Africa's development banks face credit ratings pressure

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BY DEOGRATIUS WAMALA

The African Export-Import Bank (Afreximbank) has cut ties with Fitch Ratings following a review of the agency's assessment, with the lender saying the rating process no longer reflected a proper understanding of what the bank is, why it was created, and how it is meant to operate as a development institution for Africa.

Afreximbank believes Fitch now treats it like an ordinary commercial bank rather than a multilateral development bank with a special mandate to support African trade, even when this involves lending to high-risk countries. It's this misunderstanding, Afreximbank adds, that has led to unfair assessments of its risk profile.

Afreximbank is owned by African governments, as well as private investors and is widely seen as an important source of financing for African countries, particularly when those countries cannot access international bond markets or when wealthy countries are cutting aid and concessional lending.

The bank says its founding agreement, signed by 53 African countries, grants it "preferred creditor status," in line with standard treatment for multilateral development banks (MDBs), which reduces the likelihood of losses. Preferred creditor status is a long-standing practice in global finance that gives multilateral development finance institutions priority in repayment when countries face financial distress.

These institutions lend to promote development and, during crises, provide counter-cyclical lending by increasing support when commercial creditors withdraw. This role depends on strong credit ratings, which in turn rely on confidence that these institutions will be repaid even when others are not. Preferred creditor status is meant to provide that assurance.



The Afreximbank African Trade Centre Building under construction on Yusuf Lule Road in Kampala. The structure is expected to house the headquarters of the African Export-Import Bank. PHOTO/STEPHEN OTAGE

Questioned

The World Bank, the International Monetary Fund (IMF), and regional development banks in Asia and Latin America all benefit from this protection in practice. The dispute with Fitch centres on whether Afreximbank truly enjoys a preferred creditor status that's not explicitly set out in global law. The status is based on long-standing practice and agreement, leaving room for differing interpretations.

Afreximbank has significant exposure to countries, including Ghana ($750m (Shs2.6 trillion)) and Zambia ($45m (Shs158.8b)), which have defaulted on their debts, as well as Malawi and South Sudan. The central issue is whether Afreximbank should be forced to accept losses on these loans. Doing so would weaken its claim to preferred creditor status.

Fitch lowered Afreximbank's credit rating last year to just above 'junk' status, citing 'high credit risks and weak risk-management systems.' It also placed the bank on a 'negative outlook', indicating the possibility of further downgrades.

Fitch has warned that if institutions like Afreximbank lose or weaken their preferred creditor status, their ratings could fall further. From its perspective, unclear protections during debt restructurings increase lending risk.

However, sources familiar with the matter said the Paris Club views Afreximbank's loans to Ghana and Zambia as commercial because their interest rates were higher than those of traditional concessional finance. Fitch said restructuring these loans would heighten the risks in Afreximbank's strategy and argued that its non-performing loan ratio should be 7.1 percent, rather than the 2.3 percent reported by the bank.

In response, Afreximbank said Fitch's decision was based on an "erroneous view" that its establishing treaty can be violated without consequences. If loans are treated as commercial, they can be restructured and forced to take losses, unlike loans from institutions such as the IMF or World Bank.

Ghana and Zambia have said they plan to restructure their loans to Afreximbank, suggesting that its preferred creditor status is not fully accepted by all major creditors in practice. In December, Afreximbank said it had resolved issues related to a $750m loan to Ghana but did not provide details. Bloomberg later reported that the bank had agreed to restructuring terms set by other creditors and had taken losses on the loan.

A Fitch report published last month noted that regional MDBs are facing growing challenges due to disagreements over preferred creditor status. It warned that including MDB loans in restructurings would likely weaken credit ratings.

Across the broader MDB sector, rating agencies are reviewing their methodologies to unlock greater concessional financing. Moody's downgraded Afreximbank last year, lowering its long-term issuer and senior unsecured ratings from Baa1 to Baa2 and revising its outlook to negative. S&P Global announced last October that it was revising its approach to multilateral and supranational lenders, including recalibrating risk weightings to reflect preferred creditor treatment.

In a statement, Afreximbank said it remains financially strong, supported by close shareholder relationships and legal protections in its founding documents, and sought to reassure investors. Markets reacted calmly, with Afreximbank's bonds showing little movement. However, JPMorgan lowered its view on the bank's bonds this month.

Afreximbank is also rated by Moody's, which has never granted it a rating benefit for preferred creditor status, reflecting ongoing doubts about the strength of that protection.

AFRICAN SOLUTIONS

Protecting preferred creditor status is a matter of sovereignty. Africa is building its own financial ecosystem, including initiatives such as the African Credit Rating Agency.

Global finance runs on perception, shaped by narratives. Those who control the narrative influence the cost of money.

If the preferred creditor status of African development banks continues to be misrepresented, Africa's access to affordable finance is feared to remain hostage to external opinion rather than legal reality.

This would weaken African development banks just as they are becoming more effective. Their ability to borrow cheaply depends on credit ratings that assume they will be repaid first during financial distress. If that assumption is undermined, borrowing costs are feared to rise.

Preferred creditor status' battle

This backlash reflects a deeper, unresolved problem: there is no clear global rule on whether hybrid lenders like Afreximbank truly qualify for preferred creditor status.

"The debate about the preferred creditor status of Africa's multilateral development finance institutions may sound technical. It is not. If left unchallenged, this narrative could justify the persistently high interest rates Africa faces on international markets," wrote Misheck Mutize, a Post-Doctoral Researcher at the University of Cape Town's Graduate School of Business, in a development journal in November.

Drawing on decades of research, Mutize argued: "African governments must reaffirm and defend the preferred creditor status of multilateral development banks."

For the IMF, World Bank, and Paris Club, preferred creditor status is an unwritten privilege. For African multilateral development banks, it is anchored in law. The founding treaties of Afreximbank, the African Development Bank, and TDB explicitly guarantee this status.

These treaties are registered under Article 102 of the UN Charter, making them binding under international law, and have also been ratified into domestic law by African member states. Yet, it is African banks whose status is now described as "uncertain" or "controversial."

Mutize says: "African governments must correct this perception through stronger, coordinated public statements, particularly from finance ministries and central banks, to reassure investors that these protections are real, enforceable, and backed by political will."

Institutions such as Afreximbank, the African Development Bank, and TDB have grown rapidly. Together, they hold more than $640b in assets, expanding by about 15 percent annually. They have mobilised billions of dollars from global capital markets and increased lending when global finance retreated.

Their success, however, has attracted resistance. International creditors and rating agencies have begun questioning their preferred creditor status, describing it as "weak" or "shaky." This undermines investor confidence, leading investors to demand higher returns. This raises borrowing costs for the banks and, ultimately, for African countries.

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