



**The 4th Specialized Technical Committee on
Finance, Monetary Affairs, Economic
Planning and Integration
Experts Meeting
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Accra, Ghana**

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**APRM SUPPORT TO MEMBER STATES ON INTERNATIONAL CREDIT RATING
AGENCIES**



APRM Support to Member States on International Credit Rating Agencies

**Technical Documents for the 4th African Union (AU)
Specialised Technical Committee (STC) on Finance,
Monetary Affairs, Economic Planning and
Integration**

Accra, Ghana
9 – 14 March 2020

Date of Submission: January 2020

LIST OF DOCUMENTS

1. Resolution of the 3rd STC on APRM support to Member States in the field of ICRAAs
2. Concept note and Road Map
3. Policy Framework on support to AU Member States in the field of ICRAAs
4. Terms of Reference for a feasibility study of establishing an African Credit Rating Agency
5. Statement on APRM proposed AU Assembly theme for 2021

PREAMBLE

The African Peer Review Mechanism (APRM) participated in the 3rd STC on Finance, Monetary Affairs, Economic Planning and Integration and presented the African Union (AU) initiative on the APRM support to Member States in the field of International Credit Rating Agencies (ICRAs). The presentation was made pursuant to Assembly Decision Assembly/AU/Dec.631 (XXVIII) adopted at its 28th Ordinary Session held in Addis Ababa, Ethiopia in January 2017, which directed the APRM to provide support to Member States in the field of Rating Agencies. The 3rd STC adopted the following resolutions:

- i. Request the APRM and AUC to develop a concrete proposal on the support to Member States on International Credit Rating Agencies (ICRAs), and carry out a feasibility study on the creation of an African credit rating Agency to be presented to the Fourth STC on Finance, Monetary Affairs, Economic Planning, and Integration; and,
- ii. Further request the AUC to submit the proposal on the theme of the 2021 AU summit to the Ministerial Committee on Agenda 2063, which is mandated to consider Annual Themes.

It is to this background that the APRM makes submission of Technical Documents for the 4th STC, scheduled to take place from 9 to 14 March 2020 in Accra, Ghana.

CONCEPT NOTE

1. Introduction

The past ten years has seen a significant rise in African governments seeking sovereign credit ratings from the three International Credit Rating Agencies (ICRAs) in order to access global capital markets. The main objectives are; deepen local capital markets, raising capital for public infrastructure projects, attracting more foreign direct investments and supporting private sector access to the global capital markets. The value of foreign currency-denominated bonds issued by African governments per year rose from US\$2 billion in 2009 to approximately US\$27.1 billion in 2018. To date, ten African countries with the highest value of foreign currency borrowing through bond issuance, hold a total of US\$113.5 billion in outstanding Eurobonds. As at 31 December 2018, a total of 21 African countries had issued Eurobonds to support government budgets and finance infrastructure investment. The African Capital Market Watch 2018 reports that approximately 38 percent of the capital flow into African markets are through sovereign debt instruments.

Currently, 32 African countries have sovereign ratings from at least one (or all) of the three international rating agencies. However, besides Botswana, Egypt, Libya, Morocco, Mauritius, Namibia, South Africa and Tunisia, all the other African countries were assigned an initial sovereign rating of sub-investment grade (junk status). Of the eight countries that received an initial investment grade sovereign rating, only four of them - Botswana, Morocco, Mauritius and South Africa (only with Moody's) - have managed to maintain it to date. Historical data shows that, no African country has managed to break through the investment grade ceiling from 'junk status'. Rating outlooks have generally been 'negative' for most African countries indicating that their credit ratings are likely to be downgraded. There has been a total of 52 downgrades activities compared to only 25 upgrades and 123 negative changes in outlooks compared to only 23 positive changes in outlooks.

2. Challenges of AU Member States with ICRAs

Studies by Olabisi and Stein (2015)¹ and Pretorius and Botha (2017)² have presented evidence that challenges the consistency and fair application of both qualitative and quantitative risk indicators in the

¹ Olabisi, M. and Stein, H., 2015. Sovereign bond issues: Do African countries pay more to borrow?. *Journal of African Trade*, 2(1-2), pp.87-109.

determination of sovereign credit ratings of African countries. The credit rating models have high coefficients on qualitative institutional and fiscal variables such as governance effectiveness, rule of law, control of corruption, policy credibility, political risk, external vulnerability risk and policy effectiveness. This rating criteria undermines the economic strength and potential growth embedded in African economies as it is inclined towards the assumption that African governments are politically vulnerable, ineffective and inefficient in managing sovereign debts. Analysts critique that sovereign credit rating analysis makes little to no distinction between political administrative challenges of African countries and their respective government's ability to repay their sovereign debts. These qualitative factors are judged purely based on the ideological persuasion of the lead credit analyst on whom the whole rating process depends on, which calls into question their accuracy and objectivity.

Furthermore, ICRAs have been criticized for displaying subjectivity and biases by assigning widely distinct sovereign ratings to countries that have relatively similar macroeconomic indicators. For example, they have assigned better rating to sovereigns with crises conditions in Europe (Greece, Portugal and Italy) even during crisis periods whilst they justify their reservations in upgrading the fastest growing African countries whose economies are performing well (Ethiopia, Cote d'Ivoire, Rwanda and Senegal). To date, no African country has ever been upgraded from 'junk status' to investment grade, in spite of their relatively high economic growth levels and the long-term economic potential, which ICRAs dismiss as fragile growth. Compared to the political and socio-economic situation in other countries of similar characteristics in other continents, the state fragility as applied to the African context is contestable.

In addition to high economic growth, improved social environment, financial deepening and industrialization witnessed over the past decade, the 'junk status' rating for African countries is contestable for the following reasons. First, there is high volume of concessionary loans to African countries that are not subject to credit ratings in which lenders are willing to commit their capital for long-term periods between 20 and 30 years. Second, 'junk' bonds are classified as highly risky and speculative, hence should be difficult to sell. On the contrary, almost all the long-term sovereign bonds issued by African countries are often over-subscribed. Lastly, international fund managers are constantly building high yield curves for African governments to issue sovereign debt with different maturities and covenants. These commitments and interests are proof that the creditworthiness of most African states may not be as highly speculative as portrayed by the ICRAs.

² Pretorius, M. and Botha, I., 2017. The Determinants of Sovereign Credit Ratings in Africa: A Regional Perspective. In *Advances in Applied Economic Research* (pp. 549-563).

A number of African governments have on different occasions issued statements registering their dissatisfaction towards rating agencies' deflation from their scientific rating processes. The Nigerian government in February 2014 appealed against Standard and Poor's decision to put Nigeria under "credit watch" with an intention to downgrade disregarding the positive macroeconomic developments achieved since the country's previous rating action. In September 2015, The Government of Zambia issued a statement challenging the correctness of an unsolicited rating downgrade from Moody's, in which the Zambian Government was not consulted. The rating action was also not reflective of the country's 5 percent economic growth in the third quarter. In August 2017, The Government of Namibia issued a statement challenging the accuracy of Moody's decision to downgrade the country's credit rating from investment grade to junk status without proper consultation with the government representatives. The Namibian Government strongly believed that the substantive rating change was premature, speculative and should have been preceded by an in-depth assessment and engagement with its authorities instead of a "desk review" by the rating agency. The Government of Tanzania, in March 2018, published a statement criticising Moody's decision to impose a negative outlook on the country's first international credit rating without consultations with government representatives to discuss any queries they could have had during their review.

3. Addressing ICRA challenges

After noting the number of African governments facing challenges in dealing with rating agencies, the 28th Ordinary Session of Heads of State of the African Union, held in Addis Ababa, Ethiopia in January 2017 adopted Decision Assembly/AU/Dec.631 (XXVIII) that directs the African Peer Review Mechanism (APRM) to provide support to its member states in the field of ICRA. In implementing the AU Assembly decision, the APRM seeks will hold a number of expert meetings and consultations, where various options, recommendations and proposals will be considered, which include;

- a) Developing a Policy Framework to guide the provision of support to African countries on ICRA.
- b) Establishing a Research and Advisory Bureau for providing support to African countries on ICRA.
- c) Establishing an African benchmark of credit rating indicators.
- d) Continental regulatory framework that supervises the activities of ICRA on the continent.
- e) Establishment of a Pan-African Rating Agency.

It is envisaged that through consultations with your both continental and international organisations, the APRM will come up with practical mechanisms to support African countries in addressing the challenges of ICRA.

4. Roadmap for implementation

The following is the draft roadmap for implementation of the Decision in collaboration with the following partners and stakeholders:

- a) Association of African Central Banks;
- b) Committee of APRM Focal Points;
- c) AU Policy making bodies; Executive Council and PRC;
- d) International Development Banks;
- e) Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration
- f) The Credit Rating Industry

CALENDAR				
ITEM	ACTIVITY	PROCESS	STATUS/ TENTATIVE DATES	RESPONSIBILITY
1.	Interim Adhoc Committee Meeting in Johannesburg, South Africa (1)	Interpretation of the Decision and Defining of Roadmap	Complete (2-3 December 2018)	APRM
2.	Interim Adhoc Committee Meeting in Pretoria, South Africa (2)	Developed TOR and Review the Draft Policy Framework	Complete (1 st March 2019)	APRM
3.	The 3 rd African Union Specialized Technical Committee in Cameroon, Yaoundé	Reviewed and Recommended the roadmap	Complete (4 th – 8 th March 2019)	APRM and STC
4.	The 1 st Adhoc Committee meeting in Johannesburg, South Africa	Adopted the TOR and the Policy Framework	Complete (7 th – 8 th June 2019)	APRM
5.	Consultation with the Association of African Central Banks (AACB) in Kigali, Rwanda	Consultation and Validation of the Proposed Policy Framework	Completed (11 July 2019)	APRM
6.	Draft Framework at the Focal Points Meeting	Presented Policy Framework for noting	Completed (11 August 2019)	APRM
7.	International Consultations in Africa, Europe and Russia	Consultation with stakeholders at the national, regional and international	In Progress (March 2020)	APRM
8.	Joint Adhoc Committee and Member States Consultation Meeting in Addis Ababa, Ethiopia	Validation of the proposed Policy Framework	April 2020	APRM: AUC Department of Economic Affairs
9.	Tabling the Draft Policy Framework to the 4 th STC on Finance, Monetary Affairs, Economic Planning and Integration in Ghana, Accra	Recommendation	March 2020	APRM; STC
10.	Tabling of the Revised Draft Framework at the APR Panel Meeting	Review and recommendation	April 2020	APRM; APR Panel
11.	Tabling of the Revised Draft Framework at the Focal Points Meeting	Review and direction	May 2020	APRM; Focal points Committee

12.	Tabling the Policy Framework to the Permanent Representative Committee (PRC) in Addis Ababa, Ethiopia	Approval and Recommendation	June 2020	APRM; PRC; AUC Department of Economic Affairs
13.	Tabling the Framework at the 34th General Assembly of the AU Heads of State and Government for Decision in Addis Ababa, Ethiopia	Decision	February 2021	APRM; PRC; AUC Department of Economic Affairs



**AFRICAN PEER REVIEW MECHANISM
SUPPORT TO AFRICAN UNION MEMBER STATES
IN THE FIELD OF CREDIT RATING AGENCIES**

DRAFT POLICY FRAMEWORK

2019

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LIST OF ACRONYMS

ACB – African Central Bank

ACBF – African Capacity Building Foundation

AfDB – African Development Bank

AIB – African Investment Bank

AMF – African Monetary Fund

APR – African Peer Review

APRM – African Peer Review Mechanism

ARC – African Risk Capacity

AU – African Union

CRA – Credit Rating Agency

ESMA – European Securities and Market Authority

ICRAs – International Credit Rating Agencies

IOSCO – International Organisation of Securities Commissions

OSAA – Office of the Special Advisor on Africa

PRC – Permanent Representatives Committee

RECs – Regional Economic Communities

SEC – Securities Exchange Commission

STC – Specialized Technical Committee

UNDP – United Nations Development Programme

UNECA – United Nations Economic Commission for Africa

I. BACKGROUND

1. The Policy Framework (hereinafter referred to as the “Framework”) defines the scope and mechanisms for the provision of support to African Union (the “AU”) Member States (“sovereigns”) in their engagements with international Credit Rating Agencies (the “CRAs”). The Framework serves as a guide to support AU Member States: (i) prepare for their credit rating assessments, (ii) ensure a judicious and systematic credit rating assessment exercise and, (iii) manage the post-rating appeals process and implementation of recommendations. The support mechanisms seek to ensure that scientific methods of risk assessment are consistently applied in rating AU Member States. Accordingly, the mechanism provides tools for evaluating and managing the practices of CRAs on the institutional, fiscal, economic and political affairs of AU Member States.

2. The 4th General Assembly of the Forum of Former African Heads of State and Government - Africa Forum held in Addis Ababa, Ethiopia from the 2nd to 3rd April 2016 proposed that the APRM should explore the possibility of playing a critical role in addressing the challenge of International Credit Rating Agencies (the “ICRAs”) in Africa. The Forum convened to discuss Africa’s development agenda under the theme “Strengthening the governance of Africa’s mineral resources and combating illicit resource flows from the continent towards the effective implementation of Agenda 2063, the Sustainable Development Goals and the 2030 Agenda for Sustainable Development”.

3. The APRM was established in 2003 by the African Union in the framework of the implementation of the New Partnership for Africa’s Development (NEPAD) and is an autonomous entity of the AU, which is a mutually agreed instrument, voluntarily acceded to by AU Member States as an African self-monitoring mechanism of good governance. The APRM has the mandate to ensure that the policies and practices of participating states are in conformity with the agreed political, economic and corporate governance values, codes and standards, and to achieve mutually agreed objectives in socio-economic development contained in the Declaration on Democracy, Political, Economic and Corporate Governance.

4. The APRM support to Member States in the field of rating agencies was further deliberated and adopted by the 25th African Peer Review Forum of Heads of States and Government (the “APR Forum”) held in Nairobi, Republic of Kenya, in August 2016. It was subsequently incorporated into the APRM 2016 -2020 Strategic Plan that was also adopted by the 25th APR Forum.

5. The AU Assembly of Heads of State and Government through Decision Assembly/AU/Dec. 631 (XXVII) adopted at its 28th Ordinary Session held in Addis Ababa, Ethiopia in January 2017 directs the “APRM to provide support³ to Member States⁴ in the field of Rating Agencies⁵”.

³ “APRM support” herein refers to any short, medium and long-term programmes that address the needs of Member States in the area of access to capital, investment and economic policy advice as deemed necessary to ensure that ratings are a true and fair reflection of the state of affairs in a rated Member State. As defined in the operational and oversight mechanisms of the Framework, such support shall include: (i) provide technical and policy advice at the request of a Member State to the pre-rating preparatory phase, conduct of the rating assessment and the post rating phase, (ii) undertake thematic and operational research to inform policy and, (iii) facilitate Member States engagement with various international platforms on the subject.

⁴ “Member States” herein means sovereign states that have ratified or acceded to the Constitutive Act of the African Union to become Member States to the African Union.

6. The Executive Council of the AU approved the recommendation of the Permanent Representatives Committee (the “PRC”), Sub-Committee on Budget, Finance and Administration Matters to allocate a programme budget to the APRM to operationalize Decision Assembly/AU/Dec. 631 (XXVII) on APRM support to Member States in the field of rating agencies.

7. Pursuant to the Assembly Decision Assembly/AU/Dec. 631 (XXVII), the APRM Secretariat presented its proposal of mechanisms to support Member States in the field of rating agencies to the 3rd AU Specialized Technical Committee (the “STC”) on Finance, Monetary Affairs, Economic Planning and Integration held on the 7th – 8th of March 2019 in Yaoundé, Cameroon. The Ministerial STC adopted the Declaration consequent to the consideration of APRM proposals and other items on the agenda. The Ministerial Declaration requested the APRM and the African Union Commission (the “AUC”) to “develop a concrete proposal⁶ on the support to Member States on ICRAAs and carry out a feasibility study⁷ on the creation of an African Credit Rating Agency and present the outcomes to the 4th STC on Finance, Monetary Affairs, Economic Planning and Integration”.

8. The Framework is accordingly aligned with Article 3 objectives of the AU Constitutive Act, which state that “the AU shall; (i) establish the necessary conditions which enable the continent to play its rightful role in the global economy and in international negotiations, (ii) promote sustainable development at the economic, social and cultural levels as well as the integration of African economies; and (iii) coordinate and harmonize the policies between the existing and future Regional Economic Communities (the “REC”) for the gradual attainment of the objectives of the Union”.

9. The Framework contribute fundamentally to the successful realization of Aspiration 1 of Agenda 2063 of, “A prosperous Africa based on inclusive growth and sustainable development”, Goal 4 of “Transformed economies through sustainable and inclusive economic growth, economic diversification and resilience”; Aspiration 2 of “An integrated continent politically united and based on the ideals of Pan-Africanism and the vision of African Renaissance”, Goal 9 of “Continental financial and monetary institutions that are established and functional”.

10. The Framework further aligns with Aspiration 7 of Agenda 2063, “Africa as a strong, united, resilient and influential global player and partner”, Goal 20 of “Africa takes full responsibility for financing her development” through African capital markets, fiscal system and public sector revenues, and development assistance. The Framework is an important step towards accelerating continental integration and socio-economic development through the mobilization of resources and management of

⁵ “Rating Agency” herein means any institution whose business includes assigning credit ratings and providing an opinion regarding the creditworthiness of; (i) a sovereign Member State, (ii) a financial security, securities or instrument, using an established and defined ranking system of rating categories.

⁶ “Concrete proposal” in the Declaration of the 3rd STC on Finance, Monetary Affairs, Economic Planning and Integration refers herein to request for APRM to submit Draft Policy Framework on the APRM support to AU Member States on CRAs to the 4th STC, elements of which are defined in this document.

⁷ “Feasibility study” refers to an assessment undertaken by the APRM to examine and determine the merits and demerits of the AU establishing an African Credit Rating Agency.

the financial sector for improved access to the international financial markets.

11. The Framework is coherent with other AU programmes and envisaged specialised financial institutions of the AU: the African Investment Bank (the “AIB”), the African Monetary Fund (the “AMF”) and the African Central Bank (the “ACB”) to facilitate trade, provide capabilities for Member States to access capital and integrating the continent with global financial markets, which makes tremendous reference to credit ratings. It further resonates with the 1991 Treaty of Establishing the African Economic Community (the “AEC”), the 2012 Agreement for the Establishment of the African Risk Capacity (the “ARC”) Agency to improve Member States capacities for better planning.

12. The Framework complements other continental and international CRAs regulatory bodies such as International Organization of Securities Commissions (the “IOSCO”) which established Supervisory Colleges for ICRA as collaborative arrangements between different supervisory institutions to promote information sharing, consultation and cooperation in order to enhance risk assessment of internationally active CRAs and to support effective supervision of such CRAs.

II. PURPOSE AND OBJECTIVES

13. The purpose of the Framework is to provide policy direction on strategic and operational mechanisms to ensure that the scientific methods of risk assessment are consistently applied in the profiling of Member States creditworthiness. The mechanisms provide tools for supporting Member States in the pre-rating preparatory phase, facilitate a systematic credit rating assessment exercise, manage the post-rating appeals and the implementation of admissible recommendations to promote continental policy convergence.

14. To achieve this purpose, the objectives of this policy framework are;

- a) To sensitize various sectors on the impact and implications of the sovereign credit ratings on both domestic rated institutions and instruments.
- b) To support Member States in undertaking periodic financial, political, economic and social impact analysis.
- c) To prepare a liaison team for Member States to make available reliable data for use by CRAs to avoid estimations that prejudice Member States credit risk assessments.
- d) To support Member States’ analysis and evaluation of the ratings produced by CRA’s and their impact through the generation of independent opinions.
- e) To facilitate the articulation and establishment of the architecture for managing and regulating CRAs through existing institutions.
- f) To establish a network of experts and practitioners for improved sharing of best practices in the field of international sovereign credit ratings.
- g) To create an operating environment that promotes competition, efficiency, accuracy and transparency.
- h) Harmonization of the regulation of the credit rating industry on the continent.
- i) To provide technical and operational support to governments in the implementation of admissible recommendations.

- j) To provide technical support to Member States in the establishment of a regulatory environment to license and supervise CRAs operating in that Member State jurisdiction.

III. PRINCIPLES UNDERPINNING THE FRAMEWORK

15. The uniqueness of the African continent is showcased by its diversity in political, economic, cultural and socially dynamics. As such, the political, macroeconomic and socio-economic structure of each Member State differs from one to another. It is therefore important rating agencies recognize a context-based approach with regards to rating African sovereign bonds. The entails that the Framework provides a platform for ensuring that Member State ratings are a true and fair reflection of the state of affairs in their jurisdiction.

16. Without undermining objectivity for comparability, there is a corresponding imperative setting core characteristics that underpin the accountability and control of CRAs in Africa. These constitute the fundamental minimum norms and standards that inform action across all the activities and programmes of the Framework. There are five principles that underpin the Framework: Ensure African leadership, promote broad national and local ownership, inclusiveness, ensure uniformity and coherence of efforts, and transparency and credibility in consolidation of economic expansions. Each component is blended in every aspect of the Framework.

17. **African leadership:** This principle has the following pillars:

- a) The implementation of the Framework activities shall be guided by African definitions and perceptions of their own needs and aspirations. Therefore, the APRM, as an autonomous entity of the AU with the mandate to provide support to Member States in the field of credit rating agencies, shall provide strategic leadership and oversight on the implementation of the Framework, including setting the terms of engagement of all actors involved on the continent.
- b) The implementation of the Framework activities shall also prioritize consultation with and use of African specialized agencies and regional bodies, as well as African technical expertise at local, national, regional and continental levels.
- c) The Framework shall be viewed and used as a tool to enhance the financial capabilities of borrowing Member States across the African continent.

18. **Broad national and local ownership:** This principle has the following pillars:

- a) The Framework shall be of central interest to all levels as it is a way of enhancing financial resource capability and access. For the success of its implementation, APRM shall advocate local ownership of all aspects of implementation, assessment, monitoring and evaluation.
- b) National and private financial institutions shall work together in supporting the priorities of the Framework process and implement in ways that enhance the success of government policies.
- c) Every Member State is a beneficiary of the Framework activities and shall have ownership of the programmes and shall be involved in their design and implementation of the support it needs.

19. **Inclusiveness:** This principle has the following pillars:

- a) There shall be an organic link between all parties involved in the implementation of the mechanisms of the Framework, the APRM and other relevant AU organs and agencies to avoid exclusion, which is a potential root cause of lack of efficiency, commitment and effectiveness of new programmes.
- b) All the Framework activities shall be based on the principles of equity and fair exchange, which are central to ensuring its successful implementation.
- c) The Framework activities and processes shall be exempt from any preferential disparities and shall incorporate and reflect fair treatment of all participating stakeholders.
- d) Special efforts shall be made to promote gender equality and women's participation in all processes of implementation.

20. **Uniformity and coherence of efforts:** The pillars of this principle are:

- a) Every activity of the Framework shall be preceded by a clear definition of roles and responsibility of actors engaged to ensure accountability and effectiveness.
- b) Ensure coordination of actors and activities to optimize the use of resources, increase efficiency and improve the timeliness of responses.
- c) Enhance trust between the various local, national and international actors involved, through the promotion of transparency, consultation and exchange of information.
- d) Coherence with Frameworks of other AU financial institutions stipulated in Article 19 of the Constitutive Act of the African Union.

21. **Transparency and credibility:** The pillars of this principle are:

- a) Since all the Framework efforts shall have as their goal, "the attainment of a true and fair rating", for Member States, the Framework activities shall seek to build and strengthen national and local capacities in the rating process to reach accurate risk profiling of Member States in order to reduce the cost of borrowing and improve continental economic development.
- b) All the Framework activities shall strengthen the capabilities of African sovereign bond issuers to support national development.
- c) The Framework activities shall utilize local expertise, but where it is inadequate, it may leverage relevant African capacity at the regional and continental levels, as well as from the diaspora.

IV. OPERATIONAL AND OVERSIGHT MECHANISMS

22. The Framework envisages six main areas of APRM support to Member States; preparation for their credit rating assessments, facilitate a systematic credit rating assessment exercise, manage the post-rating appeals, alignment of national policy to credit rating recommendations, conduct credit rating impact analyses, evaluate accuracy of ratings and regulations of CRAs. It is further envisaged that the mechanisms of support shall address other Member States challenges with CRAs such as; prescriptive policy recommendations, emphasis of political-oriented sovereign risk factors, selective aggression, ignoring economic potential, methodological biases and lack of accountability.

23. The mechanisms of support in the Framework are aimed at providing Member States with

insights, advice and tools necessary to support successful engagement with CRAs in the following thematic and topical areas; sovereign debt management and sustainability, financial system stability, economic governance and other macroeconomic management areas.

24. In implementing Decision Assembly/AU/Dec. 631 (XXVII) on APRM support to Member States in the field of rating agencies, the APRM shall establish and employ the following mechanisms to support Member States:

25. **Technical Support Missions:** The APRM undertakes technical support missions to Member States to support and prepare governments for various APRM assessments. These missions shall additionally serve to prepare Member States for the rating services, draw country support plans and agreements for targeted assessments on given areas on credit ratings. The scope of the support missions shall thus be expanded to include special missions specific to sensitize and mobilize various stakeholders dealing with credit ratings agencies and engage key public and private institutions directly responsible for the rating exercise.

26. Credit rating consultation meetings are crucial in aiding negotiations with the CRAs and their ultimate decision on the sovereign rating class of a Member State. The missions shall compile all key risk-factors that capacitate a Member State in negotiating to improve its current ratings or prevent negative rating activities. Together with the Member State government representatives, the APRM support missions shall actively liaise with the rating agencies on behalf of and together with government, pitching credit positive proposals to enhance government engagements and cooperation with rating agencies.

27. **Continental and National Research:** The APRM undertakes governance assessments, tracking activities and research on stipulated thematic areas, commissioned by the AU and Member States and as determined by the Secretariat. The APRM undertakes research at country and continental level in collaboration with Technical Research Institutions, Think Tanks and strategic partners. In the same manner, the APRM shall coordinate operational and thematic research on credit ratings. The APRM shall evaluate the accuracy and fairness of ratings assigned to African countries by generating country profiles and from data collection to support Member States' rating agencies liaison team to ensure that the ratings issued are a true reflection of the rated countries' credit profile.

28. Policy and systems coherence remains a key outcome of the support to Member States. In the field of CRAs, the APRM shall accordingly undertake research to support the post-rating policy alignment. The Framework shall also direct the design and conduct of research as stipulated in its thematic areas, commissioned by the AU and Member States and as determined by the Secretariat, on the feasibility of establishing continental Pan-African institutions such as a regulatory authority, a technical support facility, a research and advisory bureau, a Pan-African credit rating agency or any institution as may be deemed probable. The APRM shall coordinate these studies through a broad consultation framework with its strategic partners, international and continental multilateral agencies and financial institutions as well as relevant institutions in other regions.

29. A key outcome of the continental and national research mechanism shall be the production of an

Annual Performance Report on CRAs in Africa. The annual reports shall aim at; credit rating optimization, ranking of the credit ratings performance in Member States, the quality of policy recommendation, benchmark credit default risk profiles of Member States on an emerging economies rating scale, validating the degree of rating accuracy as determined by cross-region comparisons, recommendations on how Member States can successfully improve upgrades or prevent downgrades to their existing credit ratings.

30. The Annual Performance Report on ICRAAs in Africa shall also make recommendations for sovereigns on the optimal credit rating mix, outlining the necessity for engaging certain rating agencies and rationale thereof.

31. **Consortium of Independent Specialised Technical Institutions (the “ISTI”):** The APRM recognise the imperatives of credibility in global capital markets, the existence of different reputable specialised technical institutions and expertise in the field of ICRAAs on the continent. The APRM shall therefore coordinate a centralised mechanism of bringing key specialised reputable institutions together on contractual basis to provide specific independent analysis and opinions within the parameters of the Framework. The ISTI shall be well-established institutions with credibility and track record of operation in their area of expertise for APRM to leverage on knowledge transfer as it builds its internal capacity.

32. The APRM and other AU agencies shall provide oversight on the consortium by providing the Framework within which they shall operate. The consortium shall constitute independent technical institutions specialised in the following areas; CRAs robust methodological comprehensives, rating scale, accuracy, debt market indices, quality of ratings, credit default risk, trainings to capacitate Member States, negotiating and liaising, policy implementation, supervision and regulation. The consortium shall comprise of eight members based on the technical services they are specialised on; a data analytics firm, an association and membership regulatory body, investment advisory firm, policy analysis and implementation firm, research and advisory firm, emerging economies indexes provider, conflict resolution institute and a technical training organisation.

33. **Targeted Reviews:** The APRM also undertakes specialized technical assessment at the request of Member States on a specific governance and socio-economic development questions. The APRM shall thus undertake targeted reviews as part of the strategic support to Member States undergoing sovereign rating reviews, whether solicited or unsolicited, in order to capacitate Member States and their rating agency liaison teams with relevant information needed to negotiate for fair or better credit ratings.

34. The targeted reviews shall also be used as a tool for cross-country experience sharing, identifying deficiencies and building capacity needed to foster policies, standards and practices that translate into better credit ratings. A key outcome of the targeted reviews shall be a comprehensive report on the impact of potential credit rating upgrade or downgrade, the government’s strategic objectives, their desired credit ratings and the status of implementation of past rating recommendations.

35. As Member States within the APRM undertake base country review governance assessments, the process shall essentially integrate elements and parameters of creditworthiness as background for

potential targeted reviews. An assessment questionnaire shall thus be developed accordingly for such purpose. A dedicated section of the review report shall present conclusions from different departments of government on challenges faced by Member States concerning credit ratings. The country credit rating review team shall additionally compile a special report outlining credit issues to be focused on during the CRAs assessments.

36. **Collaboration on Benchmarking and Regulatory Standards:** the APRM undertakes processes jointly with regional, continental and international organisations to develop standards and codes for various policy and legislative domains. The APRM shall facilitate Member States collaboration with international regulatory organisations on credit rating agencies such as the IOSCO's Supervisory Colleges for Credit Rating Agencies and ESMA. The collaborative arrangements shall promote information sharing, consultation, and cooperation in order to enhance the approaches and methodologies, risk assessment, support effective supervision of CRAs, address regulatory gaps and enhance the accountability of CRAs.

37. These efforts shall include benchmarking of key risk indicators. In this regard the APRM shall implement a multi-stakeholder programme to engage CRAs on possibilities of revising traditional credit rating methodologies, the rating process and indicators, particularly those that place insignificant weight on non-political, informal sector and economic performance in Member States. The APRM shall convene various consultation meetings for the possibility of customizing a rating scale for the African financial market as part of the registration requirements for application to secure a license to rate Member States sovereign bonds

38. **Adhoc Committee of Experts:** An Adhoc Committee of experts created and convened by the Chief Executive Officer of APRM shall function as a consultative platform and reference group for various support mechanisms of the Framework, consultation framework, and findings and recommendations emanating from APRM special studies on support to Member States on CRAs. The Adhoc Committee shall aim to leverage and harness knowledge at a continental level from African experts such as regulators, academia, African rating agencies and other financial practitioners, in order to encourage the exchange of experiences regarding matters of CRAs. The Adhoc Committee shall also provide policy advice.

39. The Adhoc Committee of experts shall further seek to;

- a) Validate the recommendations made by researchers and map out technical and policy implications for Member States;
- b) Examine and rationalize proposals from consultations with Member States and interpret policy implications Member States;
- c) Review periodic country reports on sovereign credit ratings, examining the conduct of the rating assessment and its impact.

40. **Institutional Framework for the Mechanism:** The implementation of the Framework is dependent on a range of stakeholders, state and non- state actors operating at the national, regional, continental and international levels. To ensure optimal performance of these actors in the Framework requires an elaboration of mechanisms and processes that shall coordinate the multiplicity of actors and

activities, at all stages of the Framework from needs to impact assessment.

41. **National key actors:** This Framework is essentially state-centric and thus its successful delivery is incumbent upon the political will, leadership and capacity of key national actors. National key actors shall take the lead in the planning, implementation and monitoring of all the Framework activities and are encouraged to:

- a) Develop policies, strategies, mechanisms, structures and processes that are comprehensive, integrated and coherent with the Framework programmes;
- b) Promulgate enabling legislation, simplify administrative processes and eliminate obstacles to enable the implementation of the Framework activities;
- c) Support the coordination and monitoring of all the Framework activities;
- d) Provide leadership in the process of determining an inclusive national vision, and in clarifying the division of labour, roles and responsibilities of actors involved in the Framework;
- e) Seek, where necessary, sub-regional and regional support for the capacity development of the Framework.

42. To undertake these responsibilities at national level, the following measures are recommended:

- a) Appointment of a national focal point on the Framework to coordinate actors and monitor implementation of the Framework, in line with the national strategies;
- b) Creation of an inter-departmental/ministerial committee to implement the Framework sectoral programmes and activities;
- c) Establishment of mechanisms to ensure the participation of all economic sectors, from the private, public, civil society organisations and other national and local actors.

43. **Regional key actors:** The successful implementation of the Framework requires the active engagement of regional groupings and their institutions in order to take advantage of already existing resources, mechanisms, processes and synergies. Key actors at the regional level including Regional Economic Communities (RECs)⁸ and other regional bodies.

44. The regional actors and processes shall enable the adoption of regional approaches to the Framework and provide continuous reporting on the state of all its activities within their regions. It shall further ensure harmonization, coordination and exchange of information on the Framework with other RECs to create the linkage between the national and continental levels. It shall provide for harmonization of policy and legislation on the Framework, and guide implementation of regional and cross-border programmes relating to the Framework.

45. As a form of regional mechanism, some regional instruments and guidelines for the implementation of the Framework shall be adopted for the creation of specific coordination to support

⁸ Arab Maghreb Union (UMA); Common Market for Eastern and Southern Africa (COMESA); Community of Sahel-Saharan States (CEN-SAD); East African Community (EAC); Economic Community of Central African States (ECCAS); Economic Community of West African States (ECOWAS); Intergovernmental Authority on Development (IGAD); and Southern African Development Community (SADC).

national processes.

46. **Continental key actors:** AU and its specialized institutions such as PRC, AU Commission for Economic Affairs, STC and other Pan-African institutions, such as the African Development Bank (the “AfDB”), shall provide the overall strategic political leadership to the Framework. In doing so the AU shall act as a guarantor of the Framework processes on the continental level and shall:

- a) Provide the normative framework;
- b) Review the progress of the implementation of the Framework in Member States;
- c) Leverage resources and support for the implementation of the Framework;
- d) Create and manage a database of African experts on various aspects of the Framework;
- e) Encourage RECs and Member States to support the implementation of the Framework.

47. As a form of a continental mechanism, a Supervisory Standing Committee on the Framework shall monitor the activities of all actors in the implementation of the policy for support to Member States. It shall guide the work of the Framework and shall have the ultimate decision-making responsibility regarding a broad range of activities including the adoption of Technical Standards, Opinions, Guidelines and the issuance of advice to the Member States. The Supervisory Standing Committee shall be supported by a number of other sub-committees and working groups dealing with technical issues. The APRM and AUC shall ensure effective coordination of activities of the Framework.

48. **International Partnership:** Collaboration and cooperation with international organisations is essential to the successful implementation of the Framework as it ensures that the processes and outcomes are coherent with international standards and best practices. International organisations shall, therefore, be routinely consulted and engaged for their expertise, experiences and resources. Such collaboration shall be underlined by African leadership and ownership of the agenda.

49. The core international partner organisations for implementation of the Framework shall include the European Securities and Market Authority (the “ESMA”), International Organisation of Securities Commission (the “IOSCO”), Securities Exchange Commission (the “SEC”), United Nations Economic Commission for Africa (the “UNECA”), the World Bank, International Monetary Fund (the “IMF”), the African Development Bank (AfDB), Association of African Central Banks (AACB), the Bank of International Settlements (BIS) and other related institutions. Implementation of the Framework shall where necessary engage multilateral and bilateral partners of the African Union. A variety of platforms shall be used for dialogue including annual meetings and assemblies.

50. **Non-State Actors:** The policy shall also involve the private financial sector composed of financial institutions to participate actively in the Framework processes and activities at all levels to complement the capacity of state actors.

V. RESOURCES AND FUNDING

51. The Executive Council of the AU approved the recommendation of the Permanent

Representatives Committee (the “PRC”), Sub-Committee on Budget, Finance and Administration Matters to allocate a programme budget to the APRM for implementation of Decision Assembly/AU/Dec. 631 (XXVII) on APRM support to Member States in the field of rating agencies.

52. Securing adequate and sustainable financial support is a critical precondition for realizing the goals of the Framework. In order to effectively meet this, it is recommended that the APRM shall where necessary seek additional funding for the implementation of activities of the Framework.

53. The Framework further seeks to develop strong collaboration and partnerships with like-minded funders to secure both financial and technical resources. Special support shall be mobilized through agreements between APRM and its partner institutions. These include: the African Capacity Building Foundation (ACBF), the AfDB; Mo Ibrahim Foundation and the UNECA.

54. The APRM shall contract ISTI to provide support on specific value propositions within the parameters of the Framework. The APRM shall source professionals and technical expertise in the field of credit ratings through contracting a consortium of ISTI. The professionals and technical experts include but not limited to financial analysts, economists, security brokers, statisticians, governance experts, regulatory and compliance, legal, information technology experts. The framework envisages that any limited skills set from the experts consortium identified shall be supported through training and professional exchange programmes with other like-minded international organisations.



Terms of Reference for Procurement of Services

**Programme Title: Support to African Union Member States in the Area of
Credit Rating Agencies**

Contract Title: Feasibility Study on the Establishment of a African Credit Rating Agency

(ACRA) by the African Union.

1. General Background Information

This study is part of a programme developed and being executed by Africa Peer Review Mechanism (the “APRM”) following a request from the African Union (AU) that an intervention be established to support African Union member states in the area of credit rating agencies. The aim of the study is to undertake an assessment of economic, financial, legal, political and institutional feasibility of establishing an African Credit Rating Agency. Accordingly, therefore, the study thus seeks to determine the legitimacy of the need for such as agency, its unique propositions, structure, legal frameworks, marketing strategy, capitalisation, and a complete technical analysis of key limitations and success factors. The study shall offer conclusions pertinent for determining the feasibility and viability of establishing an African Credit Rating Agency (the “ACRA”).

The request for the Study was conceived by the 3rd African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration in March 2019 as part of the process of developing a policy framework for support to Member States in the area of International Credit Rating Agencies (the “ICRAs”) pursuant of the AU Assembly Decision (the “AUAD”) Assembly/AU/Dec. 631 (XXVII) and the APRM 2016 - 2020 Strategic Plan (the “APRMSP”) on APRM support to Member States in the field of rating agencies.

The policy framework is a guide for establishing and implementing mechanisms for the APRM-coordinated support to African Union (the “AU”) Member States and it seeks to ensure that the methods applied in creditworthiness assessments of African countries are consistently applied and with scientific integrity. The framework further seeks to enhance Member States’ capacity and responding to recommendations from international credit rating agencies. In this regard, therefore, the framework shall, through an APRM-Coordinated programme, support Member States to: (i) prepare for credit rating assessments, (ii) facilitate a systematic credit rating assessment exercise and, (iii) manage the post-rating appeals and implementation of recommendations.

Specifically, the following is a summary of the programme objectives;

- i. To sensitize various sectors of Member States on the implications of the sovereign credit ratings on both domestic rated institutions and instruments.
- ii. To support Member States in undertaking periodic financial, political, economic and social impact analysis.
- iii. To prepare liaison team for Member States to make available reliable data for use by CRAs to avoid assumption-based estimations that prejudice Member States assessment.
- iv. To support Member States’ analysis and evaluation of the ratings produced by CRA’s and their impact through generating independent opinions.
- v. To facilitate the articulation and establishment of the architecture for managing and regulating CRAs through existing institutions.
- vi. To establish a network of experts and practitioners for improved sharing of best practices in international sovereign credit ratings.
- vii. Harmonization of the regulation of the credit rating industry on the continent.

- viii. To provide technical support to African governments in the implementation of admissible rating recommendations.
- ix. To provide technical support to Member States in establishment of a regulatory environment to license and supervise CRAs operating within that Member State's jurisdiction

2. Project Relevant Background

2.1 A historical trend analysis of the dominant three International CRAs

Sovereign Credit Ratings (the “SCRs”) are useful in predicting a country's economic distress and inform financial markets to correctly apportion sovereign credit risk. SCRs are thus a measure of a country's economic strength and plays an important role in supporting greater public sector financial transparency as sovereigns seek to improve their credit ratings to reduce borrowing costs and ultimately external debt. Globally, the SCR industry is dominated by only three CRAs – Standard & Poor's (the “S&P”), Moody's – which are based in the United States and Fitch which have dual-headquarters in London and New York City. As at 2016, according to the United States' (the “U.S.”) Securities and Exchange Commission (the “SEC”) report (2016), the dominant three CRAs held a collective 95 percent markets share, equally split between S&P and Moody's with 40 percent each and Fitch with 15 percent.

S&P is the oldest of the three CRAs, its operations commenced in 1860 when Henry Varnum Poor published his book ‘History of Railroads and Canals in the United States’ in which he introduced a statistical approach of measuring the likelihood of any given company to pay back its debts. In correspondence, another firm, Standard Statistics Bureau was also formed in 1906, which published credit ratings for sovereign debt, corporate bonds and municipal bonds. Standard Statistics merged with Henry Varnum Poor to form Standard and Poor's Corporation in 1941, which was later acquired by The McGraw-Hill Group of Governments, central banks, national investment promotion authorities and relevant regulatory bodies in 1966. Standard and Poor's widened its business portfolio into creating indexes such as the S&P 500, a well-known stock market index used for investment analysis or economic indicator and is currently followed by most analysts (Ahern & Painter 2016).

Moody's was founded by John Moody in 1909 who produced a rating manual with basic statistical analysis and general information about bonds and stocks of various industries. In 1914, Moody transformed into Moody's Investors Service which also expanded its business into providing credit ratings for nearly all the US government bond markets at that time. By the 1970, Moody's Investors Service became a full -scale rating agency that was now rating all US government bonds, commercial paper and bank deposits. In 1975, the Moody's was recognized as a Nationally Recognized Statistical Rating Organisation (the “NRSRO”) by the SEC together with S&P and Fitch. Fitch was established by John Knowles Fitch as a publishing company providing financial statistics to be used in the investment industry in the form of two books; The Fitch Stock and Bond Manual and The Fitch Bond Book in 1913. In 1924, Fitch introduced a credit rating scale of AAA to D rating system that has become the basis for ratings throughout the industry. In 1990, Fitch merged with a London rating agency – IBCA Ltd, a subsidiary of Fimalac, a French holding company which controlled credit rating business in France.

Between 2004 and 2010, Fitch also acquired its small competitors; Thomson Financial Bank Watch, Duff & Phelps Credit Ratings Company and Algorithmics as a growth and expansion strategy.

2.2 Credit rating services in Africa

Across the globe, SCRs has become one of the most topical subjects amongst political leaders, economists, investors and ordinary citizens (Hanusch & Vaaler 2013). The underlying assumption to financial market participants is that, the change in a country's SCR has a direct impact on the overall economy and the wellbeing of all its citizens. In Africa, South Africa was the first African country to receive a sovereign rating in 1994 of BB grade from Fitch and S&P, followed by Tunisia in 1995 assigned a Baa3 grade by Moody's, Mauritius and Egypt in 1996 were assigned Baa1 and Ba2 by Moody's respectively. Morocco (BBB-) and Senegal (B+) requested a sovereign rating in 1999 and 2000 respectively, followed by Botswana (A) in 2001, Gambia (B-) and Lesotho (B+) in 2002. By the end of 2003, fourteen African countries had been assigned a SCR including Ghana, Cameroon, Cape Verde, Malawi and Mozambique with support from the United Nations Development Programme (the "UNDP") initiative (United Nations 2015). As at September 2019, 32 African sovereign states had been assigned a credit rating by either (or all) of the three international CRAs.

3. Scope of activities of the Feasibility Study

The activities and outputs covered by the Terms of Reference provides the concerned decision-makers in the African Union a basis for assessing:

- i. Policy options on the establishment of the agency;
- ii. Investments required to establish the agency and offer the service;
- iii. Respective roles of the various government, public and private institutions in establishing, regulating and utilising the services of the agency;
- iv. The legitimacy of the market needs for establishing such an institution;
- v. The unique propositions that the agency will leverage;
- vi. Ownership and management structure a complete technical research analysis of key limitations and success factors.
- vii. Legal frameworks and regulatory considerations for coherence with African Union instruments;
- viii. Proposal of a distinctive and comprehensive business model; and,
- ix. Capitalisation options and financial feasibility of the business model of the agency.

The study and assessments completed under the contract will be synthesised into key findings and recommendations that will; i) facilitate policy and investment decisions regarding the most optimal arrangements and formulation for supporting Member States in the area of credit ratings, ii) be incorporated into a Road Map for the development of a Policy Framework on Support to Member States on Credit rating Agencies. The Road Map is one of the key outputs of the APRM Framework for the support to Member States under which this consultancy has been envisaged.

4. Scope of Contractual Services

4.1 Description of the Assignment

The contract will consist of the following three main aspects.

Output 1: A comprehensive assessment of the business needs of African States in the Area of Credit Rating

The study will assess Member States' needs of alternative credit rating services, considering the size of financial markets, investment flow, and support infrastructure in their national economies. This needs assessment is essential to the feasibility/pre-feasibility study in order to inform the design of the proposal for a potential agency and to determine the key elements of the environment within which such an agency would operate. The study sample should consist of governments, central banks, national investment promotion authorities, pension funds, key investment firms and relevant regulatory bodies who could be potential clients of the CRA. The study should consider a sample of 10 governments, 5 central banks, 5 national investment promotion authorities and 5 national regulatory bodies, equally representative of all five African Union regions. The sampled governments, central banks, national investment promotion authorities and relevant regulatory bodies covered by the study should meet the following minimum requirements:

- i. Be a member of the African Union;
- ii. Express interest in exploring the possibility of establishing an ACRA
- iii. Be a country (or from a country) that has received a rating from an ICRA in the last 5 to 10 years.

Prior to undertaking the study, the consultant(s) should begin with the preliminary specification and elaboration of the sample which will be validated by the APRM before the actual implementation of the study. The Consultant(s) shall conduct the study through a desk review, field interviews and a questionnaire that will also be validated by the APRM. The questionnaire should be translated into all four AU official languages (English, French, Arabic and Portuguese). The consultant(s)'s expense and the translation will be validated and borne by APRM prior to the study being conducted.

Deliverable 1.1: Analytical reports on the assessment of the needs of the Member States in regard to credit ratings services.

Results should be contained in analytical report presenting the conclusions drawn from both the desk review and the field level work in selected Member States. Study results should be compiled into a report whose concluding chapter should among others analyse the similarities and differences between the Africa, Latin America, Europe and Asian markets for credit ratings services. The reports will be validated by APRM.

Output 2: A feasibility study covering the following deliverables

- i. Strengths, Weaknesses, Opportunities and Threats (the "SWOT") itemising the key risk and success factors. An analysis of the relevance and effectiveness of the proposed African Credit Rating Agency in the contexts of national, regional and international political economy;

- ii. A market analysis of the financial markets' trends and investment patterns in African countries, relative to other regions and internationally;
- iii. An assessment of the legal instruments, institutional infrastructure support already available and any other essential requirements for the proposed African CRA in Member States, at a regional and continental level;
- iv. Options for an institutional model for the proposed African CRA, with a clear description of the roles of all potential actors, institutions or parties that may be part of the institutional framework, which may include a single institution or consortium;
- v. An analysis of the capitalisation and other investments required to establish the proposed African CRA, with options for joint public/private financing as well as a viable shareholding structure. These must be substantiated with concrete strategy and motivation centred on establishing the much-needed credibility and integrity of the credit rating services that shall be provided by the proposed institution;
- vi. A distinctive business model and an analysis of the pricing of rating services, financial viability of the agency a scenario and sensitivity analyses of the agency's viability with regard to public and commercial financing, AU funding or any other proposed funding model;
- vii. The assessment should be mindful of the need to desist from replicating existing establishments and addressing the challenges faces by African countries in the area of credit ratings. The analysis should provide a strategy on overcoming issues of; conflict of interest, reputation, false ratings and overreliance on ICRA's.

The six subcomponents elaborated above shall form key parts of the consolidated feasibility study while being also distinct deliverables in the course of the implementation of the consultancy. The details and phasing of the deliverables are elaborated in later sections of these TORs. All deliverables will be reviewed and finalized after approval by APRM.

From a technical point of view, the prospective consultant(s) should specify in detail the methodologies they shall use for delivery of the assignment, a pre-designed methodology may be suggested or provided by APRM, as part of the documentation supporting their bid for this contract. These methodologies will need to be approved by APRM prior to the work commencement.

Deliverable 2.1: An analysis of Key Risks and Success factors of an African Credit Rating Agency:

The output of this deliverable will establish a broader perspective of the chances of success, an assessment of the overall potential of the African CRA, for financial market access across African economies. Through this output, a comprehensive SWOT analysis will be conducted at the agency level considering national,

regional and international competition. The analysis will derive from a desk study, field work and interaction with a cross-section of national, regional and international actors, including member states representatives.

Deliverable 2.2: A market analysis

This should be an exploration of the credit rating market on the continent and the market trends and dynamics in the next 10 to 20 years that might either support or hinder the growth of the ACRA or render it irrelevant. The market analysis will be conducted through a market study that will build upon the preceding output by examining, in depth, the prospects for countries. This should specifically encompass the current financial markets size and depth, including the subsectors, the number of public/private/mixed governments, central banks, national investment promotion authorities and relevant regulatory bodies, and should build upon any prior analyses conducted on the subject. The deliverable should be in the form of an analysis of the Agency's competitive advantage at national and continental level to sustain competition from other globally established CRAs.

Deliverable 2.3: An assessment of key legal frameworks and regulatory requirements:

This deliverable should assess the legal, regulatory and policy frameworks within African countries as well as other infrastructure and establish the requirements for the Agency to enable the African Union – APRM and governments, central banks, national investment promotion authorities and relevant regulatory bodies to determine its relevance and complementarity. In addition, the study should be undertaken of regional-level CRA both formal and informal, based on the specific Terms of Reference. This will establish a benchmark for availability and assist in defining the legal framework and the competitive advantage

Deliverable 2.4: An institutional model for the delivery and management of the Agency's services at both national and continental levels:

The consultant(s) should draw upon their own knowledge of international best practices, the institutional and legal realities and current practices in African Union countries and the findings from American, Asian, European and Russian rating agencies in recommending the institutional model. The model should be dynamic and responsive to the needs of potential client; governments, central banks, national investment promotion authorities, pension funds and relevant regulatory bodies. This output should elaborate the possibilities for and constraints within the AU system and in Member States.

Deliverable 2.5: An analysis of the investments required to establish the agency:

Based on contract deliverable 2.3, there should be an assessment of the cost of expertise or consultancy services and other pertinent cost factors including physical infrastructure, this deliverable should elaborate different investment options for establishing the institution that are available to the African Union and governments. Each option should be costed under the appropriate cost factors within the credit rating services and capital markets industry. Given the political and economic context of capital markets in Africa, a phased programme for establishing the Agency can be considered by the consultant(s), specifying the phases, the countries and/or institutions in each phase and the associated investments required.

Deliverable 2.6: An assessment of the African Union institutional needs to establish, develop and promote an African CRA.

Based on the consultant(s)'s findings and in consistency with other project deliverables, this deliverable should assess and make recommendations on the capacity building that is further needed in the African Union system and at the member states level to establish, develop business plans for and promote the ACRA.

Deliverable 2.7: A consolidated feasibility study for the establishment of the ACRA

The consultant(s) will be required to complete a consolidated feasibility study for the proposed ACRA that shall encompass all the above.

Below is an estimated activity timeline:

Activities	Provisional Timeframe
Questionnaire translation and validation by APRM	Week 1 Feb 2020
Sample elaboration	Week 1 Mar 2020
Actual study completion and submission of initial draft to APRM	Week 3 Apr 2020
Feedback from APRM	Week 4 Jun 2020
Finalization of study	Week 1 Jun 2020
Synthesis of study report into policy brief	Week 2 Jul 2020

3.0 Feasibility Criteria

The feasibility criteria and subsequent study outcomes seeks to provide an economically, politically and scientifically credible but also verifiable qualitative and quantitative account of the potential constraints, risks and opportunities to establishing the ACRA. The account shall include, but will not be limited to; i) internal African Union corporate and operational constraints and opportunities in areas such as technical expertise, technological capacity, budget/financial needs, communication, marketing strategy and promotional capacity,

ii) the outcomes shall also present an account of the external constraints and opportunities in the political and economic environment at national and international legal and regulatory regimes. The following feasibility criteria should clearly determine a position or path to be taken by the AU, giving evidence and motivation of the im/possibilities of the conclusions made.

i. Market Feasibility:

This aspect of the TOR seeks the services of a professional market analyst to conduct a market feasibility analysis (market study) for the proposed development and establishment of a credit rating services provider within the African market. The analyst should provide a 'disinterested' third party perspective and account for establishment of the ACRA based on the African Union's competitive position within the African market, while also determining the demand for the proposed credit rating services within the African market.

ii. Technical Feasibility:

The assessment should quality the technical requirements relative to the resources available to the African Union to help AU policy organs determine whether the technical resources meet capacity.. This criterion should specify the characteristics and qualifications for technical experts or institutions that can convert ideas and proposals into working systems for the proposed institution. Technical feasibility should also involve an evaluation of specific hardware, software, and other technical requirements for the proposed agency.

iii. Economic and Financial Feasibility:

This assessment should typically involve a cost/ benefits and risk/return analysis of establishing the Agency, enabling the African Union to determine the viability, costs, benefits, risks and returns associated with the proposal before financial resources are allocated. The conclusions and recommendations should have summative evaluations of a defined position of whether the AU should undertake the project of establishing the Agency or not. The conclusively defined position shall serve as an independent project assessment to either abandon the proposal or enhance its credibility to assist African Union organs to determine the positive economic benefits to Member States that the proposed agency may provide.

iv. Legal Feasibility:

This assessment investigates whether any aspect of the proposed project conflicts with legal requirements like national laws, regulatory bodies, governing documents, data access and protection Acts, established standards and best practices. There should be a comprehensive account of all relevant laws and enactments that must be consider in undertaking this project.

v. Location Feasibility:

Should the AU opt to establish an organization and elect to construct an office building in a specific location, the feasibility study should reveal the AU's ideal location for the Agency. This assessment should present a clear mode of determining where the ACRA can be located, identifying key factors that underlies the locational suitability.

4. Methodology

As part of the technical documentation supporting their bid for this contract, prospective consultant(s) should specify the methodologies they will use for conducting the above-listed activities and achieving the outputs/deliverables, unless clearly indicated in the previous sections of this document. These methodologies would need to be approved by APRM prior to the study commencement. Since any pre-feasibility study would closely related to other work done on CRA by international development partners in African Union, the consultant(s) may for such purposes

utilise information from previous studies and study's, already carried out in the frame of this project or conducted in the country in relevant fields. These sources must be shared with the APRM for approval on the contract inception meeting.

The pre-feasibility and feasibility studies will be based on three elements: (i) desk study of available literature relevant to the deliverables; (ii) field visits for data collection with regard to the technical analyses; (iii) in depth qualitative and quantitative data collected from the field visits and literature as to the institutional support and business models that could be adopted in establishing the ACRA. The above will require a high degree of interaction with Member States and ICRAAs. In addition, attention should be paid by the consultant(s), where relevant, to regionally established potential competitors.

Each output/deliverable, as elaborated above, should be the subject of specific sub -reports that will be reviewed and approved by APRM.

5. The Consultant(s) or Firm

The consultant(s) should have a demonstrated experience and legal capacity to operate in African Union states. The consultant(s) proposal should specify the nature of the association and linkages between all parties participating in and/or forming a partnership to undertake the assignment.

All experts in this respect will be evaluated and certified by APRM in their individual capacities to perform the activities specified in the bid document.

The consultant(s) should be a citizen of an African Union country or the African Diaspora or a partner of a firm with a registered office in an African Union country.

Required Expertise of Consultant(s)

5.1 Consultant(s) must have PhD in Banking and Finance with bias in sovereign debt management and public finance, or relevant advanced degree(s) with extensive relevant experience as enumerated below.

5.2 Consultant(s) must have strong experience in and understanding of the AU systems, global capital markets and sovereign debt management systems;

5.3 Consultant (s) must have extensive background in establishment of public organisations and financial firms;

5.4 Consultant(s) must have strong understanding of sovereign credit rating methodologies of leading international rating agencies;

- 5.5 Consultant(s) must have sufficient experience in conducting similar types of feasibility studies with governments and agencies;
- 5.6 Consultant(s) must have expertise in legal, political economic and financial analysis of financial institutions; and
- 5.7 Consultant(s) must have strong knowledge about the structure and operations of international organisations particularly the African Union or any other regional body.

6. Guidelines in the Preparation of Eligibility Requirements

The Eligibility Statement of the Consultant(s) or Consulting Firm interested to be considered for the services contemplated shall be submitted to the APRM Procurement Committee the following.

- 6.1 Name of individual or firm, year established or of first assignment, country of registry if foreign, and type of organization whether individual, proprietorship, partnership, corporation or others.
- 6.2 Name of affiliate consultant(s) or firms, their year established, countries of origin, and type of organization.
- 6.3 Complete home office, business address, telephone number and cable address. For consultants or consulting firms of foreign registry, indicate if there is any branch office/s established in the South Africa and where established.
- 6.4 If present firm is the successor to or outgrowth of one or more predecessor firms, type name/s of former entity/ies and the year/s of their original establishment.
- 6.5 Present a brief narrative description of the consultant profile or the firm.
- 6.6 Indicate clearly and accurately the names of the lead experts (consultants) or principals of the Consulting Firm and key personnel. This must be accompanied by the curriculum vitae showing experience, professional affiliations and language capability of the key personnel listed.
- 6.7 List not more than two (2) persons who may be contacted by the APRM. Listed persons must be authorised to undertake dealings on behalf of the team of consultants or the firm on policy and contractual matters.
- 6.8 Indicate the number of proposed experts for the assignment by discipline. While some experts may be qualified in several disciplines, each person should be listed only once in accordance with his/her primary functions. Under this item, indicate the rate consultancy fees per experts and indicate bank references and bank address.
- 6.9 Indicate appropriate types of services and fields of specialization the consultant(s) or Consulting Firm is technically and financially qualified to undertake.

6.10 List projects the firm has been engaged in consulting services over the past 10 years.

7. Language Requirements

Must be proficient in one of more of the African Union official Languages

African Peer Review Mechanism

Continental Secretariat

230 15th Road Ranjespark Midrand,
Johannesburg1687, South Africa



Statement on the Proposal for African Union (AU) Assembly theme for 2021 to the Ministerial Committee on Agenda 2063

Preamble

During the 3rd Specialised Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration, held from 4 to 8 March 2019 in Yaoundé, Cameroon, the African Peer Review Mechanism (APRM) sought the decision of this STC to adopt a proposal by the APRM to recommend to the AU Assembly to designate the 2021 AU Annual Summit theme of, “improving access to global capital for accelerated transformative economic growth”. The 3rd STC on Finance, Monetary Affairs, Economic Planning and Integration in turn requested the APRM, together with the African Union Commission (AUC), to submit the proposal on the theme of the 2021 AU Summit to the Ministerial Committee on Agenda 2063, which is mandated to consider Annual Themes.

Reference to this resolution of the 3rd STC on Finance, Monetary Affairs, Economic Planning and Integration, the APRM submits the following concept note for proposal of 2021 AU Assembly theme for consideration by the Ministerial committee on Agenda 2063.

African Peer Review Mechanism
Continental Secretariat
230 15th Road Ranjiespark Midrand,
Johannesburg 1687
South Africa



APRM Proposal for the African Union (AU) Assembly Theme for 2021

Improving access to global capital for accelerated transformative economic development

Ministerial Committee on Agenda 2063

Concept Note

1. Introduction

Historically, the majority of African countries have been heavily dependent on foreign direct investment (FDI), external grants and concessional loans for funding capital expenditures and government deficits. The capacity to tap in and develop local financial markets and access to global capital markets has been limited. However, as development partners and donors continue to scale back their funding assistance, there is need for African governments and private sector to access alternative sources of finance to finance their development projects and business enterprises. According to African Development Bank (AfDB), there are several projects in the pipeline seeking funding and will not be completed without global funding support. Estimates by the AfDB⁹ suggest that the continent's infrastructure needs amount to US\$130–170 billion per year, leaving a financing gap in the range US\$68–108 billion. As part of the solution, a number of African countries have been making efforts to improve their ability to access international capital markets or developing their domestic debt markets.

The AfDB further estimates domestic savings¹⁰ in most African countries to be less than 30 per cent of GDP, which is largely less than investment rate (about 50 per cent of GDP). This indicates that the difference between domestic savings and investment rate is accounted for by the continent's ability to tap in foreign savings to fill in the investment gap. Although official loans and grants account for at least 30 per cent of GDP per annum for most countries, the large investment gap is the major reason why countries are seeking to access global markets and tap into foreign savings to supplement the limited savings of the domestic system.

The value of foreign currency-denominated bonds issued by African governments per year rose from US\$2 billion in 2009 to approximately US\$27.1 billion in 2018. To date, ten African countries with the highest value of foreign currency borrowing through bond issuance, hold a total of US\$113.5 billion in outstanding Eurobonds. As at 31 December 2018, a total of 21 African countries had issued Eurobonds to support government budgets and finance infrastructure investment. The African Capital Market Watch 2018¹¹ reports that approximately 38 percent of the capital flow into African markets are through sovereign debt instruments. The main objectives are; deepen local capital markets, raising capital for public infrastructure projects, attracting more foreign direct investments and supporting private sector access to the global capital markets.

⁹https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African_Economic_Outlook_2018_-_EN_Chapter3.pdf

¹⁰https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf

¹¹ <https://www.pwc.co.za/en/assets/pdf/africa-capital-markets-watch-2018.pdf>

2. Subthemes

The theme will be considered under the following six (6) sub-themes;

- i. **Expanding access to global capital markets for industrialisation and infrastructure development:** Development experts agree that more needs to be done to ensure Africa is able to industrialize and create jobs for its youthful population¹². Quality infrastructure is a key determinant in improving Africa's attractiveness to foreign direct investment. To meet infrastructure needs, international capital markets are offering development funding opportunities with flexible pricing and maturities. With a wider investor base, global capital is open to finance developmental activities previously perceived to be riskier and would not be served by traditional funding methods the banking sector, and by doing so contribute significantly to innovation in African economies.
- ii. **Promoting good economic governance for inclusive economic growth:** Good economic governance is crucial for inclusive growth, stronger economy and the efficient functioning of both the public and the private sector. It improves investor confidence, promote economic growth and financial stability which is the basis for a stronger economy, investments, job creation and poverty reduction. A well-functioning economic, financial and fiscal policies can contribute to economic growth and sustainable development. Investors are increasingly valuing accountability and transparency in the allocation of public resources, especially funds raised through capital markets. Only strong, well-governed and transparent institutions can deliver their services to the society effectively.
- iii. **Sustainable of public debt for African countries to harness growth opportunities:** The heightened interest to access international capital markets has put public debt sustainability high on the continent's policy agenda. However, in most countries the main driver of sustainability has been the interest rate – growth differential (IRGD), underscoring the importance of maintaining and even accelerating growth as well as utilizing the borrowing space for growth-enhancing outlays. To keep public debt at sustainable thresholds, the high borrowing cost, which is rising to be highest expenditure in fiscal budgets of approximately half of African countries, needs to be managed.
- iv. **Managing the rising influence of international credit rating agencies:** The number of African governments assigned a sovereign credit rating (SCR) from international rating agencies has

¹² 2017 UNECA and ECOSOC Special Meeting on Innovations for Infrastructure Development and Promoting Sustainable Industrialization: Technical issues paper | March 2017

increase to 32, from only 1 in 1994. A rating is essential for a country to access global capital markets and to reach out to a wider base of potential investors. Olabisi and Stein (2015)¹³ presented evidence that challenges the consistency and fairness in the application of qualitative and qualitative rating indicators in the determination of sovereign credit ratings of African countries. Analysts further critique that the rating methodologies are undermining the economic strength and potential growth in African economies, which calls into question their accuracy and objectivity. Despite these challenges, the role of rating agencies continues to expand as more African countries seeks to raise more capital through global markets.

- v. **Unlocking potential investments for modernized and competitive markets:** Underdeveloped capital markets that remain narrow and illiquid limiting access to long term financing and hinder a countries' capacities to raise financing. A well-functioning financial market requires strong institutions, a sound legal framework, investors protection and good governance. These are key elements for increasing the depth of markets and creating an enabling business environment.
- vi. **Innovative approaches to finance and domestic resource mobilization:** There is need for innovative financial instruments, notably those geared towards Small to Medium Enterprises (SMEs), which constitute a majority of the businesses on the continent. Small businesses remain confined to the informal sector due to inadequate financial services. Given the importance of financial markets in the economy and the reality that SMEs are not only less likely to access funding but pay more for accessing it, it is essential that policy-makers and financial institutions in Africa create financial products that are geared towards SMEs products and services.

¹³ Olabisi, M. and Stein, H., 2015. Sovereign bond issues: Do African countries pay more to borrow?. *Journal of African Trade*, 2(1-2), pp.87-109.