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COMMENTARY

Why strengthening sovereign credit ratings is a collective responsibility

Improving credit rating requires rating agencies to reduce subjectivity

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Expensive debt threatens to undermine Africa's development prospects, forcing many governments to decide between servicing debt and investing in their people.

Global credit ratings agencies influence the cost of borrowing by determining how risk is priced. Unfortunately for most African countries, this determines not only who gets credit but also how much and at what cost.

Africa faces a $250 billion annual financing gap for the Sustainable Development Goals (SDGs) and a $90 billion infrastructure gap, far exceeding available domestic and external resources.

With most African countries now classified as middle-income, access to concessional financing is severely constrained, making borrowing a necessity.

Improving credit ratings for African countries requires reducing subjectivity in the ratings process, which is often exacerbated by data scarcity and capacity constraints.

In addition to achieving fairer outcomes, this would help to reframe Africa's development financing narrative, not just in terms of lower debt service payments, but also by increasing investment inflows to the continent.

A 2023 report published by the United Nations Development Programme (UNDP) estimates that if African countries could borrow at rates determined by a less subjective process, total savings could exceed $74 billion.

While many African countries spend nearly seven times more of their own budgets on development (16.7 percent of GDP) than they receive in aid (2.5 percent of GDP), there is still a sizeable development investment gap.

The same report estimates that Nigeria, Kenya and Botswana could have received an additional $3.9 billion, $2.7 billion and $103 million in financial inflows, respectively, if their credit ratings were improved.

African countries could also save $28 billion in interest costs. Such financing is vital for accelerating the attainment of the SDGs.

For instance, $12.5 billion could vaccinate 70 percent of the African population, and $34 billion could reduce malaria by 90 percent.

Improving sovereign credit rating requires urgent action by ratings agencies to reduce subjectivity, notably by enhancing transparency in their methodologies.

It also requires African countries not only to strengthen their policy frameworks, but also to be more informed, prepared and supported.

This is why UNDP has partnered with AfriCatalyst to launch a new initiative aimed at building a more equitable financial environment for African countries.

This initiative will support African policymakers to understand the ratings process by providing access to expert technical support and improved data access and by promoting proactive engagement with credit rating agencies to fix Africa's credit ratings process.

The upcoming Summit of the Future in September, co-facilitated by Germany and Namibia, will announce a 'Pact for the Future.'

Adequate and affordable development financing must be part of the Pact, and enhanced credit ratings will open new doors for African countries to achieve economic sovereignty and sustainable economic transformation.

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UNDP report published in 2023

Africa's future is contingent upon the ability of its governments to fully finance critical development investments, and reducing the costs of borrowing by transforming credit ratings processes can help get us there.

They say, "it takes a village to raise a child". In this case, it takes concerted effort by a wide array of stakeholders to get this done.

Encouragingly, a strong interest in such constructive engagement was expressed by African ministers and senior executives from credit rating agencies during high-level events co-hosted by UNDP and AfriCatalyst.

Our approach to enhancing financing for development in Africa is concrete, measurable and feasible.

It presents an opportunity that African countries have to improve their credit ratings through better preparation and proactive engagement with credit rating agencies, and in turn reduce their cost of borrowing and attract more capital, either through bonds or foreign direct investment.

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Canadian firm not free yet, a year after Kenyan project exit

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THE EASTAFRICAN

Africa Oil Corp still has liabilities amounting to $1.8 million for its operations in Kenya and another claim of an unspecified amount from the local community, a year after it exited the three oil blocks in Turkana oilfield.

Africa Oil, a Canadian oil and gas company, in a report to its shareholders for the first quarter of this year, put its "accounts payable and accrued liabilities" at $11.8 million down from $14.2 million in December last year relating to its exit from Blocks 10BB, 13T and 10 BA on June 30.

"Accounts payable and accrued liabilities mainly relate to liabilities, exit and office close-down costs associated with the withdrawal from Kenya," said Africa Oil in its report to shareholders for March 2024.

Its liability is likely to increase as the company discloses it has since been informed of another claim of an unspecified amount from the local community.

After the exit of its subsidiary, Africa Oil Kenya BV, the parent company revealed in its half-year results for 2023 that it had settled $15.5 million between April and June in 2023 to the Kenya Revenue Authority and other undisclosed partners. The firm says it is still awaiting the government's approval to transfer its interests and future obligations in the three oil blocks to British oil explorer Tullow Oil.

Until May 2023, the three blocks were owned jointly by Tullow Oil, which had a 50 percent stake, TotalEnergies (25 percent) and Africa Oil (25 percent). However, Africa Oil and TotalEnergies left the joint venture "unequivocally and unconditionally" raising doubts on the viability of a project the country had once staked its hopes of altering its economic fortunes by joining the oil-producing club.

On May 23, 2023, Africa Oil announced its withdrawal from the entirety of the production sharing contracts and joint operating agreements for Blocks 10BB, 13T, and 10BA, and wrote to the Energy ministry asking it to transfer all its rights and future obligations to the remaining joint venture partner, Tullow Oil.

Tullow, which now owns 100 percent of the blocks, has since informed Africa Oil of pending liability to the local community.

"The company has been notified by the operator of the project about a claim made against the operator by local communities in relation to past operations which may relate to the period prior to June 30, 2023," said Africa Oil.

Africa Oil ended its interest in the Turkana oil project in May, opting to concentrate in regions with high petroleum potential. It still has interests in Nigeria, South Africa, Equatorial Guinea and Namibia.

A Tullow Oil rig expert in the Ngamia 3 oil site in Turkana County. Picture: File