SOVEREIGN
AFRICA RATINGS

NOV
2024

SAR
Sovereign Credit Rating
Open Day

PRESENTATION

CONTENTS

SAR SERVICES

01 Sovereign & Regional and Municipal Government Ratings

02 Corporate Ratings

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SAR PARTNERS

AFRICAN PEER REVIEW MECHANISM (Organ of the African Union)

ICRA RATING AGENCY

SINGULAR SYSTEMS

YUSRA SUSKUK

BRICS BUSINESS COUNCIL (CRA Alliance)

AFRICA ISLAMIC CAPITAL MARKETS, BANKING AND INSURANCE COMPANIES COMPANY LIMITED

VARIOUS INSTITUTIONAL INVESTORS

ACRA (NEW AFRICAN CREDIT RATINGS ASSOCIATION)

THE SURROGATE MEASURE PREDICAMENT

SOVEREIGN AFRICA RATINGS

THE SURROGATE MEASURE PREDICAMENT

LACK OF DIRECT MEASUREMENT

Traditional credit rating methods heavily depend on surrogate indicators like GDP growth, political stability, or debt-to-GDP ratios, which only indirectly relate to the actual risk of a country or corporation defaulting. This approach introduces a layer of subjectivity since the interpretation of these indicators varies and can be influenced by factors beyond financial health.

POTENTIAL FOR BIAS AND SUBJECTIVITY

The selection and interpretation of surrogate indicators can be subjective, influenced by the biases of the rating agency. For example, a nation's political climate or economic forecasts are assessed based on qualitative judgments, which may not consistently correlate with default events. These factors can be influenced by non-financial motives or outdated perceptions, leading to inaccurate assessments.

FAILURE TO REFLECT HISTORICAL DEFAULT BEHAVIOUR

Instead of assessing actual historical data on defaults, current credit rating systems often focus on proxies like sovereign debt levels or fiscal deficits. However, these proxies do not necessarily capture the likelihood of default, especially in countries with historically low default rates despite high debt levels.

THE DIRECT MEASURE YARDSTICK

01

Credit Scoring for Individuals

02

Predictive Maintenance in Manufacturing

03

Weather Forecasting

04

Disease Outbreak Prediction

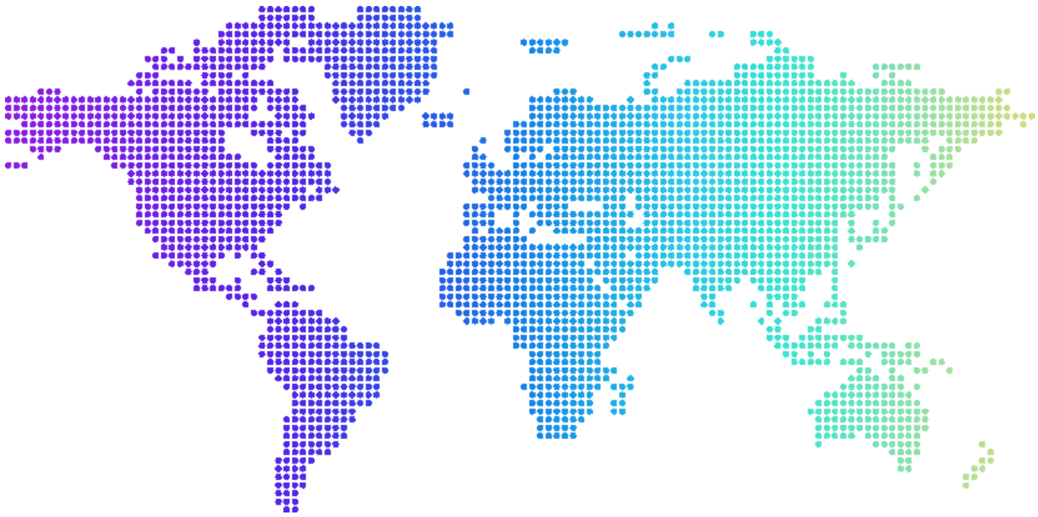
05

Customer Churn in Business Analytics

THIS IS AFRICA

Predictive Data

THIS IS AFRICA



01 Western Approach: Credit ratings in developed countries are based on indicators such as advanced industrial output, capital market liquidity, and sophisticated financial systems.

02 African Reality: Many African economies are resource-rich but lack the extensive financial infrastructure present in developed markets. Their economic activities are heavily reliant on commodities, which are subject to global price fluctuations and are often undervalued by traditional credit assessments.

03 Implication: Conventional ratings do not factor in the strategic importance of natural resources for long-term economic stability, nor do they accurately capture the resilience of informal sectors that sustain livelihoods in Africa.

04 Africa is adversely affected by high borrowing rates, lopsided resource exploitation, internal structural strife and imbedded ratings methodology distortions and hostility. Rating agencies myopia is among the challenges the continent faces.

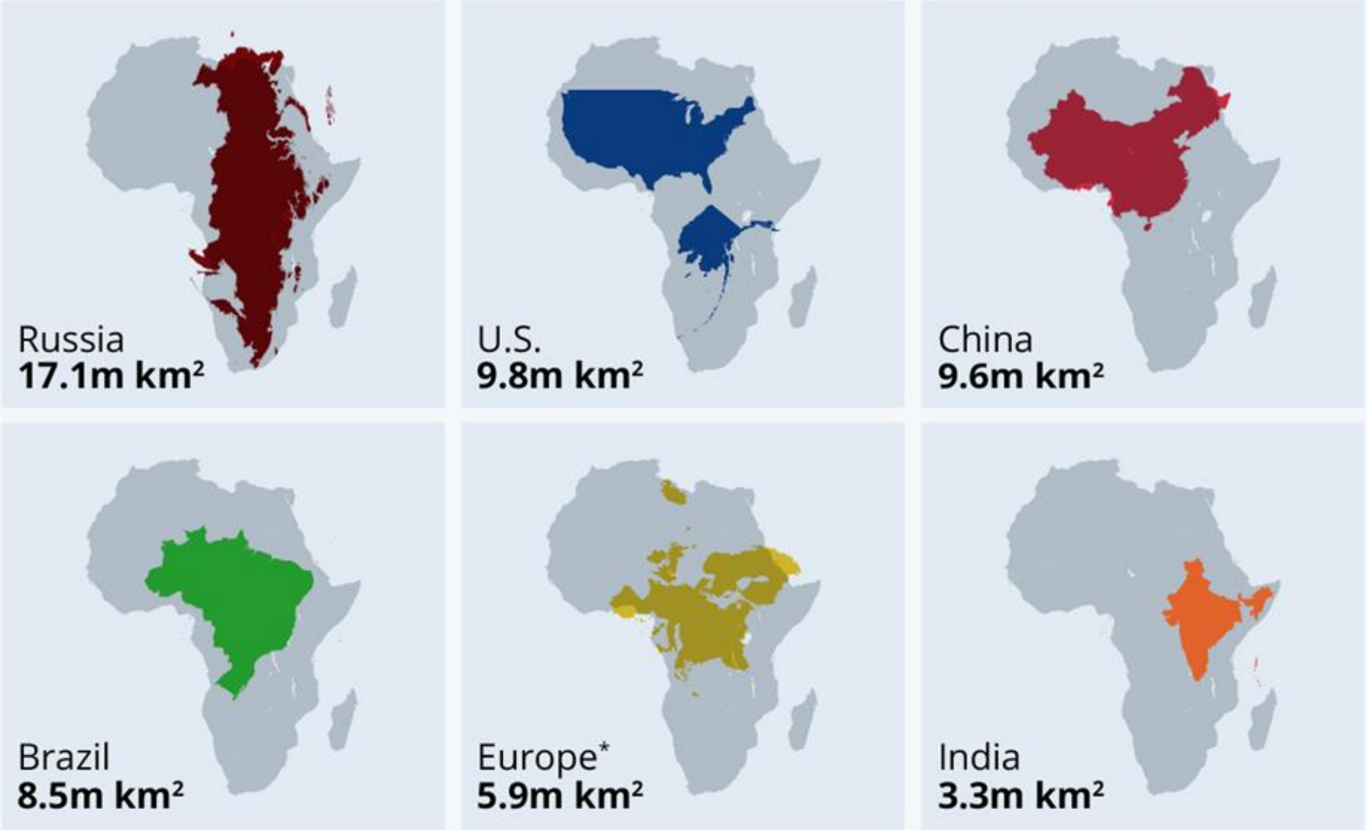
SOVEREIGN
AFRICA RATINGS

MEASURES OF AFRICA DISTORTED

The True Size of Africa

Comparison of Africa's land area to selected countries/regions

African continent **30.4m km²**



* excluding Russia.

Sources: CIA, World Population Review, Visual Capitalist

statista

SOVEREIGN
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METHODOLOGY CONSTRUCT

01

Notching is conducted at the variable level within the model to ensure that the scores correspond to the expected trends and limit excessive rating variations based only on subjective assessments. This practice ensures stable and fair credit ratings for sovereigns.

02

The methodology considers both qualitative and quantitative factors. The factors used to assess the credit quality of an issuer are empirically based, with inferences about repayment behaviour based on data derived from past credit cycles.

03

The methodology uses a numeric rating scale which makes it easily comprehensible for public consumption. Our numeric rating scale also aligns with the rating scales similar to those used by other credit rating agencies.

04

SAR's credit rating model produces ratings by scoring variables using predefined thresholds according to existing and proprietary credit risk guidelines.

05

In addition to conventional analytical considerations, SAR's sovereign rating approach includes consideration for natural resource endowment, resource beneficiation and natural growth rates for sovereigns as well as infrastructure development, which considers the proximities to maximum employment of factors of production.

CONSTRUCT

SOVEREIGN METHODOLOGY **KEY DIFFERENCES FROM TRADITIONAL METHODS**

SOVEREIGN METHODOLOGY KEY DIFFERENCES FROM TRADITIONAL METHODS

S&P GLOBAL RATINGS	FITCH RATINGS	MIS	SAR
Economic Assessment	Macroeconomic Performance, Policies and Prospects	Economic Strength	Economic strength
Institutional Assessment	Structural Features	Institutions and Governance Strength	Institutional strength
Fiscal Assessment	Public Finances	Fiscal Strength	Financial strength
External Assessment	External Finances	Susceptibility to Event Risk	Environmental, Social, and Governance
Monetary Assessment	Output/notching adjustment		Natural Resources
			Infrastructure Development

SAR SOVEREIGN RATING FRAMEWORK OVERVIEW

PILLARS AND ATTRIBUTES:			
PILLAR	**PILLAR WEIGHT**	**ATTRIBUTE**	**ATTRIBUTE WEIGHT**
Pillar 1: Economic strength	25%	GDP growth and relative size	16%
		Structural nature	9%
Pillar 2: Financial strength	30%	Debt profile	22%
		Local currency and financial markets	8%
Pillar 3: Institutional strength	20%	Institutional effectiveness	20%
Pillar 4: Environmental, Social, and Governance (ESG) Pillar	10%	Environmental	1%
		Social	4%
		Governance	5%
Pillar 5: Natural Resources	10%	Extraction and beneficiation	10%
Pillar 6: Infrastructure Development	5%	Infrastructure Commitment	3%
		Sustainable and Inclusive Development	2%

SOVEREIGN
AFRICA RATINGS

COMPARISON OF SAR'S APPROACH WITH THE **TRADITIONAL METHODS**

S&P GLOBAL RATINGS METHODOLOGY

Indicative Rating Levels

From the Combination of the Institutional and Economic Profile with the Flexibility and Performance Profile

		INSTITUTIONAL AND ECONOMIC PROFILE										
		Category	Superior	Extremely strong	Very strong	Strong	Moderately strong	Intermediate	Moderately weak	Weak	Very weak	Extremely weak	Poor
FLEXIBILITY AND PERFORMANCE PROFILE	Category	Assess-ment	1	1.5	2	2.5	3	3.5	4	4.5	5	5.5	6
	Extremely strong	1 to 1.7	aaa	aaa	aaa	aa+	aa	a+	a	a-	bbb+	bb+	bb-
	Very strong	1.8 to 2.2	aaa	aaa	aa+	aa	aa-	a	a-	bbb+	bbb	bb+	bb-
	Strong	2.3 to 2.7	aaa	aa+	aa	aa-	a	a-	bbb+	bbb	bb+	bb	b+
	Moderately strong	2.8 to 3.2	aa+	aa	aa-	a+	a-	bbb	bbb-	bb+	bb	bb-	b+
	Intermediate	3.3 to 3.7	aa	aa-	a+	a	bbb+	bbb-	bb+	bb	bb-	b+	b
	Moderately weak	3.8 to 4.2	aa-	a+	a	bbb+	bbb	bb+	bb	bb-	b+	b	b
	Weak	4.3 to 4.7	a	a-	bbb+	bbb	bb+	bb	bb-	b+	b	b-	b-
	Very weak	4.8 to 5.2	bbb	bbb	bbb-	bb+	bb	bb-	b+	b	b	b-	b-
	Extremely weak	5.3 to 6	bb+	bb+	bb	bb-	b+	b	b	b-	b-	b-	b-

Assigning ‘CCC+’, ‘CCC’, ‘CCC-’ and ‘CC’ ratings is based on “Criteria for Assigning ‘CCC+’, ‘CCC’, ‘CCC-”, and ‘CC’ Ratings,” Oct 1, 2012.

MIS METHODOLOGY

Factor	Sub-factor	Sub-factor Weighting	Metric / Sub-sub-factor	Metric /Sub-sub-factor Weighting
ECONOMIC STRENGTH	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 STRENGTH	Quality of Institutions	40%	Quality of Legislative and Executive Institutions	20%
			Strength of Civil Society and the Judiciary	20%
	Policy Effectiveness	60%	Fiscal Policy Effectiveness	30%
			Monetary and Macroeconomic Policy Effectiveness	30%
	Adjustments to Factor Score	0 to 3 notches	Government Default History and Track Record of Arrears	
		0 to 3 notches	Other	

MIS METHODOLOGY

FISCAL STRENGTH	Debt Burden	50%[1]	General Government Debt / GDP	25%
			General Government Debt / Revenue	25%
	Debt Affordability	50%[1]	General Government Interest Payments / Revenue	25%
			General Government Interest Payments / GDP	25%
	Adjustments to Factor Score	0 to 6 notches	Debt Trend: Historical Change in Debt Burden	
			Debt Trend: Expected Change in Debt Burden	
			General Government Foreign Currency Debt / GDP	
			Other Non-Financial Public Sector Debt / GDP	
			Government Financial Assets including Sovereign Wealth Funds / GDP	
		0 to 3 notches	Other	
SUSCEPTIBILITY TO EVENT RISK	Political Risk	Minimum Function[2]	Domestic Political and Geopolitical Risk	
	Government Liquidity Risk	Minimum Function[2]	Ease of Access to Funding	
		0 to 2 scoring categories	Adjustment to Sub-factor Score High Refinancing Risk	
	Banking Sector Risk	Minimum Function[2]	Risk of Banking Sector Credit Event (BSCE)	
			Total Domestic Bank Assets / GDP	
		0 to 2 scoring categories	Adjustment to Sub-factor Score	
	External Vulnerability Risk	Minimum Function[2]	External Vulnerability Risk	
		0 to 2 scoring categories	Adjustment to Sub-factor Score	
	Adjustment to Factor Score	0 to 2 scoring categories		

FITCH RATINGS METHODOLOGY

Sovereign Analytical Pillars – SRM Weights

Analytical pillar	Structural features	Macroeconomic performance, policies & prospects	Public finances	External finances
SRM weights (%)	53.5	10.1	18.5	17.9

Source: Fitch Ratings

SRM Rationale

SRM variables (%)	Measure	Impact	Weight (%)	Coefficient
Real GDP growth volatility	Latest	Negative	4.6	-0.728
Consumer price inflation	3-year centred average	Negative	3.4	-0.067
Real GDP growth	3-year centred average	Positive	2.0	0.065
Overall weight in SRM			**10.1**	

Source: Fitch Ratings

SRM Rationale

SRM variables	Measure	Impact	Weight (%)	Coefficient
Reserve-currency flexibility	Latest	Positive	7.3	0.509
Sovereign net foreign assets (% of GDP)	3-year centred avg.	Positive	7.4	0.011
Commodity dependence	Latest	Negative	1.2	-0.004
Foreign-exchange reserves (months of CXP)[a]	Latest	Positive	1.5	0.029
External interest service (% of CXR)	3-year centred avg.	Negative	0.4	-0.007
Current account balance + net inward foreign direct investment (% of GDP)	3-year centred avg.	Directional	0.1	0.001
Overall weight in SRM			**17.9**	

SRM Rationale

SRM Variables	Measure	Impact	Weight (%)	Coefficient
Governance indicators	Latest	Positive	21.4	0.077
GDP per capita	Latest	Positive	12.4	0.038
Share in world GDP	Latest	Positive correlation with size	13.9	0.627
Years since default or restructuring event	Latest	Negative	4.6	-1.822
Broad money supply (% of GDP)	Latest	Positive	1.2	0.158
Overall weight in SRM			53.5	

Source: Fitch Ratings

SRM Rationale

SRM variables	Measure	Impact	Weight (%)	Coefficient
Gross general govt debt/GDP	3-year centred avg.	Negative	8.9	-0.023
General govt interest (% of revs)	3-year centred avg.	Negative	4.5	-0.044
General govt fiscal bal./GDP	3-year centred avg.	Directional	2.4	0.044
FC govt debt/gross govt debt (%)	3-year centred avg.	Negative	2.7	-0.007
Overall weight in SRM			**18.5**	

Source: Fitch Ratings

FITCH RATINGS METHODOLOGY

Qualitative Overlay (QO)

“**The QO is used to provide a subjective assessment**, consistent with the criteria, of key factors within these rating criteria that are not able to be fully incorporated or reflected in the Sovereign Rating Model (SRM). **The QO comprises a rating adjustment system applied to the SRM output**, with a potential **notching** range of **+2/−2 for each of the four analytical pillars** (structural features, macro, public finances and external finances) and an **overall rating adjustment range of +3/−3 for each rating**”

Fitch rating South Africa - 07 Jul **2022: 'BB-' with a Stable Outlook**

SRM Output	QO Adjustment	Factor
BBB-	-1 Notch	socioeconomic environment
	-1 Notch	weak growth prospects
	-1 notch	Uncertainty on ability to stabilise debt/GDP

17 Jul **2023** and 13 Sep **2024**: ‘**BB-**’ with a **Stable Outlook**

SRM Output	QO Adjustment	Factor
BB+	-1 Notch	weak growth prospects
	-1 Notch	Uncertainty on ability to stabilise debt/GDP

OBJECTIVE DATA ANALYSIS

SAR's rating process through its variable level notching eliminates bias and subjectivity and ensures consistent methodology application in assigning ratings.

SAR's model comprises 70% quantitative variables that are numerically measured and scored using predefined thresholds.

Weights for assessment factors are disclosed up to the variable level instead of limiting this to the pillar or attribute level.

SAR's rating process through its variable level notching eliminates bias and subjectivity and ensures consistent methodology application in assigning ratings.

SAR VARIABLE LEVEL NOTCHING

Variable	Score Thresholds										Variable Score	Notching	Notching Comment	Variable score after notching	Variable Weight	Weighted Score	SAR Rating Score
	1	2	3	4	5	6	7	8	9	10					100,0%	67,1%	67,1
GDP growth rate (%)	-0.5% - 1.4%			1.5% - 3%				3.1% and above			7	0	Neutral	7	6,0%	4,2%	4,2
GDP growth volatility (using business cycle leading indicator as proxy) [% change]	1,8 - 4,5			1,0 - 1,7		0,4 - 09		0,2 - 0,3	0,1 - 0,2	<=0,1	10	0	Neutral	10	2,0%	2,0%	2,0
GDP per capita (US$)	100 - 1000			1500 - 15000				15000 - 25000			5	0	Neutral	5	5,0%	2,5%	2,5
Share in peer group GDP	0% - 5%			5,1% - 20%				20,1% - 50%			10	0	Neutral	10	2,0%	2,0%	2,0
Share in world GDP	0% - 0,009%			0,01% - 0,2%		0,21% - 0,49%		0,5% - 1%			6	1	Strong	7	1,0%	0,7%	0,7
Export diversification index	6,5	6	5	4,5	4	3,5	3	2	1	0,1	10	0	Neutral	10	2,0%	2,0%	2,0
Current account balance as percentage of GDP (%)	-4% and worse			-3,9% - 2%				2,1% - 5%			6	0	Neutral	6	2,0%	1,2%	1,2
General Government Revenue (% of GDP)	5% - 10%			10% - 14,9%				15% - 30%			8	-1	Weak	7	5,0%	3,5%	3,5

SAR CONVERSION TABLE: SAR NUMERIC RATING SCALE

SOVEREIGN AFRICA RATINGS

SOVEREIGN AFRICA RATINGS: CONVERTING SCORES INTO RATINGS

	SAR Tier Grade	Points Allocation		SAR Numeric Rating System (%)	Long Term	Short Term
Investment Grade ≥ 50%	1 - Exceptional (Prime): ≥ 80%	Tier 1: 800+	1	≥80	AAA	A+
	2 - Very Good (High Grade): 70% - < 80%	Tier 2: 700-799	2	76,7 – 79,9	AA+	A
			3	73,4 – 76,6	AA	
			4	70 – 73,3	AA-	
	3 - Above Average (Upper Medium Grade): 60% - < 70%	Tier 3: 600-699	5	66,7 – 69,9	A+	A-
			6	63,4 – 66,6	A	
			7	60 – 63,3	A-	
	4 – Average (Low Medium Grade): 50% - < 60%	Tier 4: 500-599	8	56,7 – 59,9	BBB+	B+
			9	53,4 – 56,6	BBB	
			10	50 – 53,3	BBB-	
Speculative Grade < 50%	5 - Below Average: (Non-Investment Grade) 40% - < 50%	Tier 5: 400-499	11	48,4 – 49,9	BB+	B
			12	46,7 – 48,3	BB	
			13	45,1 – 46,6	BB-	
			14	43,4 – 45,0	B+	B-
			15	41,8 – 43,3	B	
			16	40 – 41,7	B-	
	6 – Poor (Substantial Risks): 30% - <40%	Tier 6: 300-399	17	36,7 – 39,9	CCC+	C
			18	33,4 – 36,6	CCC	
			19	30 – 33,3	CCC-	
	7 - Very Poor (Extremely Speculative): 20% - < 30%	Tier 7: 200-299	20	26,7 – 29,9	CC+	
			21	23,4 – 26,6	CC	
			22	20 – 23,3	CC-	
	8 - Default: < 20%	Tier 8: 0-199	23	0 – 19,9	D	D

AFRICA SOVEREIGN DEBT MARKET H1-2024

COUNTRY	ISSUE DATE	AMOUNT (US$B)	PURPOSE	TENOR	COUPON	SUBSCRIPTION
Côte d'Ivoire	23/01/2024	1.1 1.6	Refinance existing debt and finance investments	9-year 13-year	7.875% 8.25%	3x
Benin	06/02/2024	0.75	Finance budget and capital projects	14-year	8.375%	6.7x
Kenya	12/02/2024	1.5	Financing buyback of maturing bonds	7-year	10.375%	3.3x
Senegal	04/06/2024	0.5 0.25	Finance budget and support economic reforms	7-year	7.75%	2x

Source: APRM

Thank You

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