of key rating drivers that justifies the rating. The rating agencies also include in their reports a section on what could lead to a negative or positive rating outcome in forthcoming reviews. It is therefore important for the liaison team to monitor and measure progress towards factors that could lead to a positive rating action [Ministry of Finance and Economic Planning].

ii. Develop and implement a National Strategy on dealing with rating agencies: Governments, led by the liaison teams, should identify focus areas and develop national action plans for all stakeholders to collectively work towards improving credit ratings through monitoring of sovereign risk exposures. A comprehensive national strategy will guide all stakeholders, in and outside government, to coordinate their effort towards addressing negative factors raised by the rating agencies in previous reviews. The liaison team should coordinate ongoing internal engagements within the Ministry of Finance, in collaboration with the Central Bank, to monitor mitigation of risk exposures highlighted by rating agencies [Ministry of Finance and Economic Planning; Central Bank].

iii. Participate in the periodic sovereign methodology transparency meetings: While credit rating methodologies are publicly available on websites of rating agencies, understanding the details of how analysts assign weights and scores to each risk factor is quite complex. Therefore, it is a necessity for all technical experts from the Ministries and Central Banks to attend periodic methodology transparency workshops organized by the APRM, UNECA and its strategic partners. These workshops enhance understanding on the factors weighing down ratings as analysts from the three international CRAs simulate a sovereign credit rating exercise [Ministry of Finance and Economic Planning].

iv. Initiate proactive engagements with CRAs and investors: The liaison team, in collaboration with the investor relations desk, is encouraged to proactively engage with the rating agencies and investors, especially during periods of key macroeconomic events such as budget reviews, policy pronouncements, legislative proposals, key fiscal and monetary data metrics, budget reviews and state of the nation addresses. This is important to address information asymmetries that may be incubated through public media commentaries. Constant exchange of information is essential to build trust and confidence between the rating agencies and government officials [Ministry of Finance and Economic Planning].

v. Institute comprehensive and sustained engagements in public media: The ministry responsible for finance and economic planning is encouraged to consistently issue official communication on the government's position on policy matters through official media statements and interviews. It is critical for the ministry to issue an official media statement to respond to sovereign credit rating actions, highlighting their commitment to address the risk factors highlighted by rating agencies. This is crucial to minimise speculative actions by both public media and investors that may impact investors' sentiments if they are not timely challenged or factually corrected publicly. Hence, the liaison team should be supported by a strong communication team to facilitate timely issuance of official communication [Ministry of Finance and Economic Planning].

vi. Request analyst regular in-country visits: The analyst in-country visits are at the cost of the government if there is a contractual agreement with the rating agency. It is a norm for the analysts to undertake in-country visits twice a year. It is however beneficial for the liaison team to coordinate more regular visits off the fixed calendar for the analyst to familiarize themselves with the context and environment to reshape their sentiment. Especially when a sovereign is under watch for negative rating action [Ministry of Finance and Economic Planning].

vi. Enhance legislation of international credit rating agencies and mandate national regulators with enforcement: All African governments should enact legislation on credit rating services to, at least, be at par with international requirements to empower national regulators to effectively supervise and regulate international CRAs. As immediate measures, regulators may also, through issuing Rules and Guidelines, provide for licensing and monitoring to include the three international credit rating agencies. It's critical to develop regulatory capacities benchmarking with established regulators such as the South Africa's Financial Sector Conduct Authority (FSCA), which has stringent regulatory requirements similar to the G20 standards. [National Assembly, National Regulatory Authority].

vi. Adopt and implement the International Organization of Securities Commissions (IOSCO) Code of Conduct on Credit ratings: IOSCO is a global association of securities regulatory agencies that aims to establish and maintain worldwide standards for efficient, orderly and fair markets. It developed a Code of Conduct on Fundamentals for Credit Rating Agencies, providing a framework of cross-border principles and guidelines for the operation of rating agencies to protect the integrity of the rating process. This is to ensure that investors and issuers are treated fairly, and confidentiality of material information provided to them by issuers. Countries should therefore adopt and implement the code [National Regulatory Authority].

vi. Maintain Data: The International Monetary Fund (IMF) provides platforms such as the Special Data Dissemination Standard (SDDS), General Data Dissemination System (GDDS) and the Enhanced General Data Dissemination System (e-GDDS) for countries to disseminate their economic and financial data. To date, only 6 African countries are subscribed to SDDS – Egypt, Morocco, Tunisia, South Africa, Seychelles, and Senegal. It is important for countries to subscribe to such platforms for transparency and openness [National Statistics Bureau; Ministry of Finance and Economic Planning].

vi. Monitor rating actions: Sovereign ratings influence borrowing costs, investment flows, and the overall economic environment. Importantly, the rating process should not be confined solely to sovereign bond issuance, as it encompasses broader economic indicators and risk assessments that affect various financial instruments and sectors. Monitoring rating actions helps governments understand how their policies are perceived globally and make the necessary adjustments to maintain or improve their ratings [Central Bank; Ministry of Finance and Economic Planning].

6 APPEALING AGAINST A RATING OUTCOME

There are instances when a government does not agree with a rating outcome. One of the few options available is to appeal against the rating, for the agency to re-examine the key risk factors and their proxies. However, since there is no Appeals Authority, such an appeal is raised with the rating agency and in accordance with its own rules that are provided under the 'Procedures and Methodologies Used to Determine Credit Ratings'. This limits the chances of success. The following are some grounds for appeal:

i. Where the sovereign provides new material information that was not previously available to the analysts and rating committee that could materially alter circumstances of risk

ii. Where there is clear evidence that the analysts missed or misinterpreted to the rating committee some material information which have a significant bearing on the rating outcome.

iii. When the sovereign have clear evidence that the analyst is inexperienced and/unqualified to understand the complexities of its economy.

iv. When a rating is unsolicited and/or non-participatory and the sovereign wishes such rating to be discontinued.

v. When the agency deflects from the published ratings calendar without sufficient justification for such a deflection.

6.1. Appeals Procedure

The aggrieved sovereign may appeal by informing the primary analyst in writing of the intention to formally appeal the rating action that was agreed by the rating committee and provide information or evidence consistent with the grounds for appeal. This would be done within the time limit for comments that would be stipulated in the draft credit rating report or a credit rating announcement. The primary analyst, in consultation with the rating committee, may grant the sovereign additional time to provide the information to the extent that it would not conflict with the rating agency's legal obligation to timely publish a rating and it's not perceived as a delaying tactic. If the primary analyst and the rating committee deem that the appeal was warranted, the rating committee will be reconvened to discuss the rating action. Where changes are deemed to be necessary, a revised draft credit rating report will be presented to the rating committee and subsequently published.

7 CONCLUSION

Effectively managing sovereign credit ratings requires a strategic, transparent, and proactive approach. Governments should maintain accurate and up-to-date economic and fiscal data, ensuring transparency and regular communication with rating agencies. Addressing any discrepancies or concerns promptly is crucial to maintaining trust and credibility. Implementing robust economic policies, demonstrating fiscal discipline, and ensuring political stability are essential in showcasing a country's commitment to sound financial management. Additionally, seeking external support from international and regional organizations and adhering to global best practices can further enhance a country's creditworthiness.

APRM

Promoting Good Governance in Africa

African Peer Review Mechanism (APRM)
Email | info@aprm-au.org
Phone Number | +27 11 256 3400
Postal Address | Private Bag X09 Halfway House 1685 Midrand South Africa
Physical Address |230 15th Road Randjespark, Midrand Johannesburg, Gauteng South Africa 1685

aprm.au.int