

POLICY BRIEF



Re-setting Relations between Credit Rating Agencies and the Global South

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Abstract

The role of credit rating agencies (CRAs) has been part of the G20 dialogue since 2013, with the Financial Stability Board (FSB) report on “Credit Rating Agencies: Reducing Reliance and Strengthening Oversight.” This was followed by the 2017 Report of the G20 Eminent Persons Group report on Global Financial Governance and the 2023 UNDP report, Lowering the Cost of Borrowing in Africa: The Role of Sovereign Credit Ratings, which estimates that subjectivities in global credit ratings cost African countries \$75 billion annually. Despite these discussions, little progress has been made. The brief addresses key areas for reform, including re-evaluating asset categorisation, particularly for investments in technology and infrastructure, and refining CRA approaches to debt rescheduling. It also calls for a reassessment of African economies, especially those rich in critical minerals, which are often undervalued using traditional GDP metrics. Emerging frameworks like “Beyond GDP” offer pathways to better institutional and governance capacities. The G20 should endorse enhanced capacity for LICs/LMICs to engage with CRAs effectively and advocate for transparent methodologies. Supporting well-informed policies to regulate CRAs will help ensure fairer, more contextualised ratings, reducing the financial burden on developing countries.

Keywords: Credit Rating Agencies, CRA, Global Financial Governance,

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Diagnosis

The link between Credit Rating and the Cost of Borrowing, Impact on Service Delivery, SDGs, and Climate Commitments

African countries face some of the highest borrowing costs globally, largely due to structural economic and governance challenges, as well as the impact of low credit ratings. Credit ratings, issued by major Credit Rating Agencies (CRAs), play a critical role in determining the cost of borrowing for countries. Low ratings often translate into high-interest rates, making debt servicing expensive and limiting governments' fiscal space to invest in key development priorities.

Credit ratings indirectly affect the flow of Foreign Direct Investment (FDI) and private capital into Africa. Investors perceive lower-rated economies as high-risk, which discourages long-term investments in sectors critical for sustainable development. According to 2023 report by UNDP, African countries could save up to \$74.5 billion if credit ratings were more objectively assessed.¹ This amount exceeds 80% of Africa's annual infrastructure investment needs, estimated at \$93 billion,² and is over twice the cost required to reduce malaria by 90% (\$34 billion).³

The implications extend to the delivery of essential services and the achievement of Sustainable Development Goals (SDGs). High borrowing costs hinder governments from funding healthcare, education, and infrastructure projects. Limited access to affordable financing slows progress in poverty reduction, economic growth, and social protection, exacerbating inequalities across the continent.

¹ UNDP (2023). *Lowering the Cost of Borrowing: Addressing Biases in Credit Ratings for Africa*.

² African Development Bank (AfDB) (2022). *Africa's Infrastructure Investment Needs*.

³ WHO (2023). *World Malaria Report*.

Moreover, credit ratings impact Africa's climate commitments. Many African countries require concessional financing and green bonds to implement climate adaptation and mitigation strategies. However, unfavourable credit ratings make it difficult for these nations to access affordable green financing. This delays climate action, affecting commitments under the Paris Agreement and efforts to build climate resilience.⁴

To bridge these gaps, credit rating methodologies must evolve to reflect Africa's unique economic and developmental realities. More transparency in rating criteria, the inclusion of non-traditional metrics like natural capital and sustainability indicators, and improved engagement between African nations and CRAs are essential steps towards a more equitable credit assessment system.

Efforts to Address the Challenge

The challenges posed by credit rating agencies in Africa are not new. For example, the Independent Review of Multilateral Development Banks' Capital Adequacy report in 2022 addressed the role of CRAs extensively and it recommended strengthening communication with credit rating agencies to improve mutual understanding. Prior to that, the African Union (AU) first announced the establishment of an African Credit Rating Agency (AfCRA) in 2019, when African finance and economy ministers highlighted the negative impacts of low credit ratings.

The low ratings have been attributed to a wide range of inter-linking factors. The credit rating agencies only have a few offices in Africa, with credit analysts often visiting from London or Dubai, therefore there is a perception that local contexts

⁴ Paris Agreement (2015). *United Nations Framework Convention on Climate Change (UNFCCC)*.

(for example, the strength of the informal sector) are not understood or appreciated. Likewise, there is a view that CRA decisions may be biased against government fiscal and monetary intervention. At the same time, given there are only three major global rating agencies, there is a tendency for their ratings to be highly correlated, possibly reflecting an oligopolistic structure. Finally, historically, the CRAs have focused on business and investment indicators (following, for example, criteria in the World Bank Business Ready report (formerly Doing Business Report) that focuses on business climate rather than more country-specific indicators.

In 2024, AfriCatalyst and UNDP launched a joint credit ratings initiative aimed at helping African countries navigate the complexities of credit ratings. This initiative builds on findings from the 2023 report “Lowering the Cost of Borrowing,” which highlighted biases in credit rating methodologies that lead to disproportionately high borrowing costs for African economies.⁵

That initiative differs from other efforts in that it seeks to build a knowledge base among African policymakers through a centralised hub providing resources and tools; a concilium of senior advisors who provide strategic guidance to governments on improving credit assessments; and a community of practice. The initiative has supported regional workshops and global policy dialogues, with an expanded group of partners including the Brookings Institution, the AU African Peer Review Mechanism (APRM), the African Centre for Economic Transformation (ACET), the UN Economic Commission for Africa (UNECA), and the Open Society Foundations (OSF).

⁵ UNDP & AfriCatalyst (2023). *Navigating Credit Ratings for Sustainable Development*.

G20 Role

South Africa has proposed the establishment of a Cost of Capital Commission during its G20 Presidency. This Commission would include an expert review on the cost of capital for low- and middle-income countries. This could, in turn, address critical debt sustainability issues that open up fiscal space to finance the SDGs. More than twenty low-income African economies are either in debt distress or at high risk. The current situation is untenable. Africa's annual debt servicing costs was almost \$90 billion in 2024, and the United Nations says that 40% of African countries are spending more on debt repayment than on healthcare. A G20 Cost of Capital Commission, championed by South Africa and the African Union can be a strong signal of the G20 commitment to the provision of adequate and appropriately priced financing for Africa.

A Turning Point in History

While the recent decades have generally seen economic growth across Africa, a significant reduction in poverty, and an emerging middle class in many countries, that progress is fragile. We saw the COVID pandemic push tens of millions of people back into poverty across Africa. A recent African Transformation Index (ATI)⁶ from ACET shows that many countries' economies are not transforming, and many are regressing. And this is against a backdrop of the international aid architecture and global trading system being upended. It is clear there will be less grant and concessional finance available to Africa in the future, hence efforts must be re-doubled to lower the cost of commercial capital. According to the Institute of Strategic Studies (ISS),⁷ development finance from OECD countries to Africa nations was about \$60 billion in 2023, a quarter of which was provided by the US government.

⁶ African Center for Economic Transformation (2023). *African Transformation Index 2023*.

⁷ Institute for Strategic Studies (2025). *The Toll of USAID Cuts on Africa*.

The Institute for Strategic Studies estimates that 5.7 million more Africans citizens will enter extreme poverty due to the US cuts, and almost 20 million may enter extreme poverty by 2030. That does not account for additional reductions in development finance announced by the UK, or which may be likely from other EU member states given the pressure to invest in defense. At the same time, increases in US tariffs will acerbate Africa's finance crisis. Research from the Center for Global Development⁸ estimates that new tariffs could cost Lesotho 6% of GDP; Madagascar 2.2% of GDP; Mauritius 0.58% of GDP; and Botswana 0.40% of GDP.

⁸ Center for Global Development (2025). *The New US Tariff Regime Is Another Blow for Africa*.

Recommendations

The current credit rating methodologies used by major CRAs do not sufficiently account for Africa's development trajectory, economic transformation, and climate resilience investments. To address this challenge, the following policy reforms are recommended:

- 1. Advocating for Credit Rating Reforms:** The G20 should push for the adoption of methodologies that recognise Africa's unique development challenges and climate commitments. A more transparent and inclusive approach to credit rating assessments is crucial for ensuring fair evaluations.
- 2. Recognising the Value of Natural Capital and Critical Minerals:** Many African economies are resource-rich, yet their credit ratings fail to reflect the economic potential of critical minerals and renewable energy assets. Emerging frameworks like "Beyond GDP" offer a pathway for integrating environmental and social governance (ESG) considerations into credit evaluations.⁹
- 3. Enhancing Capacity to Engage with CRAs:** The G20 should support Low-Income Countries (LICs) and Lower-Middle-Income Countries (LMICs) in strengthening their ability to engage effectively with CRAs. This includes building local expertise, enhancing data collection, and promoting financial transparency to improve sovereign credit assessments.
- 4. Strengthening Regulation of CRAs:** A global framework for smart regulation of CRAs should be established to ensure consistency, accountability, and transparency in the rating process. This will prevent subjective biases that disproportionately affect African economies.¹⁰
- 5. Leveraging Development Finance for Credit Enhancement:** Development partners should expand the use of partial credit guarantees, blended

⁹ World Bank (2022). *Beyond GDP: Rethinking Economic Growth Metrics*.

¹⁰ Financial Stability Board (FSB) (2023). *Regulating Credit Rating Agencies*.

finance mechanisms, and de-risking tools to lower borrowing costs for African governments. These financial instruments can help attract private sector investment and improve sovereign credit profiles.

By implementing these reforms, African nations can secure more affordable financing, scale up infrastructure investments, and advance climate resilience while reducing the financial burden imposed by restrictive credit rating practices. The G20, multilateral institutions, and regional financial bodies must collaborate to drive a more just and sustainable global credit system.

T20 South Africa Convenors



The Institute for Global Dialogue (IGD)



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