



Contemporary Issues in African Trade and Trade Finance

CIAT

Volume 10 • Number 2
December 2025

Special Issue:
Financial
Architecture,
& Preferred
Creditor Status
for AMFIs



INSIDE

Misheck Mutize
Foreword

–
Olabisi D. Akinkugbe
African Financial Architecture:
Voice, Representation,
Preferred Creditor Status,
and the Alliance of African
Multilateral Financial
Institutions

–
**Kanayo Awani and
Michael Fiadzibey**
Reforming the African Financial
Architecture: The Role of the
Alliance of African Multilateral
Financial Institutions in
Global Finance

–
Luke Hatton and Lisa Sachs
The Role of Modular Sovereign
Credit Ratings in Scaling
Investment in Africa

–
Amira El-Shal
Preferred Creditor Status and
African Multilateral Financial
Institutions

–
**Jones Odei-Mensah and
Imhotep Alagidede**
In Defence of Preferred
Creditor Status for African
Multilateral Financial
Institutions



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The Contemporary Issues in African Trade and Trade Finance (CIAT) is introduced by the bank to provide a platform for the staff of Afreximbank and other individuals knowledgeable in African trade and trade finance to publish articles in the areas of trade, trade finance and economic development in Africa. The CIAT publishes technical and non-technical papers. Edited by a committee, drawn from both internal and external sources, it also publishes relevant papers at conferences or seminars and those presented at the bank's internally organised Knowledge Sharing Sessions. The journal welcomes editorial comments and responses which will be considered for publication to the extent that space permits.

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Contents

Foreword

Misheck Mutize	5
----------------------	---

African Financial Architecture: Voice, Representation, Preferred Creditor Status, and the Alliance of African Multilateral Financial Institutions

Olabisi D. Akinkugbe	8
----------------------------	---

Reforming the African Financial Architecture: The Role of the Alliance of African Multilateral Financial Institutions in Global Finance

Kanayo Awani and Michael Fiadzibey	22
--	----

The Role of Modular Sovereign Credit Ratings in Scaling Investment in Africa

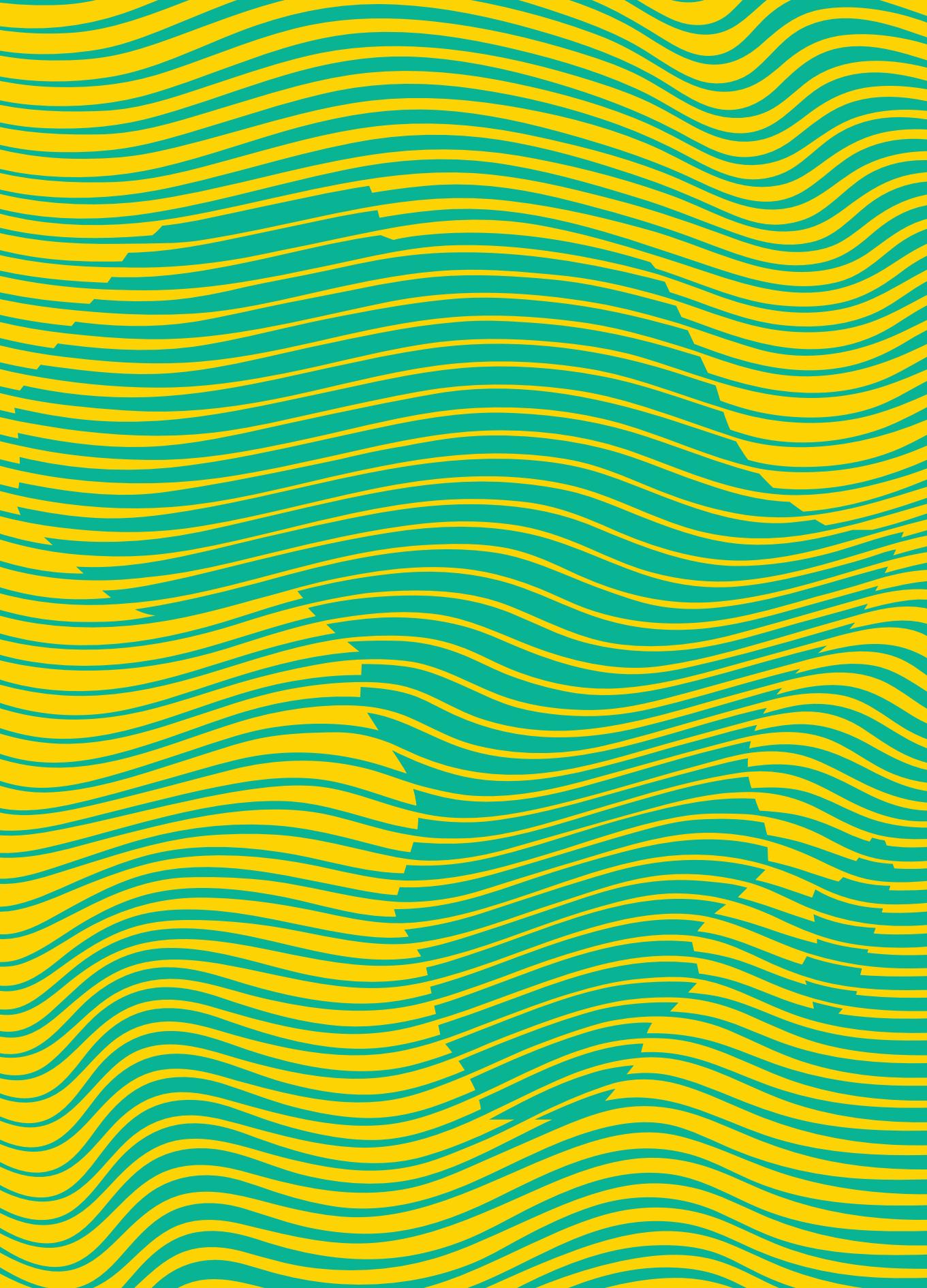
Luke Hatton and Lisa Sachs	44
----------------------------------	----

Preferred Creditor Status and African Multilateral Financial Institutions

Amira El-Shal	62
---------------------	----

In Defence of Preferred Creditor Status for African Multilateral Financial Institutions

Jones Odei-Mensah and Imhotep Alagidede	78
---	----



Foreword

The global financial system is shifting and with it comes a renewed spotlight on Africa's own financial institutions, especially the question of their Preferred Creditor Status (PCS).

As debate around global reform intensify one thing is increasingly clear, 'Africa cannot build a resilient development path without strong, well-protected African multilateral financial institutions (AMFIs) - a protection which is inherently inseparable from their preferred creditor status. Defending this status is not a technical footnote, it is central to Africa's ability to finance its priorities on its own terms.

Arriving at a critical moment, this volume assembles five compelling essays that dissect, clarify, and ultimately strengthen the intellectual and policy foundations of preferred creditor status for African institutions. Together, these essays not only resist growing external pressures to weaken that status but also offer forward-looking proposals rooted in Africa's financial sovereignty.

Olabisi Akinkugbe's opening essay, "**African Financial Architecture: Voice, Representation, Preferred Creditor Status, and the Alliance of African Multilateral Financial Institutions,**" traces how AMFIs have become essential vehicles

for addressing long-standing voice and representation deficits in global finance. Akinkugbe's framing positions preferred creditor status not as a privilege to be justified, but rather as a necessary instrument for Africa's quest for institutional diversity, financial autonomy, and meaningful agency within the global system.

Kanayo Awani and Michael Fiadzigbey expand the analysis with "**Reforming the African Financial Architecture: The Role of the Alliance of African Multilateral Financial Institutions in Global Finance.**" The authors confront the structural weaknesses that continue to constrain African financial systems, from fragmented markets to limited access to long-term capital. The authors also highlight transformative initiatives such as the Pan-African Payment and Settlement System. Their message is clear: the alliance of AMFIs can become the backbone of a more coordinated, resilient, and competitive African financial ecosystem.

Luke Hatton and **Lisa Sachs** assert that credit ratings are the most consequential constraint Africa faces. In “**The Role of Modular Sovereign Credit Ratings in Scaling Investment into Africa**,” they challenge the one-size-fits-all ratings models that have historically penalised African economies. Their proposal for modular, purpose-specific ratings represents a bold step toward lowering borrowing costs, unlocking investment, and aligning financing with Africa’s developmental and climate objectives.

Amira El-Shal highlights the stakes involved in preferred creditor status by focusing on the benefits AMFIs currently provide in “**Preferred Creditor Status and African Multilateral Financial Institutions**.” Using empirical evidence from Sub-Saharan Africa, she demonstrates how preferred creditor status enables AMFIs to deliver countercyclical lending, maintain concessional financing, and step in when private financiers retreat. She offers policy recommendations to fortify preferred creditor status, ensuring that AMFIs remain effective stabilisers during crises.

Jones Odei-Mensah and **Imhotep Alagidede** expose the geopolitical motivations that underpin much of the recent pushback against the current creditor status of AMFIs in “**In Defence Preferred Creditor Status for African Multilateral Financial Institutions**.” The authors deliver a

powerful and unapologetic defence of AMFIs and argue that weakening them would deepen Africa’s reliance on external institutions. Their recommendations, ranging from robust treaty codification to continental political backing, offer a concrete roadmap for securing Africa’s financial autonomy.

Collectively, these essays deliver one message: Africa must protect and elevate the role of its multilateral financial institutions. Preserving preferred creditor status is not only about institutional survival, it is also about safeguarding Africa’s ability to finance development without being held hostage to external interests.

This volume offers the analytical clarity and policy direction needed to inform the next chapter of Africa’s financial reform agenda. In doing so, it will no doubt stimulate deeper debate, sharper scholarship, and more coordinated advocacy in defence of Africa’s financial sovereignty. I enjoyed reading the volume and would entreat you to pick a copy.



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African Financial Architecture: Voice, Representation, Preferred Creditor Status, and the Alliance of African Multilateral Financial Institutions

Olabisi D. Akinkugbe

Abstract: Reform of the international financial architecture is incomplete without the voice and the representation of African multilateral financial institutions. The institutions' ability to continue supporting African countries depends on their preferred creditor status, which Bretton Woods institutions now contest. In this context, the recently formed Alliance of African Multilateral Financial Institutions offers a strategic lending platform for African sovereigns. By supporting the alliance and defending its practices, the African Union can entrench an African financial architecture. African multilateral financial institutions must operate on their own terms, and their practices must not be subordinated to narratives constructed by the Bretton Woods institutions.

Keywords: African multilateral financial institutions; African financial architecture; voice; representation; preferred creditor status, Alliance of African Multilateral Financial Institutions.

JEL Classification: F33; F34; G15

Introduction

A series of challenges beleaguer Africa's participation in the global financial system. On the one hand, the continent lacks a voice and representation in the system (Akinkugbe 2023a). The Bretton Woods Conference that led to the creation of international financial institutions included only four African countries: Egypt, Ethiopia, Liberia, and South Africa. Today, Africa's 54 countries are all members of the International Monetary

Fund (IMF), with varying debt obligations to the IMF or the World Bank (Miriri and Strohecker 2024). Yet African states' representation on the IMF's governance board remains a point of contention. Despite incremental steps—the creation of a 25th chair to increase Africa's voice and improve the balance of regional representation on the board—the global financial regime remains in deep need of more radical governance reforms

due to its systemic and structural challenges. As critics have argued, the extant global financial system has faced shortcomings: inequities in voting power and decision-making processes, allocation challenges for its special drawing rights program, unfair surcharges, climate finance, and debt restructuring that fails to prioritize the economic well-being of the concerned state (Gathii 2023). While some scholars have embraced incremental IMF reform efforts to make the regime fit for purpose in the 21st century (Bradlow 2023), others have called for more radical reform that would reposition the regime for a more equitable and just global financial architecture (de Zayas 2024; Gathii 2023).

On the other hand, the role of African multilateral financial institutions (AMFIs) and their status as multilateral development lenders deserving of preferred creditor status is contested. A preferred creditor in the international financial system is a sovereign or organization that is exempt from participating or that has priority in repayment under debt-restructuring arrangements if a debtor finds itself in debt distress. Preferred creditor status is a key driver of multilateral lenders' financial strength. International financial institutions with preferred creditor status are not subject to loan write-downs during debt restructurings. Accordingly, the loans

offered by multilateral development banks (MDBs) would be exempt from restructuring arrangements (Clifton et al. 2021). Preferred creditor status allows MDBs to continue to lend to African banks. A series of crises, including the COVID-19 pandemic, debt distress, and outright defaults, has exacerbated African states' dependence on a global financial architecture in dire need of urgent reforms. African multilateral financial institutions have been pivotal in providing financing to African countries to support key development projects (Vanni 2020). But persistent questions about preferred credit status and rating regimes compromise these institutions.

The critical role of AMFIs (AAMFI 2024a) as pillars of the continental financial architecture was emphasized by the African Union's ministers of finance and Central Bank governors at a meeting of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration in Tunis, Tunisia in July 2024. African ministers and heads of state further affirmed, on February 17 in Addis Ababa, Ethiopia, that rights, including preferred creditor status, conferred on AMFIs under the treaties establishing them are crucial to financing Africa's development aspirations.

Box 1: Establishment of African Union Financial Institutions

The African Union, Heads of State and Government have long underscored the need to establish an African Monetary Union by harmonizing monetary zones and creating three African Union financial institutions (AUFIIs): the African Central Bank (ACB), the African Monetary Fund (AMF) and the African Investment Bank (AIB). Additionally, in January 2006, Heads of State and Government of the African Union requested that the African Union Commission conduct a feasibility study on the creation of a Pan-African Stock Exchange (PASE).

Since the legal instruments to establish the AIB and the AMF were adopted in 2009 and 2014, respectively, none of the financial institutions has reached the requisite number of ratifications to enter into force. In addition, there is inadequate funding for establishing the AU Financial Institutions, which is particularly detrimental to the operationalization of the AMF, which is the first step toward establishing the ACB. The changing global economic landscape due to the COVID-19 pandemic, climate change and insecurity has underlined the need to expedite the establishment of the (AUFIIs) and to revise the legal instruments establishing the AUFIIs (African Union 2024).

The ministerial declaration articulated the importance of the rights conferred on AMFIIs by African governments as crucial for reducing borrowing costs and deepening capital markets. Finance ministers and central bank governors urged African Union member states to uphold their commitments to AMFIIs and to respect their treaty obligations. They recommended that the African Union Assembly mandate the African Union Commission to work with the Alliance of African Multilateral Financial Institutions in engaging key stakeholders, including the G20. Treating AMFIIs as MDBs with preferred creditor status is germane to their capacity to continue fulfilling their mandates.

During the restructuring of some African states' loans, the Bretton Woods institutions questioned the preferred creditor status of AMFIIs and described them as private lenders. This label has dire ramifications for AMFIIs, African

states' relations with these institutions, and achievement of a sustainable, effective, and efficient African financial architecture (Akinkugbe 2025a).

This essay makes four arguments for treating African multilateral financial institutions as multilateral development banks with preferred creditor status (Akinkugbe 2025a):

1. Their preferred creditor status is inherent in their lending practices and is not determined by their shareholding and profitability.
2. Their rates reflect the costs and risks associated with their role in areas with critical financial gaps.
3. Their preferred creditor status derives from their establishing treaties, not from other creditors' recognition of that status.
4. Their strengthening of the African financial architecture is needed for reform of the global financial architecture.

In February 2024, the AMFIs collaborated to launch the Alliance of African Multilateral Financial Institutions (AAMFI) (AAMFI 2024b), an important platform for coordinating their lending for and increasing their impact on development outcomes.

Four Arguments for Treating African Multilateral Financial Institutions as Multilateral Development Banks with Preferred Creditor Status

Preferred Creditor Status Is Inherent in Lending Practices

A preferred creditor in the international financial system is a sovereign or organization that is exempt from participating or that has priority in repayment under debt-restructuring arrangements if a debtor finds itself in debt distress. Preferred creditor status is a key driver of multilateral lenders' financial strength. International financial institutions with this status are not subject to loan write-downs during debt restructurings. Accordingly, the loans offered by multilateral development banks would be exempt from restructuring arrangements.

The legal basis of preferred creditor status has always been questioned. Importantly, that legal basis does not exist. Occasionally, the preferred treatment of international financial institutions has also been called into question Susan (2014). Preferred creditor status is a market

practice that is grounded in neither contractual undertakings nor international law (Martha 1990). It is widely accepted that MDBs, amongst other international financial institutions, maintain preferred creditor status. That status is a market convention, not an express assertion or presumptive recognition by an institution endowed with authority to confer such a status. Thus, the current imposition of international preferred creditor status is a matter of fact, rather than a matter of law. Preferred creditor status is not expressly embedded in many MDBs' articles of association or agreements. Preferred creditor status can thus be a derivative of the practices of the relevant MDB and its borrowers, as granted by member country shareholders or as a consequence of the establishing treaties, even though it was not expressly indicated. Preferred creditor status is a key driver of multilateral lenders' financial strength.

As children of necessity, AMFIs are pivotal to Africa's socioeconomic development agenda. Today, they play a critical role in advancing development aspirations aligned with the visions of relevant African states (Olukoshi 2022). They have become an indispensable aspect of Africa's financial architecture. In turn, the African financial architecture is integral to Africa's agenda of continental renaissance and its long-standing

vision of collective self-reliance. Unlike Eurobond lenders, AMFIs were established specifically to address financing gaps in Africa, particularly where other financing options are unavailable or too expensive. In many cases, AMFI financing is the most affordable option available to financially/economically challenged African countries for specific projects. Indeed, in some situations, it is the only viable option due to the unfair risk premiums imposed on African borrowers by international markets. Importantly, AMFIs' operability and profitability are essential to entrenching and strengthening the African financial architecture. The IMF and others have opined that some AMFIs should not be granted preferred creditor status because they are profitable and pay dividends to shareholders, including special categories of private sector shareholders, but the value of such variation in the capital structure of the AMFIs must be analyzed in the context of Africa's long history of poor access to funds. The private-sector shareholding of AMFIs offers an important avenue for raising capital for MDBs set up by "poor countries" that would otherwise be unable to build resilient financial institutions. Rather than being viewed as a factor that hurts their preferred creditor status, the special categories of private sector shareholders in AFMIs should be

recognized for what they are: a core means of achieving a self-reliant and meaningful alternative African financial architecture.

Where cheaper alternatives are available, African borrowers will not willingly opt for more expensive African financing. Notably, AMFIs exist precisely because global financial systems often fail to offer affordable, sustainable financing to African nations. AMFIs have been instrumental in challenging unfair risk premiums and in working to create more equitable financial conditions for African countries. Furthermore, AMFIs are designed to operate profitably and sustainably by reinvesting their proceeds. Punishing them for operating in this way undermines their ability to serve their intended purpose. Maintaining their preferred creditor status is essential to their continued ability to provide affordable, development-focused financing and to reduce Africa's dependence on more expensive external lenders.

Rates Reflect the Costs and Risks Associated with Lending in Areas with Critical Financial Gaps

As multilateral lenders, AMFIs provide important alternative financing for African countries. Their lending practices align with the economic realities and needs of African states. AMFIs understand the economic vulnerabilities that dominate the financial landscape of African countries and increasingly

offer products that address the challenges African states confront.

While AMFIs may sometimes charge competitive market rates, these rates reflect the cost of funds, and the risk premiums imposed on African countries—not an underlying commercial agenda. In fact, African nations, especially middle-income countries, often face interest rates from nonregional MDBs that are similar to, or even higher than, those for less productive projects. Furthermore, these nonregional MDBs frequently impose policy conditions that can be costly and painful for citizens, whereas AMFIs do not impose such conditions, offering more tailored and flexible financing.

AMFIs' financing packages are a direct response to the flawed economic and financing models in Africa (Afreximbank 2022). AMFIs fill critical financing gaps that other institutions often neglect, and they are uniquely aligned with Africa's development aspirations, focusing on stimulating economic growth and driving structural transformation. As AMFIs continue to strengthen, they strive to offer lower interest rates than the market and to reinvest their profits to support grants and concessional funding.

Preferred Creditor Status Derives from Establishing Treaties

The perspectives of the AMFI and the IMF on the characterization of preferred creditor status

fundamentally differ (Ojeah 2025). AAMFIs argue that their preferred creditor status derives from their practices and the treaties that establish them; the African Union has reinforced this position. The IMF argues that preferred creditor status derives from recognition by third parties, including the IMF and other creditors.

AMFIs, such as the African Export-Import Bank (Afreximbank), are created by treaties among African sovereign states and offer financing and ancillary services to accelerate Africa's development and close wide financing gaps in trade and infrastructure (Kan 2025). To enable AMFIs to effectively fulfill their mandates, establishing treaties granted them special rights, privileges, and, in most cases, diplomatic immunities to safeguard and protect their assets and operations. These rights include preferred creditor status. Consequently, calls for the "international community—led by the G20—to clarify the status" (Humphrey 2025) of multilateral financial institutions such as the AMFIs miss the mark (Ryder 2024).

AMFIs are Africa's response to the contemporary global financial architecture, with privileged hierarchies rooted in the postcolonial order of the post-Second World War era. Their emergence and strengthening bode well for Africa's international financial political

economy. An ahistorical approach to analyzing their origins, roles, status, and treatment creates a presumed sense of superiority over other MDBs. Furthermore, such an approach deepens the privilege and the structural and inequity issues in the current international financial architecture (Sylla 2023).

AMFIs' preferred creditor status is, therefore, not derived merely from recognition by other creditors. Questions about preferred creditor status strike at the heart of AMFIs' existence and ability to fulfill their mandates. The establishment of these AMFIs and the granting of their rights and privileges, including juridical personality, were sovereign acts by the state parties to their establishment agreements. Therefore, a state party that fails to respect the privileges, immunities, and rights conferred on these institutions by their treaties would be in clear breach of its treaty and domestic law obligations, especially when those treaties have been domesticated and incorporated into national law as part of the ratification process.

African countries involved in debt restructuring should be wary of being encouraged to breach obligations under their AMFI loans. For example, Article IX (2) of the Afreximbank Establishment Agreement (treaty) provides that the Bank's property, assets, operations, and activities shall be free from restrictions, regulations, supervision

or controls, and moratoria and other legislative, executive, administrative, fiscal, and monetary restrictions of any nature, in participating states. Similar provisions are found in other AMFI treaties. States that have ratified such treaties are legally constrained from including AMFIs and their assets in restructuring arrangements because doing so would, by its very nature, impair and restrict a key asset of the AMFIs.

In addition, Article XV of the Afreximbank treaty guarantees that the Bank, within its participating states, enjoys all fiscal exemptions, financial facilities, privileges, and concessions granted to international organizations, banking establishments, and financial institutions by those states. Consequently, countries that have signed and ratified this treaty are legally obligated to treat the Bank no less favorably than they treat any financial institution or international organization, including the World Bank, the IMF, or any other MDB.

Hence, not treating AMFIs like other MDBs with preferred creditor status is more than dispiriting; it is dangerous and fundamentally anti-development, and it risks entrenching African nations' financial woes.

Reform of the Global Financial Architecture Is Incomplete Without AMFIs' Strengthening of the African Financial Architecture

The argument that AMFIs do not provide concessional loans and,

therefore, should not have preferred creditor status overlooks the structural challenges they confront. Unlike institutions such as the IMF or World Bank, AMFIs are primarily funded by relatively poorer African member states, which limits their ability to raise consistent capital and provide concessional financing on a large scale. If AMFIs had access to the same resources and privileges as these larger institutions, they would be better positioned to offer concessional loans.

Given the barriers African states face in raising capital affordably, safeguarding the preferred creditor status of AMFIs should be a priority for everyone. Recognizing and maintaining the preferred creditor status of AMFIs strengthens their ability to attract more favorable financing, which, in turn, enhances their potential to offer concessional lending in the future. This support is crucial for closing development gaps across Africa and aligns with the vision for African financial independence outlined in Agenda 2063.

Despite these challenges, several AMFIs are already making efforts to establish concessional financing windows, even amid high financing costs. Continuing to support AMFIs by recognizing their preferred creditor status is not only fair but also essential for their growth and evolution into the robust financial institutions Africa needs for sustainable development.

A Platform for Entrenching the African Financial Infrastructure: The Alliance of African Multilateral Finance Institutions

The AAMFI, or the Africa Club, was launched during the 37th African Union Assembly of the African Union heads of state in Addis Ababa in February 2024. Members of the AAMFI include Afreximbank, the Africa Finance Corporation, the Africa Reinsurance Corporation, the Trade and Development Bank, the Shelter Afrique Development Bank, ZEP-RE (PTA Reinsurance Company), and the African Trade and Investment Development Insurance Agency. The African Development Bank is not an AAMFI member because non-African shareholders, mainly developed economies, hold a significant portion of its shares. Afreximbank is the alliance's interim Secretariat. In July 2024, the Governing Council of the AAMFI met on the margins of the African Union's sixth Mid-Year Co-ordination Meeting and welcomed two new members: the African Solidarity Fund and the East African Development Bank.

The AAMFI was established to promote collaboration, cooperation, and coordination among the multilateral financial institutions owned and managed by Africans and established by treaty to support Africa's economic development and integration objectives. The AAMFI will collaboratively develop tailored solutions and financing tools to meet Africa's unique developmental

needs while amplifying the voices of member states and shareholders on the global stage. The AAMFI aspires to address the specific needs of African states and expedite their access to essential financing mechanisms without imposing unfair and asymmetrical conditions. The AAMFI is a response to the inadequacies of the global financial architecture and seeks to promote African finance development needs and advocate for Africa at the international level. The AAMFI is more than an alternative source of financing for African states; it paves the way for a new era of inclusive, self-reliant, and sustainable financial development.

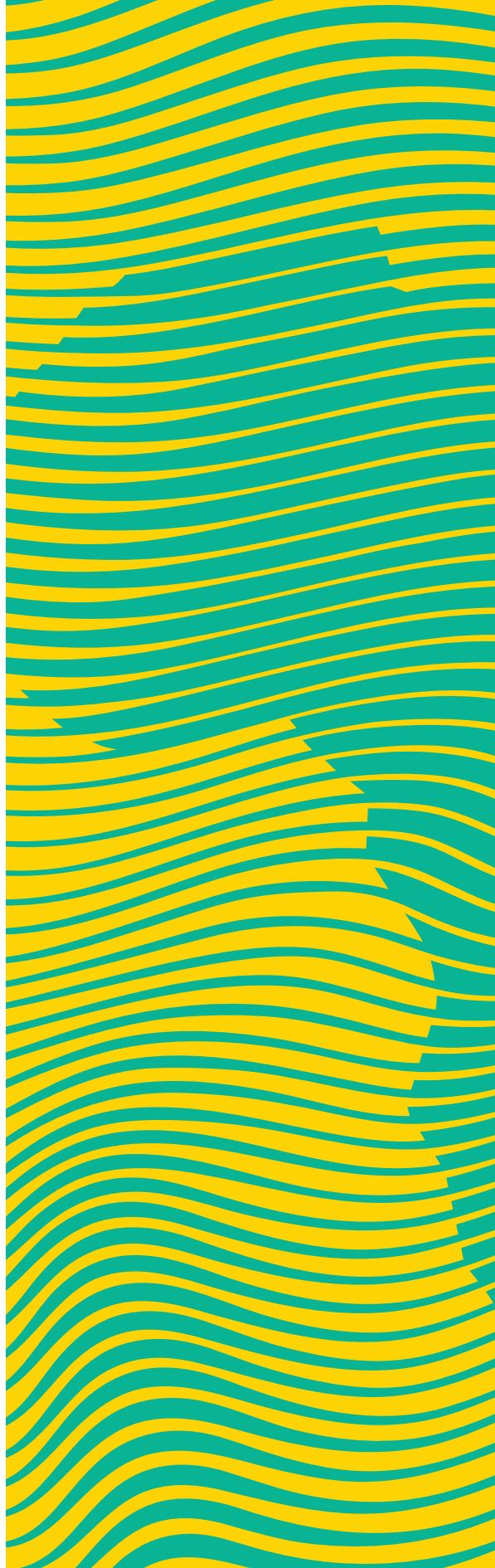
The AAMFI is a catalyst for addressing the deficit of inequitable and unjust governance in the global financial architecture. Beyond serving as a bulwark against imperialist international financial lending practices, the AAMFI offers an important springboard for African states to re-order their representation and participation in a global financial architecture that otherwise does not prioritize their socioeconomic development interests. Further, the AAMFI shores up Africa in a rapidly worsening global economy. It could emerge as a regionally influential financial institution that helps African states escape domination by the IMF and

the World Bank and break their cycles of indebtedness. The AAMFI offers an endogenous panacea to African-centred solutions for African challenges (Afreximbank 2020).

Conclusion

African states need and must build on the strong platform of the AAMFI (Misheck 2025). Strengthening the institutions of the African financial architecture is critical to the financial sovereignty of Africa and its states. Safeguarding the full and effective functioning of AMFIs will preserve and promote diversity in the global financial architecture.

Given the impact of preferred creditor status on the financial stability of financial institutions, characterizing AMFIs as institutions without that status portends dire consequences for the African financial architecture. Likewise, it would negatively affect the critical roles that the AMFIs play, especially when African states face emergencies. Any loss in AMFIs' financial strength would negatively impact African states and continental development efforts envisaged by the African Union's Agenda 2063. Unequal treatment of AMFIs would reduce their capacity to offer a meaningful alternative to the Western-dominated international financial architecture.



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Reforming the African Financial Architecture: The Role of the Alliance of African Multilateral Financial Institutions in Global Finance

Kanayo Awani and Michael Fiadzibey

Abstract: The financial architecture of Africa faces deep, systemic challenges, including fragmented markets, limited access to capital, and under-representation in global financial institutions. This paper examines how the Alliance of African Multilateral Financial Institutions (AAMFI) is seeking to address these challenges by fostering collaboration and financial self-reliance. It explores Africa's monetary and financial systems, highlighting the impact of colonial influences, regional disparities, and the need for structural reforms. Key weaknesses identified in this paper include shallow bond markets, the absence of commodity exchanges, and a lack of supranational regulatory authorities. Stock exchanges across the African continent are fragmented, with varying levels of development, liquidity, and market depth. However, opportunities for significant improvement exist through initiatives such as the Pan-African Payment and Settlement System and the African Exchanges Linkages Project. By bridging financial gaps and advancing Africa's interests on a global scale, AAMFI can contribute to a more resilient, inclusive, and competitive African financial system.

Keywords: African financial architecture, bond market, commodity exchanges, derivatives markets, institutional investors.

JEL Classification: G20, G10, G13, G23, Q02

Introduction

The financial architecture of Africa, made up of the interlinked monetary and financial systems of 54 nations, is hampered by fragmented markets, limited access to capital, and under-representation in global financial institutions. It is also adversely impacted by a

global financial architecture that is failing to meet existential challenges facing the nations of Africa and of the entire Global South. Foremost among those challenges are debt distress, economic inequality, the impacts of climate change, and looming biodiversity loss.

This paper outlines how the financial

architecture of Africa has evolved, and how Africa's own financial and monetary institutions can be transformed to enhance economic resilience, promote economic development, and address structural barriers to sustainable growth on the continent. The paper then examines the role that the Association of African Multilateral Financial Institutions (AMMFI) can play in such reforms. These changes would be in lieu of needed reforms to the global financial architecture, which plays a key role in shaping access to capital for investment, financing of trade, and financial stability.

The term global financial architecture is defined by the United Nations as the complex web of rules, institutions, and practices that govern international finance and monetary systems. It is not a single entity but a collection of actors and frameworks that aim to ensure the stability and proper functioning of global monetary and financial systems, including public and private financial institutions, standard-setting bodies, and informal groups. At a 2009 conference sponsored by the Federal Reserve Bank of San Francisco, Andrew Crockett, president of JP Morgan Chase International, asserted that the global financial architecture is made up of three components (Crochet, 2009). The first, he said, is the basic economic model by which international financial relations are conducted. The second

is the network of institutional arrangements that manage the relations. The third is how decision-making power is distributed among individual countries. Taken together, the two definitions provide a comprehensive view of what the global financial architecture represents, especially, in the context of the consensus for reforms.

The global financial architecture plays an important role in Africa's economic development, and the debt distress it imposes on African nations is among the many reasons its reform is sorely needed.. The African Centre for Economic Transformation estimates African nations are paying five times more on interest on capital market debt than they would if G20 leaders delivered swiftly on financial reforms (African Centre for Economic Transformation 2023). The centre estimates those nations will pay \$53 billion more for debt they raised on global capital markets before 2021 compared with what they would have paid if they had borrowed from the World Bank. To make matters more untenable, the investment gap for financing progress towards meeting the United Nation's sustainable development goals increased by more than 50% over the period 2019 and 2013 due to the COVID-19 pandemic, to \$3.5 trillion per year, according to the Organisation for Economic Co-operation and Development (Martens 2023).

Government coalitions, among

them the Bridgetown Initiative led by Mia Motley, Prime Minister of Barbados, international institutions, multi-stakeholder coalitions, nongovernmental institutions, and leading multilateral financial institutions have all made strong cases for reforming the global financial architecture. The Carnegie Endowment for International Peace estimates 71 reform proposals are receiving varying levels of attention (McNair 2024). Many call for increasing the volume of low-cost public finance via loans and grants, unlocking, for instance, the special drawing rights of the International Monetary Fund as collateral to expand Multilateral Development Banking Institutions (MDBIs) balance sheets (McNair 2024). Others propose increased representation by African nations in governance of international institutions that set rules for international monetary and financial systems. There are calls to improve risk assessment, especially by the international credit rating agencies, to expand opportunities for investments in Africa and the Global South. Lastly, proposals advocate for reforms of debt governance. For example, the International Monetary Fund is being called on to pause debt repayment schedules in the wake of natural and global public health-induced economic shocks (Bridgetown Initiative 2023, McNair 2024, ACET 2023 and United Nations 2023). There are also suggestions for debt swaps to unfreeze finance

for sustainable development such as high-cost debt exchanges for cheaper debts (ACET 2023).

Following this introduction, this paper briefly reviews the evolution and key features of the African financial architecture. It then presents an overview of AAMFI and its membership. The last section makes a case for the reforms needed to transform the financial architecture of Africa and how AAMFI can assist in bringing such reforms to fruition.

Key Components of Africa's Financial Architecture

The financial architecture of Africa is made up of both monetary and financial systems. The monetary system includes institutions and governance frameworks that deal with the balance of payments. The definition of the African financial architecture used in this paper draws on the definition established by the International Monetary Fund as consisting of the institutions and governance frameworks relating to exchange rate arrangements, payments and transfer arrangements, capital movement, and foreign exchange and gold reserves (Santrago 2022; Gold 1984). The African financial system includes economic agents and markets that interact for mobilizing funds for investments and providing facilities such as payment systems and financing commercial activities.

The Development of Africa's Financial Architecture

The legacy of European colonialism has shaped monetary and financial systems in Africa. The nature of institutions, policies, laws, and regulations that guide the monetary and financial systems across the continent are derived from those established in those colonizing nations. Because France and Britain controlled the majority of countries in Africa before each achieved their independence, their influences persist. Singaporean economist J.B. Ang makes the case that the legal traditions and colonial heritage have influenced the development of ancillary monetary and financial institutions across Africa (Ang 2019).

Africa's Monetary System

Africa's monetary system consists of central banks, regional monetary institutions, regional payment systems, and frameworks. Fourteen African countries with colonial links to France belong to two economic and monetary unions. The first, the Central African Economic and Monetary Union, is made up of Cameroon, Central Africa Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon. The members employ a common currency, the Central African CFA franc—abbreviated XAF in currency markets. The second, the West African Economic and Monetary Union, is made up of Benin, Burkina Faso, Cote D'Ivoire,

Guinea Bissau, Mali, Niger, Senegal, and Togo. The currency employed by WAEMU members is the West African CFA franc — abbreviated XOF in currency markets.

The Common Monetary Area (CMA) is a monetary union in Southern Africa consisting of Eswatini, Lesotho, Namibia, and South Africa. While each country issues its own currency, the South African Rand serves as legal tender in all member nations, with the currencies of the other countries pegged at par with the Rand. The South African Reserve Bank oversees the Common monetary Area, providing a framework for a fixed exchange rate regime and playing an important role in coordinating monetary policies in the area. The other 37 African countries conduct their national monetary authorities without deference to an external institution.

There are five regional payment systems in Africa (Ocran 2024). Apart from the Pan-African Payment and Settlement System (PAPSS), they are all based on single-currency platforms. PAPSS provides a platform for payments and settlements in multiple currencies and is capable of handling large volumes of low-value payments the regional payment platforms cannot. Given the diversity of Africa's 40 currencies, the PAPSS platform holds much promise for enhancing payments and clearance of financial transactions across Africa.

Africa's Financial System

The African financial system has four main structures: financial institutions, financial markets, financial instruments, and actors and participants. They can be described as follows:

Institutions

Financial institutions, in Africa include banking financial institutions, non-banking financial institutions, multilateral banking institutions, and multilateral non-banking financial institutions. The non-banking financial institutions, among them insurance companies, include pension funds. Multilateral financial institutions in Africa have grown robustly in recent years and continue to play a role in supporting capital inflows and providing market participants to price, unbundle, and transfer risks. The derivatives market, when developed, can employ instruments such as commodity futures to help countries insure themselves against seasonal risks and overdependence on bank credit (Olatundun 2009).

Financial Instruments

Financial instruments in the African financial system reflect the availability and vibrancy of the markets. Because most countries on the continent lack derivative markets, for example, futures contracts and other derivative instruments are largely absent. The sole exception is South Africa,

where four major types of derivative markets have been developed. These are equity derivatives, commodity derivatives, interest rate, and currency markets. By and large, equities and debt instruments are the predominant financial instruments used on the continent. While the debt market is not as developed as the equities market, it is playing an increasingly important role in the continent's financial landscape.

Actors and Participants

The African financial system is made up of financial intermediaries, regulators, issuers (borrowers), investors, and savers. Some national intermediaries have become multinational. In the past, foreign banks in African countries were exclusively Europe- or United States-based. This is no longer the case. Multiple pan-African financial institutions have become consequential market players on the continent.

Financial system regulators in African countries consist largely of central banks and securities and exchange commissions. Because no continent-wide regulatory authority for any section of the financial system exists, it is difficult to set regional standards and ensure coordination of national supervisory institutions. Ad-hoc structures such as the Association of African Central Banks, African Exchanges Association, and the African

Pensions Supervisors Association are voluntary associations with no mandate to make rules or regulations that are legally binding (Association of African Central Banks 2021).

In contrast, Europe has a supranational regulatory system, the European System of Financial Supervision. Introduced in 2010 in the wake of the global financial crisis of 2008 (European Union 2022), it is made up of the European System Risk Board, the European Banking Authority, the European Securities and Market Authority, and the European Insurance and Occupational Pensions Authority. The system has had significant success since its launch in creating rules for financial services accepted by its members and in promoting regulatory convergence.

Because other financial institutions in Africa are relatively undeveloped, the banking sector, particularly the multilateral banking sector, makes up the dominant part of the financial system and can play an increasingly significant role in African economies. For example, in many developed countries, the pensions sector of the non-banking financial sector has a considerable asset base, but not in most of Africa. South African institutions offering pensions are the exception, but even there, the asset base is not as large as the banking sector. Major banking institutions in Africa include the African Development Bank and

Afreximbank. Multilateral non-bank financial institutions include the African Reinsurance Corporation and the African Finance Corporation

Banking institutions in Africa have a much larger financial asset base than most financial institutions on the continent (figure 1). In 2023 the assets of African banks were estimated at US\$1.7 trillion (European Investment Bank 2024).

Financial Markets

Not all five segments of the international financial architecture are well developed in Africa. African equities markets, for example, remain fragmented, with a limited number of listed companies, low trading volumes, illiquidity, and relatively small market capitalizations.

However, there are signs of progress. The African Exchanges Linkages project (AELP)—an initiative led by the African Securities Exchanges Association, which represents all 36 securities exchanges across the continent, in partnership with the African Development Bank—has introduced a platform that enables cross-border trading and settlement of securities (African Securities Exchanges Association 2025). AELP aims to enhance the efficiency of African capital markets by facilitating pan-African capital flows, improving portfolio diversification for investors, and increasing the depth and liquidity of Africa's fragmented exchanges. To date, seven of the

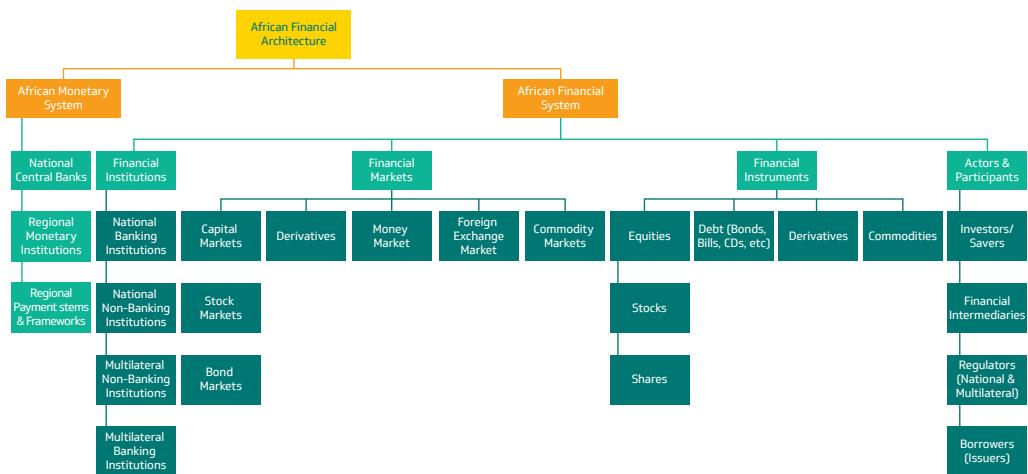
largest African exchanges, which together account for more than 90% of the continent's market capitalization (approximately US\$1.3 trillion), have joined the initiative. The project links these seven stock markets and 31 stockbrokers across Africa (African Securities Exchanges Association 2025).

Institutional investors are most prominent in South Africa, largely due to the limited reach of non-banking financial institutions such as pension funds and insurance companies in other parts of the continent. Nevertheless, a range of financial intermediaries operates throughout African financial systems. African Securities Exchanges Association plays a key

role in bringing together all 36 stock exchanges in Africa to promote the development of capital markets.

Despite the developmental imperatives of commodity exchanges, which are crucial for economies heavily reliant on natural resources, such markets remain underdeveloped outside South Africa and Ethiopia (United Nations Trade and Development 2009; Mbeng et al. 2013). Similarly, derivatives markets are virtually absent from in Africa. South Africa remains the only country with a well-established derivatives market, while Kenya has recently launched a derivatives market that is still in its infancy (Musila 2023).

Figure 1: Africa's Financial Architecture



Source: Authors' illustration

Institutional Investors

Recent comprehensive data on institutional investors is hard to come by. While some countries such as South Africa, Namibia, Ghana and Nigeria have data on pension institutions as recent as 2023, that can't be said of the entire continent. Nonetheless, data on the other types of institutional investors are not readily available. Even though data from the African Development Bank is dated, it is indicative of the scale of assets undermanagement held by Africa's institutional investors. Though the funds are much smaller in comparison with the assets under management held by institutional investors in other parts of the world such as Asia, they are significantly substantial to contribute to the continent's development (table 1).

To transition from primary commodity dependence to trade-linked industrialization, it is imperative AAMFI engage African institutional investors to raise funds for investment infrastructure assets, both soft and hard, with

potential to increase Africa's competitiveness in global value chain participation. As suggested by the African Development Bank, AAMFI must consider developing solutions that scale up project preparations, set up co-investment platforms, create risk-mitigation instruments, support governance, and back the deepening and strengthening of the African capital market.

The Alliance of African Multilateral Financial Institutions

The AAMFI is also known as the African Club. Established 17 February 2024 in Addis Ababa, Ethiopia, by African heads of state, it is made up of leading African-controlled multilateral financial institutions. Its mandate is to foster sustainable economic growth and financial self-reliance in Africa by promoting collaboration, cooperation, and coordination among its members. By advancing the interests of member states in global finance and advocating for the role of African multilateral financial institutions, the African Club aims

Table 1: African Institutional Investors, 2017 (Projections to 2020 in US\$ billions)

Type of investor	2017	2020
Pension	676	1100
Insurance	329	445
Sovereign Wealth Funds	243	300
Total	1,248	1,845

Source: Author's elaboration

to enhance Africa's economic development and integration into the global financial architecture.

The Alliance was formed by seven leading African multilateral institutions: Afreximbank, African Finance Corporation (AFC), Eastern and Southern Africa Trade and Development Bank (TDB Bank), African Reinsurance Corporation, Africa Trade and Investment Development Insurance, Shelter Afrique Development Bank, and ZEP-RE .

Three new members joined the Alliance in March 2025: African Solidarity Fund (FSA), the Fund for Export Development in Africa (FEDA), and East African Development Bank (EADB).

These multilateral financial institutions operate in a wide range of financial markets including trade finance, infrastructure finance, and insurance. In addition to the provision of credit, some of the financial institutions provide equity financing.

The ultimate objective of AAMFI is to foster sustainable economic growth and financial self-reliance in Africa. As outlined at its Press Conference in Accra in July 2024 prior to its Governing Council Meeting, it was founded to

...advance the interests of their African member states in global finance and to advocate for African Multilateral Financial Institutions (AMFI's) role in protecting and promoting them

(Alliance of African Multilateral Financial Institutions 2024).

Accordingly, its mandate is

To promote collaboration, cooperation and coordination among its members in finding solution aimed at promoting as well as supporting Africa's sustainable economic development and integration objectives, in line with member institutions' respective mandates and in furtherance of their development objectives.

(Alliance of African Multilateral Financial Institutions 2024).

As of 31 December 2023, the 10 multilateral financial institutions that make up AAMFI held a combined asset base of US\$60 billion. Afreximbank, the largest multinational financial institution in the alliance, accounted for 56% of this total, with assets of US\$33.5 billion. AFC ranked second, holding US\$12.3 billion, or 20.5% of AAMFI's assets. TDB Bank followed in third place, with US\$10.1 billion in assets, representing 16.8% of the total. Together, these three institutions control 93% of AAMFI's asset base (table 2).

Although the African Development Bank (AfDB) is not part of AAMFI, it shares the alliance's broader goal of fostering economic development in Africa. The reasons for its exclusion are not explicitly explained in the literature, but it may stem from differences in ownership structure and mandate.

Table 2: Assets of Alliance of African Multilateral Financial Institutions, in US\$ millions

	Institution	2023
1	African Export-Import Bank	33,500.0
2	African Finance Corporation	12,345.0
3	Eastern and Southern Africa Trade and Development Bank	10,110.0
4	African Reinsurance Corporation Group	1,649.0
5	African Trade & Investment Development Insurance	837.1
6	ZEP-RE PTA Reinsurance Company	481.0
7	East African Development Bank	454.4
8	Fund for Export Development in Africa	308.3
9	African Solidarity Fund	295.0
10	Shelter Afrique Development bank	224.3
Total		60,204.1

Source: Authors' compilation from 2023 annual reports.

Unlike AAMFI members, which are primarily African-owned, the AfDB has a more diverse shareholder base: the 54 African regional member countries hold 60% of its shares, while the remainder is held by non-regional members.

The remaining 27 non-African countries—including members from the Americas, Europe, and Asia—hold 40% of the AfDB's total shareholding. Another key distinction lies in strategic priorities: unlike the AfDB, AAMFI places stronger emphasis on collaboration and explicitly aims to advance Africa's interests within the global financial architecture. The following section provides a brief profile of each of the ten African Club member institutions,

highlighting their purpose, ownership structure, and financial position.

Ownership Structure and Financial Position of Alliance of African Multilateral Financial Institutions Members

This section outlines the shareholder structure, financial position, and operational focus of each member institution, highlighting their contributions to the African financial landscape. By examining the diverse roles and strategic priorities of these institutions, the section underscores their collective efforts to foster economic growth, enhance financial self-reliance, and promote sustainable development across the continent. Through detailed

profiles, readers gain insights into how these institutions collaborate to advance Africa's interests in the global financial architecture.

African Export-Import Bank

Established in 1993 and headquartered in Cairo, Egypt, the African Export-Import Bank is the continent's leading multilateral trade finance institution. While its core mandate is to facilitate and expand African trade through financing, the Bank's operations extend into complementary areas such as trade credit insurance, guarantees, and project finance. Afreximbank also supports trade-enabling initiatives, such as its support for the African Organization for Standardization to harmonise automotive industry standards—an intervention designed to accelerate industry development and strengthen the continent's capacity to benefit from the African Continental Free Trade Area. More recently, the Bank has expanded its geographic scope to the Caribbean, leveraging the African Diaspora there to promote trade, investment, and institutional collaboration between Africa and the wider Afro-descendant world.

Afreximbank's shareholding is structured into four distinct classes:

- Class A: African governments, their agencies, and public institutions or designated institutions, including continental, regional and subregional financial institutions.

- Class B: African national financial institutions and private investors.
- Class C: Non-African international financial institutions, economic organisations, and private investors.
- Class D: Freely transferable shares, issued Depository Receipts and listed on the Stock Exchange of Mauritius (SEM).

As of December 2023, the Bank's ownership structure was as follows:

- Class A: 64.5% of total shares, held by 54 investors.
- Class B: 25.59%, held by 94 investors.
- Class C: 6.77%, held by 15 investors.
- Class D: 3.14%, held by a single entity through the SEM listing.

As of December 2023, Afreximbank reported total equity of US\$6.12 billion, liabilities of US\$27.4 billion, and a consolidated asset base of US\$33.5 billion. This makes Afreximbank the largest institution within the African Club of multilateral financial institutions by balance sheet size, underscoring its central role as the primary driver of trade finance and development-oriented financial intermediation on the continent.

African Finance Corporation

Established in 2007 to provide solutions to Africa's persistent infrastructure deficit and to help

improve its challenging investment environment, the AFC is based in Lagos, Nigeria. Its mandate is to provide innovative financing solutions across infrastructure, natural resources, and industrial assets, focused on de-risking projects that might otherwise struggle to attract long-term capital. Mobilizing both public and private finance, AFC seeks to unlock productivity, enhance competitiveness, and fuel economic growth across its member states.

As of 31 December 2024, AFC had 55 shareholders. The majority stake is held by African national governments (50.8%), followed by financial institutions (40.1%). African pension funds represent 6.4% of the ownership, while multilateral institutions hold 2.4%. The remaining 0.3% is distributed among other shareholders.

AFC reported total equity of US\$3.42 billion in 2023, against liabilities of US\$8.92 billion, giving it a consolidated asset base of US\$14.406 billion.

The Eastern and Southern African Trade and Development Bank

Founded in 1983 and headquartered in Bujumbura, Burundi, TDB Bank is a regional institution with a mandate to provide trade, project, and infrastructure financing across its member states. It offers asset management services and environmental and social

management alongside core lending activities, with the goal of aligning its portfolio with sustainable development goals.

TDB Bank's shareholding structure is divided into three major classes:

- Class A: African member states, which collectively hold 78% of the Bank's equity.
- Class Nonregional member countries, with 18 investors holding 20% of shares.
- Class C: Institutional investors from Africa, Europe, and Asia which account for the remaining three%, held by five investors.

As of 2023, TDB Bank reported total equity of US\$ 2.21 billion, liabilities of US\$ 7.9 billion, and a consolidated asset base of US\$10.11 billion. African national governments make up the majority of borrowers from the Bank, representing 67.6% of outstanding loans. Large non-banking enterprises account for 17.3%, the banking sector 12.1%, 1.9%, medium sized enterprises 1.9%, and public enterprises (1.1%.

African Reinsurance Corporation Group

Established in 1976 in Yaoundé, Cameroon, Africa Re is the leading pan-African reinsurance company and the largest reinsurer in Africa in terms of net reinsurance written premiums. Africa Re was set up by 36 African states, following

a recommendation of the AfDB to develop the insurance and reinsurance industry in Africa. By pooling resources, Africa Re was designed to reduce reliance on foreign reinsurers and to support the economic development of the continent.

Africa Re's ownership structure includes 42 African states, representing 34.53% of total equity. The African Development Bank holds 8.36%, and 111 African insurance and reinsurance companies collectively hold 33.85%. Non-African investors hold 22.98% stake, including major international firms such as Fairfax (Canada), AXA (France), and Sanlam Alliance (South Africa). Employees of Africa Re hold a collective 1.29% stake through a share ownership plan.

As of December 2023, Africa Re reported total equity of US\$1.07 billion, assets of US\$1.65 billion, and liabilities of US\$583 million. The corporation made a net profit of US\$126.96 million that year, supported by a gross written premium of US\$1.01 billion and reinsurance revenue of \$1.05 billion.

African Trade and Investment Development Insurance

Founded in 2001 and headquartered in Nairobi, Kenya, the ATIDI provides risk mitigation solutions to support trade and investment across the African continent. Its mandate

is to facilitate, encourage, and expand commercial activity in Africa by offering insurance, co-insurance, reinsurance, guarantees and related financial instruments. It plays a critical role in attracting regional and international capital into African markets, to promote trade, investment, and other productive ventures in support of the continent's long-term development objectives.

Shareholders of ATIDI include 22 African member states, multilateral and regional development finance institutions including AfDB, and TDB Bank. International institutional shareholders include Atradius Participations Holding (Spain), CESCE (Spain), Chubb (Switzerland), SACE S.p.A (Italy), UK Export Finance, and Nippon Export Investment Insurance (NEXI, Japan). Regional insurance entities, including Kenya Reinsurance and ZEP-RE PTA Reinsurance Company (ZEP-RE) also hold stakes in ATIDI, as well as regional organisations such as the Common Market for Eastern and Southern Africa.

ZEP-RE PTA Reinsurance Company

ZEP-RE was established in 1990, in Mbabane, Swaziland (now Eswatini) through a treaty signed by the Heads of State and Government of the Preferential Trade Area, the precursor to the Common Market for Eastern and Southern Africa. Headquartered today in Nairobi

Kenya. ZEP-Re operates both as a re-insurer and a specialised institution of the regional economic community. Its mandate is to promote the development of the insurance and re-insurance industry across the region by providing risk management capacity and supporting financial integration. The company underwrites both life and non-life reinsurance products,

ZEP-Re's shareholding structure include eight African governments holding Class A shares, fourteen insurance and reinsurance companies, predominantly from Africa, holding Class B shares, and multilateral and development finance institutions holding Class C shares. Those shareholders include the African Development Bank (13%) and Deutsche Investitions - und Entwicklungsgesellschaft (6%).

Among leading shareholders of ZEP-RE are Kenya Reinsurance (20.5%), TDB Bank (18.67%) and the government of Rwanda (6.5%).

East African Development Bank

The EADB is a regional development bank established in Kampala, Uganda in 1967. It is focused today on mitigating climate change, increasing food security, growing infrastructure, developing skills and funding regional integration. Its product portfolio includes loans, leasing, real estate, trade finance, and equity investments.

The governments of Kenya, Tanzania, Rwanda and Uganda hold the majority (92%) of shares in the Bank, Other shareholders include the African Development Bank and eight other African and international institutions. EADB's held assets in 2023 of US\$454 million and liabilities of US\$132 million. Its reported total equity in 2023 was US\$322 million.

The Fund for Export Development in Africa

The Fund for Export Development in Africa is the development impact investment of arm and a wholly owned subsidiary of Afreximbank. Established in Cairo in 2021, it is headquartered today in Kigali, Rwanda. While Afreximbank is its sole shareholder, more than 20 African countries have acceded to the FEDA Establishment Agreement. Accession to the FEDA Establishment Agreement is a strong indication that countries are committed to FEDA's mission and operations. FEDA seeks to implement Afreximbank's equity, quasi-equity, and private credit investment mandate across the African continent.

FEDA reports total assets of US\$308 million (2023), liabilities of US\$233 million, and shareholders' equity of US\$308 million, with authorised share capital of US\$2 billion.

African Solidarity Fund

The Fund, known by its French acronym, FSA, is a multilateral

financial guaranteed institution founded in 1976 in Niamey, Niger. The government of France ceased participation in the Fund after a revised agreement setting up the FSA was signed in 2008. Class A shareholders in the Fund include 23 Africa member states. Class B shareholders include regional communities such as the Economic Community of West African States, the Common Market for Eastern and Southern Africa, the Southern African Development Community, the Arab Maghreb Union, and The Development Bank of Central African States.

The mandate of FSA is to contribute to the economic and social development of its regional member states by facilitating access to credit by governments, public, and private enterprises. It finances productive investment projects and mobilise local and external savings by giving loan guaranties on the financial market. The overarching goal of the FSA is to facilitate economic development by removing structural constraints. FSA also finances trade, infrastructure, and industrialisation in Africa.

Shelter Afrique Development Bank

Shelter Afrique Development Bank (ShafDB), was established in 1982 in Nairobi, Kenya. The institution specialises in providing housing finance, project finance, institutional

lending, equity investments, trade finance, and social housing. ShafDB shareholders include 44 African member states (with a total equity stake of 52%), and two institutional shareholders, the African Development Bank (11.7%), and Africa Reinsurance (3.48%).

ShafDB plays a critical role in developing real estate and housing sectors in Africa by helping support the establishment of affordable housing and urban development. ShafDB seeks to build strategic partnerships to support its stated objectives.

Conclusions and Recommendations

Africa's equities market is characterized by a limited number of listed firms, low turnover rates, illiquidity, and small market capitalization. The continent's bond market is also underdeveloped, except for South Africa. Commodity exchanges are largely absent, with the only significant exchanges based in South Africa and Ethiopia. African nations, apart from South Africa, lack derivatives markets. The absence of statutory supranational regulatory authorities further exacerbates the challenges of developing markets, making it difficult to establish regional standards and ensure coordination among national supervisory institutions.

While the financial markets in Africa remain fragmented, African-

led institutions can play pivotal roles in addressing the significant monetary and financial challenges across the continent. Opportunities for significant improvement exist through initiatives such as PAPSS and AELP. By bridging financial gaps and advancing Africa's interests on a global scale, AAMFI can also contribute to a more resilient, inclusive, and competitive African financial system.

PAPSS offers a platform to facilitate payments and settlements in multiple currencies, streamlining the clearance of financial transactions across the African continent. AELP promotes cross-border trading and the settlement of securities, contributing to greater diversification for investors and enhancing the depth and liquidity of the continent's exchanges. Increasing engagement with institutional investors to fund infrastructure assets has the potential to significantly boost Africa's global competitiveness and participation in value chains.

As a partner and collaborator with a range of Africa-led institutions, AAMFI has a unique opportunity to accelerate strategic initiatives to transform both the African financial landscape and the global financial architecture. By addressing regional weaknesses and capitalizing on emerging opportunities, AAMFI could make Africa a vital player in the international financial ecosystem.

Specifically, AAMFI can address the challenges faced by African financial markets by expanding project preparations and establishing co-investment platforms that facilitate collaborative financing. The association can also work to develop risk-mitigation instruments to manage financial uncertainties, strengthen governance and deepen African capital markets, mitigating volatility. Another significant contribution would be engaging institutional investors to mobilize funds for investment in both soft and hard infrastructure assets, supporting the region's economic growth and integration with global markets. Such initiatives would help African national governments and private sector actors transition from primary commodity dependence to trade-linked industrialization, addressing weaknesses and leveraging opportunities in the financial architecture of Africa.

By fostering collaboration between African and international financial institutions, the association can attract large-scale investments in infrastructure and industrial projects. Such efforts would directly address the region's over-reliance on commodity-based economies while positioning Africa as a more attractive and competitive investment destination on the global stage.

By promoting sound governance practices and creating tools to safeguard investments, the association can build investor confidence in African financial institutions. This increased trust can lead to greater levels of participation from global investors, thereby facilitating a deeper integration of African markets within the international financial system.

Mobilizing funds from institutional investors for infrastructure projects can bolster Africa's contributions to global value chains, enhancing its competitiveness in international markets. By fostering partnerships with leading global financial entities, AAMFI can ensure that infrastructure developments across Africa adhere to international standards, effectively embedding the continent within the broader global economic framework.

Through these initiatives, AAMFI holds the promise of transitioning Africa from an economy largely dependent on primary commodities to one rooted in trade-linked industrialization. This transformation would not only address critical challenges within the region but also advance its integration into global markets, elevating Africa's role and influence in shaping the global financial architecture.

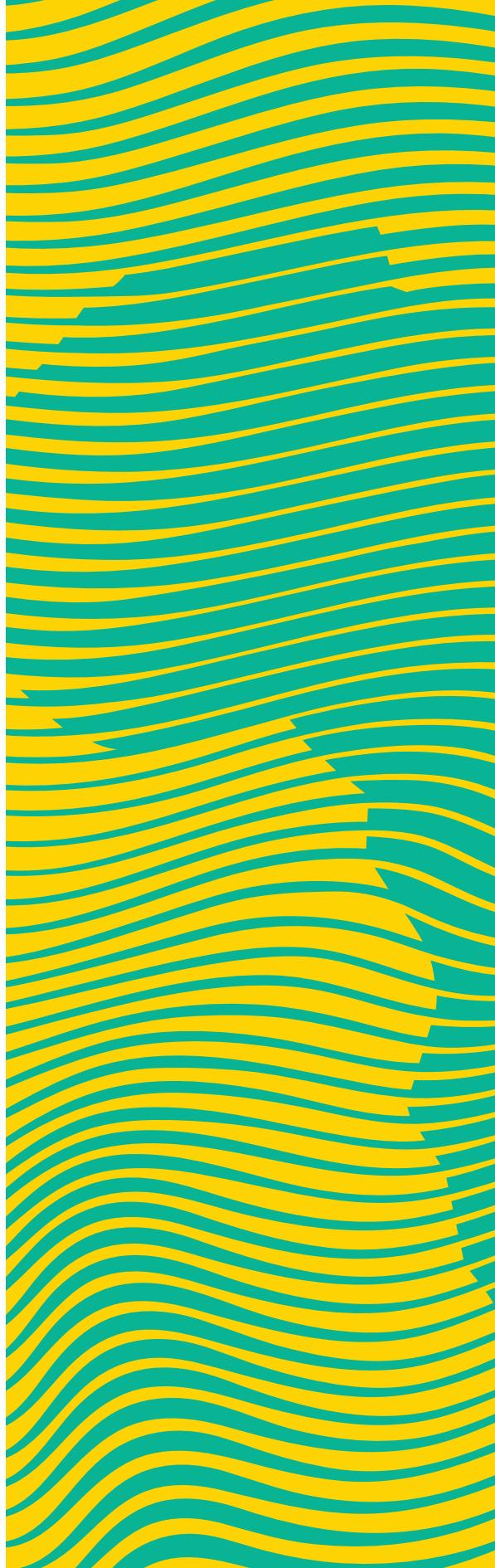


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The Role of Modular Sovereign Credit Ratings in Scaling Investment in Africa

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Abstract: Existing approaches to sovereign credit ratings have been shown to be structurally biased against developing countries, particularly those on the continent of Africa. Collapsing the complexity of national finances into a single score also masks important distinctions between liquidity and solvency risks, between borrowing for short-term consumption and long-term productive investment, and between countries with and without stabilizing backstops. A fundamental shift from a single sovereign rating to modular frameworks differentiated by fund use would ensure that Africa can meet its developmental and environmental goals. This paper discusses the key dimensions of the proposed modular-based credit-rating framework. It highlights the framework's potential to address the growing sovereign debt crisis in Africa and other developing regions, to reduce inflated borrowing costs, and to provide access to low-cost financing to close the widening financing gap. It concludes with policy recommendations to support the framework's uptake.

Keywords: Credit rating agencies, cost of capital investment, Africa, default risk

JEL Classification: F33, F34, G15, G24

Introduction

Sovereign credit ratings issued by the major global credit rating agencies shape access to international capital more than any other metric. They determine which countries can enter international capital markets, at what cost, in which currencies, and through which investor classes. Because these ratings are embedded in prudential regulation, global bond indices, and investment mandates, a single

rating issued by a private agency becomes a system-wide determinant of a country's financing conditions (Ntsalaze et al. 2017). Moreover, under the sovereign-ceiling convention, the sovereign's rating becomes the effective upper bound for nearly all domestic borrowers—banks, businesses, sub-sovereigns, and project finance entities—thereby transmitting the sovereign's assessed credit risk directly across the domestic financial system (S&P Global Ratings 2024). As of 2025, the

global credit ratings market remains highly concentrated: Fitch Ratings, Moody's Investors Service, and S&P Global Ratings—often referred to as “the Big Three”—collectively issue more than 95 percent of all internationally recognized credit ratings, and they account for virtually all sovereign ratings used in cross-border finance (UNDP Regional Bureau for Africa 2023).

Sovereign credit ratings are based on a range of social, macroeconomic, and political variables, including gross domestic product (GDP) per capita, debt-to-GDP ratios, and the health of public finances. A credit ratings committee discusses scores based on these parameters. Minutes and discussions from credit ratings committees are not available publicly. The methodologies of the Big Three have been widely criticized for their subjectivity (De Moor et al. 2018), procyclical tendencies, misperceptions of sovereign risk, and structural limitations (Ioannou et al. 2021; Yalta and Yalta 2018).

A decisive limitation of existing credit rating methodologies is their strong reliance on GDP per capita as both a direct indicator and a signaling function of creditworthiness. GDP per capita is one of, if not the, largest influencing variables across the sovereign rating methodologies of the Big Three. Countries with low GDP per capita are automatically constrained to a low sovereign credit rating, regardless of how well

they manage their public finances. The methodologies do not account for the likelihood of economic growth, despite its relevance to a country's ability to repay debt. Convergence theory suggests that emerging markets and developing economies (EMDEs) are likely to experience higher levels of growth, with investments in infrastructure and public services delivering higher marginal economic growth per dollar of investment than in high-income countries (Sachs et al. 2025). Indeed, the International Monetary Fund projects EMDEs will grow at rates of at least double those of advanced economies.

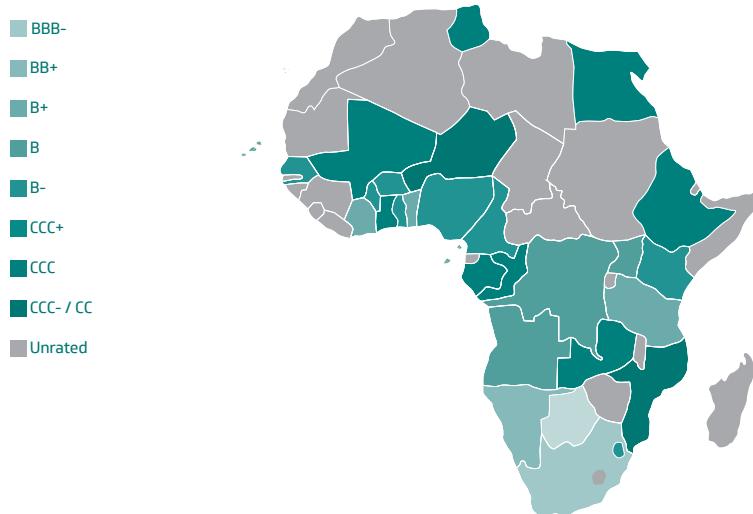
The central role of credit rating agencies in the global financial architecture means that the agencies' structural biases have deep and persistent macroeconomic consequences. Mispriced risk raises borrowing costs, accelerates capital outflows during global shocks, and constrains fiscal space for development. The United Nations Conference on Trade and Development and the International Energy Agency find that developing countries pay borrowing costs two to four times higher than those of advanced economies with similar fundamentals (IEA 2025; UNCTAD 2025), even when the latter have higher debt-to-GDP ratios. And a 2025 analysis using the Global Emerging Markets Risk Database shows that across low-income countries globally, actual

default probabilities for multilateral development bank (MDB)-supported lending average around 7 percent, while sovereign rating-implied default probabilities routinely exceed 30 percent (GEMS 2025).

Africa is among the regions most severely affected by sovereign rating methodologies. Nearly 40 percent of African countries lack a sovereign rating, a structural market-access barrier created not by fundamentals but by the narrow coverage of the Big Three. Only two of the other 33 countries hold investment-grade ratings (Botswana and Mauritius, both BBB; see figure 1). An unexplained spread

differential of 200–600 basis points persists across African sovereign borrowers, a differential higher than that of comparable emerging market sovereign borrowers and unrelated to fundamentals (Mutize and Nkhalamba 2021). Highlighting this phenomenon was the issuance in 2017 of a 100-year Eurobond in Argentina, which has many defaults, at a 7 percent rate. The bond was oversubscribed and priced 200 basis points below a 30-year Eurobond in Angola, which has had no defaults since the end of its civil war in the early 2000s (Gbohoui et al. 2023). Analyses of the “Africa risk premium” show that the differential largely reflects investor herding and rating-

Figure 1: Sovereign Credit ratings in Africa, as of November 2025



Source: Sovereign credit ratings data is taken from Damodaran 2025 (Damodaran, 2025), with adjustments made for Senegal and Botswana following credit downgrades by Moody's in 2025.

anchored misperceptions (Morsy and Moustafa 2020), rather than actual credit risk. The premium inflates borrowing costs and contributes to rising debt burdens.

Mispriced sovereign risk rather than excessive borrowing or domestic mismanagement is a central driver of the debt pressures facing many African countries. Public debt levels across the continent remain modest relative to GDP when compared with those of other regions (IMF 2025), yet high borrowing costs stemming from sub-investment-grade ratings mean that many governments now spend more on external debt service than on health or education (OSAA 2024). The United Nations Development Programme (UNDP) estimates that African countries pay roughly US\$74.5 billion annually in excess interest due to misjudged credit assessments and inaccurate perceptions of default risk, a figure almost equal to Africa's total annual infrastructure investment (UNDP 2025). This diversion of public resources into inflated debt-service costs constrains fiscal space precisely when long-term public investment is most needed.

Despite meaningful socioeconomic progress in recent decades, African economies continue to face structural constraints that require sustained, large-scale public investment. Expanding electricity access, modernizing transport systems, upgrading

urban infrastructure, and building climate resilience all depend on governments' ability to borrow on affordable terms for the long term. Yet the mispricing of sovereign risk raises the cost of that borrowing and restricts access to the patient capital needed to finance development. The problem is not that African states have borrowed too much, but that they are unable to borrow enough, on reasonable terms, to meet their development and climate-investment needs. Because of the sovereign ceiling, the mispriced sovereign risk similarly affects borrowing rates for private projects. Private infrastructure loans in Africa exhibit world-leading recovery rates (97 percent to 100 percent), yet the sovereign rating causes infrastructure transactions to be priced at high-risk levels that bear no relationship to their actual performance (GEMS Consortium 2025), making them, in many cases, unviable without concessional financing (Hatton et al. 2025).

Fallacy of a Consolidated Sovereign Rating

While the methodological shortcomings discussed above continue to merit further examination, the foundational flaw in the prevailing sovereign rating architecture is the application of a single, consolidated sovereign rating to fundamentally heterogeneous obligations, as if all risks applied evenly across obligations and

distinct obligations shared a common probability of default. Instruments with fundamentally different characteristics (short-term external liabilities, long-dated concessional loans, revenue-backed project finance, MDB-guaranteed credits, or ring-fenced special-purpose vehicles) are evaluated under a single sovereign probability-of-default anchor, with limited accounting for contextual factors that substantially shape default risks. This approach collapses obligations that differ in maturity, currency, seniority, collateral, concessionality, and credit enhancement into a single rating category, even though their true default risks differ by orders of magnitude.

Concessional finance illustrates the paradox most clearly. Concessional and MDB-supported loans exhibit long maturities, low interest rates, extended grace periods, predictable payment structures, and preferred-creditor status, features associated with near-zero long-term default incidence (GEMS Consortium 2025). Yet existing credit rating agencies' methodologies systematically discount concessional finance. For example, in S&P's external assessment framework, reliance on official financing is treated as a sign of structural weakness and reduced market access; Moody's "susceptibility to event risk" category similarly penalizes sovereigns that depend

on concessional flows; and Fitch's macro assessment incorporates concessionality as evidence of limited financing flexibility (APRM 2025). This treatment inverts risk: the safest forms of sovereign borrowing contribute little to the sovereign rating and, in some cases, are interpreted as evidence of fragility rather than resilience. This treatment also contradicts decades of empirical evidence showing that concessional and MDB-backed loans exhibit near-zero long-term default rates and exceptionally high recoveries (GEMS Consortium 2025), adding to the systematic mispricing of risks across the African continent and beyond.

This flaw is compounded by a second design choice: the composite sovereign rating collapses heterogeneous risk drivers—liquidity, solvency, external vulnerability, institutional capacity, political risk, and climate exposure—into one ordinal score. These risk channels operate through different mechanisms and over different time horizons, thereby affecting different instruments in different ways. Compressing them into a single number obscures which channels matter for which obligations.

Crucially, many of these risk drivers can be, and often are, mitigated through targeted risk-sharing mechanisms. Yet once these distinct risks are consolidated into a single sovereign score, the effect of tailored mitigants is not captured at the

transaction level. When unrelated risks are collapsed into one measure that is treated as the default-risk signal for all sovereign obligations, and that measure becomes the ceiling for virtually all other domestic borrowers, the result is a structurally distorted assessment that drives the cost of capital for entire economies. Mispricing becomes inevitable, not incidental.

Modular Sovereign Ratings: The Structural Solution

Distortions caused by the current approach to sovereign credit assessments cannot be corrected through incremental methodological adjustments. They originate in the architecture of the sovereign rating itself: the use of a single, undifferentiated score to represent obligations that carry inherently different default risks.

A modular sovereign rating framework offers a systematic alternative to the limitations of a single composite rating by evaluating sovereign creditworthiness at the level of specific financing instruments rather than through an undifferentiated national score. Because different sovereign obligations embody fundamentally different legal, structural, and economic characteristics, their default risks cannot be meaningfully represented by a single probability-of-default anchor.

The first step in a modular rating system is classifying instruments. Obligations are grouped according to the characteristics that empirically shape their default probability: maturity structure, amortization profile, concessionality and grant elements, seniority and preferred-creditor status, currency denomination and hedging practices, collateral and security arrangements, the presence of partial or full guarantees from multilateral development banks, revenue-backed structures, use of proceeds, governance, and the institutional configuration of special-purpose vehicles or escrow arrangements. Instruments that are legally or structurally insulated from sovereign cash-flow pressures, such as public-private partnership (PPP) project bonds, MDB-guaranteed loans, escrowed revenue-backed obligations, or long-dated concessional loans, are separated analytically from unsecured market-rate sovereign bonds.

The second step is assessing how distinct risk channels, including but not limited to liquidity pressures, long-term debt-sustainability risks, external and currency vulnerabilities, institutional capacity, and climate exposure, affect each instrument class. Because not all risks are relevant to all obligations, mapping risk channels to instrument types prevents irrelevant vulnerabilities from contaminating the credit

assessment. A liquidity or rollover shock may materially affect short-term market refinancing but has limited bearing on long-dated concessional loans. Climate-related fiscal pressures are relevant to long-term unsecured obligations but largely immaterial to 180-day trade-finance exposures. Solvency risks may influence 20- or 30-year external bonds but not a project finance structure supported by an escrowed revenue stream and an MDB partial guarantee. This alignment of risk channels with instrument characteristics corrects the misclassification inherent in sovereign composite ratings, which mechanically extends weaknesses in one domain to all obligations, regardless of relevance.

A modular architecture thus produces a credit map that is both granular and empirically grounded. Infrastructure bonds can be evaluated on the basis of cash-flow stability, collateral, and ring-fencing arrangements; concessional financing can be recognized as structurally stabilizing rather than discounted as “soft” support; climate-aligned investments can be assessed in relation to long-run resilience; and MDB guarantees can be incorporated as genuine credit enhancements with measurable effects on expected loss (APRM 2025; GEMS Consortium 2025). Because risks are not aggregated *ex ante*, the resulting assessments more accurately reflect the default risk of each financing

instrument, enabling pricing and risk-sharing arrangements that mirror observed credit outcomes.

Modular ratings mitigate the procyclicality of sovereign ratings by isolating temporary liquidity pressures from long-term solvency factors and by evaluating instruments according to their structural protections. Composite sovereign ratings reinforce procyclical capital flows. Downgrades tend to occur during periods of temporary liquidity stress, exactly when countries need access to external finance, thereby amplifying financing pressures and raising rollover risk. During the COVID-19 shock, African sovereigns accounted for a disproportionate share of global downgrades despite representing a small fraction of global debt issuance (UNDP Regional Bureau for Africa 2023). The result is a destructive feedback loop: a liquidity shock drives a downgrade, which increases borrowing costs, which deepens fiscal stress, which triggers further downgrades (APRM 2025). With modular ratings, short-term shocks no longer contaminate the credit assessment of long-dated, stable, or credit-enhanced obligations.

Finally, a modular system materially improves the allocation of both public and private capital. Investors gain differentiated risk signals that reduce herding and spread clustering, infrastructure and corporate borrowers are no longer

bound by the sovereign ceiling when their credit structures justify higher ratings, and regulators receive more accurate information for prudential frameworks. By correcting the architectural flaw at the core of the sovereign composite, modular ratings contribute to a more transparent, efficient, and development-aligned financial system that can support long-term investment in Africa and across emerging markets.

Diagnostic Power of Modular Ratings

A modular sovereign rating framework would do more than just assess and allocate credit risk more accurately. It would also provide a coherent way to identify, separate, and address the distinct sources of sovereign vulnerability. By classifying obligations according to their terms, uses, maturities, and structural protections, a modular system enables policymakers, MDBs, and investors to identify the key risk channels that matter for instruments, a level of clarity that the current composite architecture cannot offer. In today's rating system, heterogeneous risks are collapsed in advance into a single score, obscuring the mechanisms through which sovereign stress actually arises and propagates.

A modular assessment would make liquidity pressures immediately visible. Short-term external amortization schedules, reserve adequacy, nonresident holdings,

and maturity bunching could be evaluated on their own terms, without being conflated with long-term solvency trends or structural governance factors. That separation allows liquidity-specific interventions, such as swap lines, liquidity guarantees, or International Monetary Fund precautionary facilities, to be targeted precisely to the vulnerability they are designed to address (UNDP Regional Bureau for Africa 2023).

If external or currency risk is the dominant challenge, the modular approach would highlight the roles of local-currency borrowing, foreign-exchange-hedging solutions, the development of domestic bond markets, and policies that reduce exposure to volatile nonresident holdings. Current rating methodologies inadequately differentiate between foreign exchange-linked and local-currency obligations, even though MDB and development finance institute (DFI) evidence shows that local-currency instruments, particularly those held by domestic institutions, exhibit significantly lower default and rollover risk than external-market instruments (Sachs et al. 2025).

Similarly, when climate vulnerability is a long-run credit driver, modular ratings allow climate-risk assessments to be evaluated within a specific module rather than implicitly incorporated into a general sovereign risk score. This treatment aligns with

emerging evidence that physical climate shocks generate substantial fiscal pressures over time and that adaptation investments and disaster-risk-financing instruments can materially reduce long-term credit stress (Bhattacharya et al. 2024).

Instrument-specific modules also permit credit assessments to diverge meaningfully from the sovereign rating when structural protections justify it. Infrastructure projects with stable cash flows, escrow accounts, and partial MDB guarantees have default profiles that, according to the GEMS Consortium, are materially safer than unsecured sovereign bonds, even in periods of sovereign distress (GEMS Consortium 2025). Under a modular system, such instruments can be evaluated on their own merits; their creditworthiness no longer collapses into the sovereign composite nor remains constrained by the sovereign rating ceiling (APRM 2025; S&P Global Ratings 2024).

By making the sources of sovereign vulnerability legible, modular ratings transform the rating from a predictive index with blunt allocative consequences into a policy-relevant risk-management tool. Governments can identify precisely which vulnerabilities reduce creditworthiness, MDBs and guarantors can target their interventions where they are most effective, and investors can price risks more accurately. This

precision reduces unnecessary risk premia, strengthens countercyclical financing, and lowers the cost of capital across EMDEs, helping close the widening financing gap and delivering on national environmental and development objectives.

Modular Ratings: A Win-Win for All Actors

A shift from a unitary sovereign rating to a modular system benefits actors across the financial ecosystem by improving efficiency, transparency, and developmental impact. Because modular architecture aligns credit assessment with actual default behavior, it would correct systemic distortions and reduce the frictions and biases embedded in the current sovereign-rating regime, improving the accessibility and accuracy of data to inform investors, borrowers, and domestic and international financial institutions.

For investors, modular ratings would offer clearer risk signals, reducing exposure to rating-anchored herding, and mitigating the cliff effects associated with downgrades linked to a single composite score (Morsy and Moustafa 2020). More granular information would enable finer asset allocation strategies, improve diversification, and reduce volatility associated with index-driven capital flows (Ghana Business News 2025). It could improve perceptions of risk-return profiles, enabling investors to select their investments accordingly

with accurate risk perceptions. In many cases, misperceptions (and mispricing) of default risk have constrained returns on infrastructure investments in EMDEs, even though they have, on average, exceeded returns on portfolio investments in publicly listed equities (IFC 2025).

For sovereign borrowers, modular ratings would provide fairer recognition of stabilizing features, such as concessional finance, long-maturity structures, hedging arrangements, liquidity buffers, and credit enhancements, which would materially reduce default risk but are largely disregarded under the current sovereign composite. Modular assessments would reward reforms that strengthen specific resilience channels and offer governments a clearer pathway to lower financing costs.

For MDBs, DFIs, and guarantors, the modular approach would have particularly significant implications. It would allow scarce guarantee resources to be deployed where they produce the greatest marginal reduction in default risk, rather than being mechanically subordinated to the limitations of the sovereign ceiling. By recognizing the effects of partial guarantees, preferred-creditor treatment, and ring-fencing arrangements, modular ratings could more accurately quantify the risk-mitigating impact of MDB participation (APRM 2025). Doing so supports more

efficient leverage of multilateral balance sheets and contributes to the global objective of scaling development and climate finance.

For regulators and supervisory authorities, modular ratings would offer more precise inputs for capital-adequacy frameworks and reduce reliance on a single, highly procyclical signal. More granular credit assessments would support countercyclical policy design and improve the calibration of national prudential rules, particularly in countries where sovereign-rating movements generate destabilizing feedback loops.

Modular ratings would also allow credit-enhancement providers, including MDBs, DFIs, philanthropic guarantee facilities, and bilateral insurers, to deploy and price credit enhancements accurately and to target them to the risk channels where they produce the greatest marginal reduction in default probability. Political risk insurers and private credit insurers would similarly gain from more precise risk segmentation, enabling them to support transactions previously constrained by the sovereign ceiling.

Finally, for corporate, infrastructure, and municipal borrowers, modular ratings would open up a pathway to escape the sovereign ceiling. When cash-flow structures, collateral, or external guarantees insulate obligations from sovereign credit stress, modular assessments would

allow those instruments to be rated above the sovereign. Doing so would break a systemic bottleneck that has long constrained investment in infrastructure, climate resilience, and productive sectors across EMDEs (S&P Global Ratings 2024). The result would be a broader and more efficient flow of capital throughout the real economy.

Taken together, modular ratings would create a systemic win-win: investors gain accuracy, borrowers gain fairness, MDBs gain efficiency, regulators gain stability, and economies gain access to the capital necessary for development, structural transformation, and climate resilience. By correcting the architectural flaws in the existing rating system, modular ratings would offer a credible pathway to a more balanced and development-aligned global financial architecture.

Conclusion and Policy Recommendations

The sovereign rating is not an imperfect tool that requires refinement; it is a structurally flawed tool. By applying a single composite score as the default-risk measure for fundamentally different instruments and then embedding that score throughout the global financial infrastructure, the current model makes mispricing unavoidable. This single sovereign rating for all sovereign borrowing is analytically

indefensible and is the primary driver of structural mispricing across Africa and other developing regions.

Modular ratings would correct the design flaw. They would provide a transparent, empirically grounded, diagnostic, and development-aligned approach that reflects how sovereign risk actually behaves and how default risk is actually generated. For Africa and all EMDEs, the use of modular ratings is essential to unlocking affordable capital and supporting long-term, sustainable development.

Elements of a modular logic already exist within several non-Western credit rating systems, illustrating the technical feasibility of separating distinct risk components. Japan Credit Rating Agency (JCR) employs a visibly disaggregated sovereign evaluation structure, organizing its analysis into seven distinct analytical modules with defined subfactors, even though these components are ultimately collapsed into a single composite rating. China Chengxin International (CCXI) likewise applies detailed, instrument-specific methodologies to its corporate, infrastructure, and structured-finance criteria, explicitly assessing collateralization, escrowed and ring-fenced cash flows, and the effects of guarantees and other credit-enhancement mechanisms on expected loss. While neither agency employs a fully modular sovereign architecture, their use

of differentiated analytical factors and instrument-level structural adjustments demonstrates that the core operational building blocks of a modular framework are already established and widely practiced within the rating industry (China Chengxin International Credit Rating Co. n.d.; Japan Credit Rating Agency 2021). The divergence in ratings assigned to the African Export–Import Bank in 2025, whereby JCR and CCXI explicitly recognized structural safeguards that the Big Three discounted, further illustrates how granular assessment can meaningfully alter credit outcomes (APRM 2025).

Although methodological refinement of the Big Three’s methodologies is frequently proposed as the solution to sovereign-rating distortions, substantial reform of the Big Three agencies is unlikely. Over the past two decades, despite repeated crises—the global financial crisis, the Eurozone crisis, the COVID-19 shock, and multiple African restructurings—the core architecture of sovereign ratings has remained unchanged (APRM 2025). Rating committees remain highly discretionary; backward-looking indicators such as GDP per capita and historical growth continue to dominate scoring; and committee subjectivity, home bias effects, and structural conservatism toward EMDEs persist (UNDP Regional Bureau for Africa 2023).

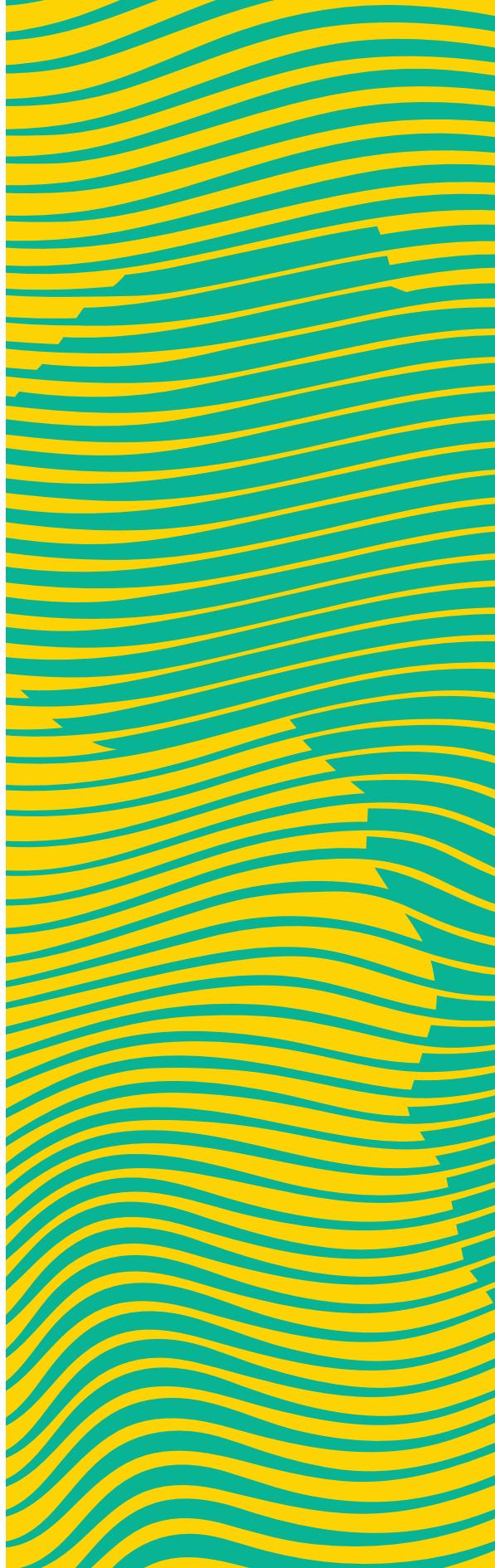
Given these institutional constraints and path dependencies, a meaningful correction requires new rating platforms, regionally or multilaterally, capable of implementing instrument-level, modular assessments. The African Credit Rating Agency, launched by the African Union in 2025 and aiming to be operationalized by the second quarter of 2026, represents an opportunity to challenge the Big Three’s orthodox approach to sovereign credit ratings and to implement a modular credit rating framework. Engagement with non-Western rating systems, including the JCR and CCXI, could help strengthen these approaches to shift away from the current composite score used by the Big Three.

Implementing new modular frameworks for credit ratings will be essential to closing the growing financing gap and addressing the growing sovereign debt crisis in Africa and other developing regions, reducing inflated borrowing costs, and providing access to low-cost capital required to deliver on environmental and development goals.

To support the transition toward a modular system, several practical steps should accompany the development of new rating platforms. First, the ongoing review of the IMF–World Bank Debt Sustainability Framework presents

an immediate opportunity to align sovereign-risk assessments with the differentiated risk characteristics of instruments, particularly concessional, climate-related, and MDB-enhanced financing. The International Monetary Fund should embed this logic into its own methodologies and borrowing guidance to help prevent the current practice of advising countries to limit development-enhancing public borrowing. More generally, revising the IMF–World Bank Debt Sustainability Framework to recognize instrument-specific default risks and to avoid mechanically importing the sovereign composite into all obligations would reinforce the logic of a modular approach. Second, collaboration among public, regional, and non-Western rating agencies (including the African Credit Rating Agency, JCR, and CCXI) could help financial institutions develop shared principles for instrument-level risk assessment and demonstrate practical alternatives to the Big Three’s composite ratings. Third, improvements in data availability, especially on instrument-level default and recovery rates, should be prioritized to provide empirical grounding for modular assessments

and to demonstrate where the Big Three’s consolidated ratings diverge from observed outcomes. Together, these steps would accelerate the shift to a more accurate, transparent, and development-aligned global rating architecture.



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Preferred Creditor Status and African Multilateral Financial Institutions

Amira El-Shal

Abstract: Africa's chronic development financing shortfall is exacerbated by volatile capital flows and discriminatory pricing in global debt markets, undermining growth, resilience, and inclusive development. This paper explores how Preferred Creditor Status (PCS) equips African Multilateral Financial Institutions (AMFIs) to address these challenges by providing: (1) a concessional financing window marked by narrower spreads, longer maturities, and tailored grace periods; and (2) strengthened countercyclical lending capacity through streamlined governance and rapid emergency liquidity deployment. Empirical evidence from Sub-Saharan Africa, where a 1.71 percent average annual sovereign default rate coincides with a 95.5 percent recovery rate, underscores robust post-default frameworks. The study evaluates the legal foundations and enforceability of PCS at key institutions and outlines four strategic policy pillars to enhance AMFIs' concessional lending and crisis-response capabilities.

Keywords: Preferred creditor status; multilateral financial institution; countercyclical finance; development financing.

JEL Classification: F33; F34; G15; H63; O19

Introduction

The global financial landscape has shifted toward a more multipolar and fragmented architecture, driven by the rise of regional development banks, evolving risk frameworks, and the growing interplay between public and private finance. In this context, African Multilateral Financial Institutions (AMFIs) and their collective platform, the Alliance of African Multilateral Financial Institutions (AAMFI), have emerged as indispensable actors in addressing the continent's

infrastructure gaps and development financing needs (AAMFI, 2024). Their African ownership and mandate uniquely align them with continental priorities, enabling them to tailor financing solutions that reflect local realities and support long-term growth objectives.

This fragmentation is particularly evident in emerging debt markets where international investors exhibit herding behavior, treating entire regions as homogeneous asset classes rather than differentiating based on country-specific

macroeconomic fundamentals. Such discriminatory pricing patterns, as demonstrated in African sovereign debt markets, result in risk premiums that exceed what economic indicators would justify, highlighting the critical need for regional financial institutions to provide countercyclical support (Moustafa & El-Shal, 2025b).

Despite longstanding recognition of preferred creditor status (PCS) for major multilateral lenders, recent critiques have challenged the legitimacy of extending similar treatment to African multilaterals, arguing that they lack the institutional strength and governance safeguards of their global counterparts (Diwan, Harnoys-Vannier, & Kessler, 2023). Such critiques underestimate the proven capacity of AMFIs to manage sovereign exposures prudently, to mobilize countercyclical support in times of crisis, and to maintain high recovery rates even in complex default scenarios.

The collective balance sheet of AAMFI members, now nearing USD 65 billion, underscores their financial heft and their commitment to African development even when other lenders withdraw from the market (AAMFI, 2024). This capacity becomes increasingly vital as traditional lenders of last resort face constraints and Africa confronts the need for greater financial self-reliance in a shifting global order (Moustafa & El-Shal, 2025a).

PCS is not merely a legal fiction; it is the foundation upon which concessional financing windows are built. By recognizing PCS for AMFIs, member states signal their willingness to honor long-term commitments, thereby reducing funding costs and unlocking lower-spread lending for vital projects. This treatment enables African institutions to offer flexible grace periods and extended maturities, mirroring traditional concessional facilities without resorting to outright grants. In turn, these terms foster private investment, strengthen sovereign balance sheets, and support resilience against external shocks (Chervalier, 2015; Schadler, 2014).

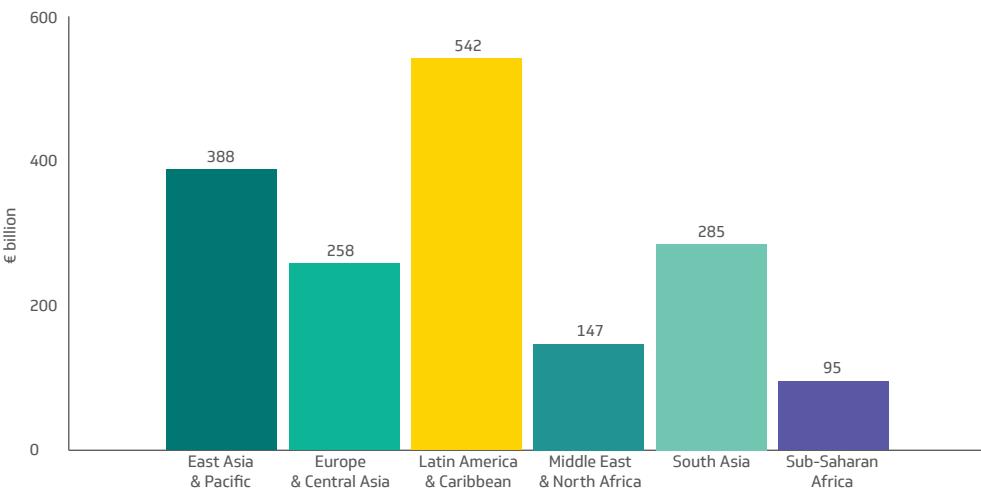
The strategic importance of AMFIs' concessional financing is highlighted by their ability to respond swiftly during periods of economic downturn. When commodity price collapses or global liquidity squeezes threaten project pipelines, AMFIs have consistently stood ready to bridge financing gaps, sustaining social and infrastructure investments that anchor growth and stability (Aboneaaj, Sato, & Morris, 2022; Broccolini et al., 2021). Removing PCS would compel these institutions to ration financing or charge commercial rates, undermining Africa's development trajectory and eroding the hard-won gains in poverty reduction and regional integration.

Safeguarding PCS for African multilaterals is therefore essential, not only as a matter of institutional respect, but as a pragmatic policy choice. These institutions play a critical role in mobilizing domestic and international capital, in fostering public–private partnerships, and in delivering tailored solutions for climate adaptation, trade facilitation, and regional connectivity. In affirming their preferred creditor treatment (PCT), African governments and global partners reaffirm their shared commitment to a stable, inclusive, and resilient development finance ecosystem for the continent.

Africa's Position in Global Credit Risk Patterns

Sub-Saharan Africa occupies a distinct position in global credit risk patterns when cumulative Multilateral Development Bank (MDB) and Development Finance Institution (DFI) lending volumes are examined alongside sovereign default and recovery metrics. Among emerging-market regions, Sub-Saharan Africa has received the largest cumulative signed sovereign and sovereign-guaranteed lending amounts from MDBs/DFIs, reflecting sustained institutional engagement in addressing the region's financing needs (Figure 1). Yet Table 1 reveals

Figure 1: Cumulative signed sovereign and sovereign-guaranteed lending amounts with MDBs/DFIs



Notes: The figures present the cumulative signed amounts with MDBs and DFIs (sovereign and sovereign guaranteed lending) across world regions, covering 166 countries.

Source: Author's computations based on statistics from the Global Emerging Markets Risk Database

that Sub-Saharan Africa also exhibits the highest average annual default rate, 1.71 percent, far exceeding that of South Asia (0.40 percent), East Asia and Pacific (0.47 percent), Europe and Central Asia (0.57 percent), Latin America and the Caribbean (1.03 percent), and Middle East and North Africa (1.35 percent).

This juxtaposition of high lending volumes and high default rates underscores the paradox at the heart of Africa's credit-risk profile. Despite elevated default frequencies, Sub-Saharan Africa achieves an average recovery rate of 95.5 percent, second only to Latin America and the Caribbean's 97.4 percent and closely aligned with East Asia and the Pacific's 95.4 percent recovery performance (Table 1). The high recovery rate indicates that although Sub-Saharan African sovereigns are more prone to default, post-default measures such as collateral enforcement, debt-service suspensions, and coordinated restructuring help

preserve creditor value. Thus, Sub-Saharan Africa's credit-risk frontier is defined by both high vulnerabilities to default and resilient asset-value preservation in restructuring.

Figure 2 provides a complementary perspective by presenting outstanding lending amounts from MDBs/DFIs. Contrary to expectations, Sub-Saharan Africa shows the smallest stock of active exposures at €40 billion on MDB/DFI balance sheets, significantly lower than Latin America and the Caribbean (€184 billion), East Asia and Pacific (€120 billion), South Asia (€98 billion), Europe and Central Asia (€93 billion), and the Middle East and North Africa (€54 billion). Despite having the lowest outstanding exposures in absolute terms, Sub-Saharan Africa's relatively modest stock may reflect either more conservative lending practices by MDBs/DFIs or potentially limited access to such financing compared to other regions. This pattern suggests that, despite substantial financing

Table 1: Default and recovery rates

Region	Average annual default rate	Average recovery rate
East Asia & Pacific	0.47%	95.4%
Europe & Central Asia	0.57%	88.4%
Latin America & Caribbean	1.03%	97.4%
Middle East & North Africa	1.35%	84.4%
South Asia	0.40%	/
Sub-Saharan Africa	1.71%	95.5%

Source: Author's computations based on statistics from the Global Emerging Markets Risk Database, 2025.

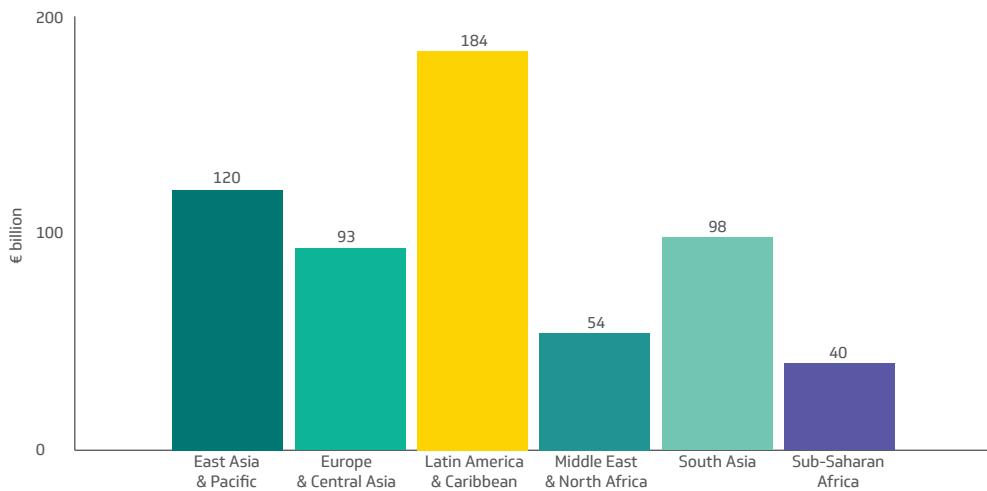
needs, MDBs/DFIs may under-deploy resources in Sub-Saharan Africa due to risk perceptions, institutional constraints, or structural barriers, leading to underutilized multilateral funding and stricter lending criteria for African borrowers.

Comparative insights from Figures 1–2 and Table 1 reveal a complex relationship between MDB/DFI lending volumes and credit outcomes across regions. Latin America and the Caribbean, which receives the highest outstanding MDB/DFI financing at €184 billion, demonstrates a moderate default rate (1.03 percent) but achieves the strongest recovery rate (97.4 percent), suggesting effective debt

restructuring mechanisms despite substantial exposure. East Asia and Pacific, with €120 billion in outstanding commitments, combines the second-lowest default rate (0.47 percent) with high recoveries (95.4 percent), reflecting robust macroeconomic management and well-developed financial infrastructures. Europe and Central Asia, with €93 billion in exposures, records a modest default rate (0.57 percent) but underperforms in recoveries (88.4 percent), indicating potential weaknesses in restructuring processes.

Sub-Saharan Africa presents a stark contrast: despite having the lowest outstanding MDB/

Figure 2: Outstanding sovereign and sovereign-guaranteed lending amounts from MDBs/DFIs



Notes: The figures present the cumulative signed amounts with MDBs and DFIs (sovereign and sovereign guaranteed lending) across world regions, covering 166 countries.

Source: Author's computations based on statistics from the Global Emerging Markets Risk Database.

DFI commitments at €40 billion, the region exhibits the highest default rate (1.71 percent) while maintaining strong recoveries (95.5 percent). This paradox suggests that limited access to multilateral financing may contribute to higher sovereign distress, as countries lack adequate buffers during economic shocks. The Middle East and North Africa, with €54 billion in financing, experiences a high default rate (1.35 percent) and the lowest recovery rate (84.4 percent), highlighting structural vulnerabilities that amplify creditor losses. South Asia, with €98 billion in commitments, achieves the lowest default rate (0.40 percent), though recovery data is unavailable. These patterns indicate that higher MDB/DFI engagement may actually support better sovereign credit outcomes rather than increase risk exposure.

The combination of high default incidence, strong recovery outcomes, and Sub-Saharan Africa's relatively modest outstanding MDB/DFI exposures demonstrates both the region's acute financing gaps and its resilience in debt management. PCS empowers AMFIs to bridge these gaps via two intertwined mechanisms: a concessionality window that delivers below-market financing where multilateral resources are limited, and a countercyclical

window that sustains lending through economic downturns.

Concessionality Window through PCS

PCS insulates AMFIs' loans from restructuring risk, lowering their cost of funds and creating a de facto concessional financing window that enables AMFIs to lend on terms more favorable than purely commercial lenders.

PCS means that, in any sovereign debt restructuring, AMFI loans are exempt from haircuts or rescheduling, a de facto priority that shields their balance sheets and allows AMFIs to access capital markets on comparatively better terms than non-preferred creditors. Investors price sovereign debt according to default risk, so PCS's implicit guarantee translates directly into lower borrowing costs for AMFIs. This funding advantage underpins all subsequent concessionality mechanisms.

With cheaper access to capital, AMFIs can maintain interest rates below market averages, even when they are not formally classified as "concessional" lenders. In practice, this manifests as reduced interest spreads over interbank benchmarks, longer maturities (often 10–30 years) comparable to official development assistance, and flexible grace periods tailored to project

cash flows. By unlocking these preferential terms and channeling them directly to African borrowers, PCS functions as an effective concessionality window that negates the need for outright grants.

The African Development Bank (AfDB), the International Monetary Fund (IMF), and the World Bank (WB) Group (IBRD/IDA) all enjoy unequivocal PCS under their Articles of Agreement, backed by sovereign-immunity provisions and national implementing legislation, while Afreximbank and the Trade and Development Bank (TDB) likewise have statutory or charter-based senior-creditor rights whose enforceability depends on bilateral protocols or host-country laws

(Table 2). These institutions differ in the degree of concessionality they offer: IDA and the IMF's Poverty Reduction and Growth Trust provide the most deeply concessional terms, IBRD loans are moderately concessional, AfDB's African Development Fund window parallels IDA-style rates whereas its ordinary capital resources are less so, and Afreximbank and TDB typically lend at near-market or only modestly subsidized spreads.

One way to examine the relationship between institutional creditor strength and development finance pricing is through analyzing how MDBs' PCS influences their capacity to provide concessional financing alongside market-rate

Table 2: PCS of selected MFIs

Institution	PCS status	Basis of recognition
AfDB	Yes	Articles of Agreement grant senior-creditor status; sovereign immunity via the founding treaty and member-state laws.
Afreximbank	Generally, yes (jurisdiction-dependent)	Statute provides preferential rights; enforceability through bilateral protocols or host-country implementing legislation in most member states.
TDB	Generally, yes (jurisdiction-dependent)	Charter ensures PCT; requires national implementation laws or treaties for full recognition, adopted by most member countries.
IMF	Yes	Articles of Agreement confer de jure seniority and broad sovereign immunity, reinforced by domestic legislation in member countries.
WB Group (IBRD/IDA)	Yes	Articles of Agreement guarantee preferred status and immunity, implemented through national laws; universally recognized de jure and de facto.

Source: Author's computations based on statistics from the Global Emerging Markets Risk Database, 2025.

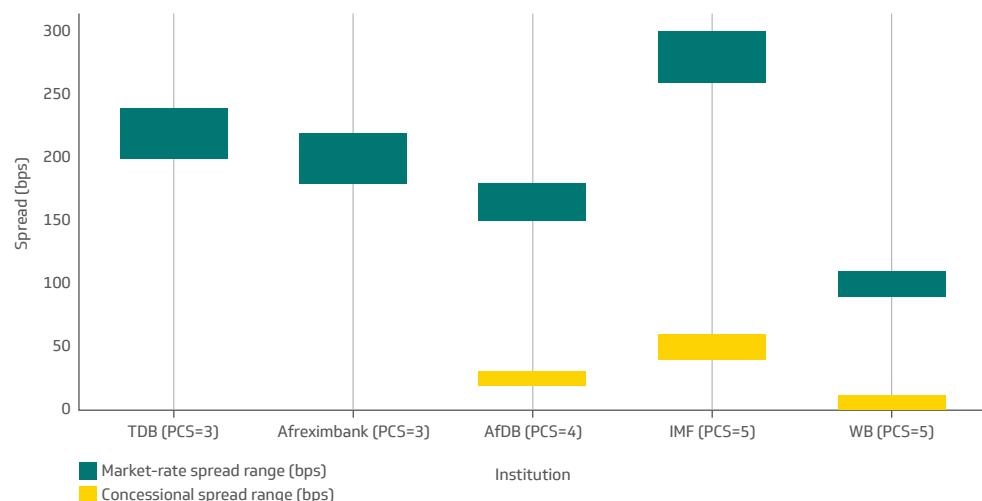
lending. Figure 3 shows the link between the strength of PCS and the concessionality window by analyzing spread differentials across five major institutions with varying degrees of PCT.

Hypothetically, for our five institutions, PCS strength scores are assigned based on the robustness and universality of their preferential creditor recognition. Afreximbank and TDB receive a score of 3, reflecting their jurisdiction-dependent PCS that relies on bilateral protocols or host-country implementing legislation for enforcement. AfDB (OCR) scores 4, benefiting from Article-based senior-creditor status and broad sovereign

immunity provisions, though with some regional limitations. Both the IMF PRGT and WB IDA receive the maximum score of 5, reflecting universal *de jure* seniority backed by comprehensive international treaties, with the IMF PRGT combining this strong PCS foundation with concessional trust resources, and IDA pairing full seniority with the deepest concessionality among multilateral DFIs.

The relationship between PCS scores and institutional spread reveals a nuanced pattern in how MDBs leverage their creditors' standing to create concessional financing windows. Institutions with higher PCS scores demonstrate greater

Figure 3: Market-rate and concessional spread ranges for selected multilateral institutions



Source: Author's analysis based on institutional financial statements, rating agency assessments, and market data. Spread ranges compiled from WB Treasury, IMF documentation, AfDB reports, and MDB pricing methodologies.

capacity to offer substantial discounts between their market-rate and concessional lending terms. WB (PCS = 5) exemplifies this dynamic most clearly, maintaining market-rate spreads of 90-110 basis points while offering IDA financing at near-zero rates of 0-10 basis points, a differential of approximately 100 basis points that reflects the institution's strong PCT and ability to cross-subsidize concessional operations. Similarly, the IMF (PCS = 5) leverages its exceptional creditor status to bridge a 220-250 basis point gap between Article V lending (260-300 bps) and PRGT facilities (40-60 bps), demonstrating how robust PCT enables substantial concessional pricing flexibility.

Institutions with lower PCS scores face constraints in their ability to create meaningful concessionality windows, suggesting that PCS serves as a critical enabler of development finance subsidy mechanisms. AfDB (PCS = 4) maintains a more modest 120-150 basis point differential between OCR and ADF operations, while regional institutions like TDB and Afreximbank (both PCS = 3) operate exclusively in market-rate segments without concessional offerings. This pattern indicates that stronger PCT not only reduces institutional funding costs but also creates the financial space necessary for cross-subsidization of concessional lending. The absence of concessional windows at lower-PCS institutions may reflect both

limited financial capacity to absorb subsidies and potentially weaker borrower commitment to preferential treatment, highlighting how PCS scores function as both a measure of institutional strength and a predictor of concessional financing capability within the multilateral development finance ecosystem.

Beyond direct lending terms, PCS enables AMFIs to generate more stable earnings by avoiding costly debt write-downs. Many AMFIs subsequently channel these surplus funds into internal subsidy mechanisms, including targeted support for infrastructure and trade projects, grants or highly concessional loans for low-income member states, and technical-assistance facilities that might otherwise depend on external donor funding. This internal concessionality amplifies the volume of below-market resources available across critical sectors.

However, recent events in Ghana and Zambia illustrate the fragility of PCS. In May 2025, Ghana's authorities treated a USD 768.4 million Afreximbank liability as part of a general restructuring pool, explicitly denying the bank's claim to senior repayment and applying equal haircuts alongside commercial creditors. Likewise, Zambia's 2024–2025 debt negotiations included approximately USD 45 million of Afreximbank loans in the haircut envelope—contravening the bank's preferred status and

aligning its treatment with that of bilateral lenders (Höije & Hill, 2025). These precedents risk eroding AMFIIs' cost advantage by undermining market confidence in their *de facto* priority, thereby threatening the sustainability of their concessional window.

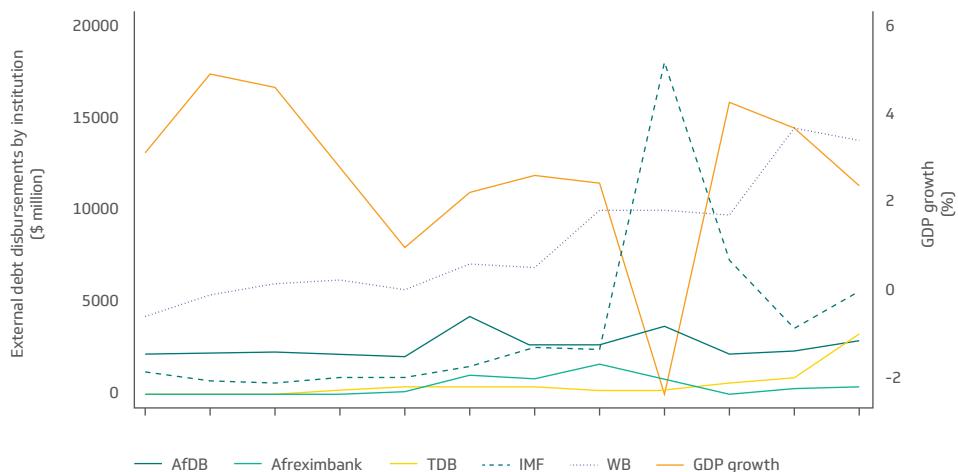
Sustaining this concessionality window depends on the continued recognition of PCS by sovereign borrowers and private investors alike. PCS attracts private and public shareholders, expanding AMFIIs' capital base; preserves credit ratings, underpinning concessional resource mobilization; and ensures seamless roll-over of past concessional commitments, avoiding liquidity

squeezes. Without PCS, AMFIIs would be forced to charge fully commercial rates or ration financing, undermining existing concessional windows and jeopardizing Africa's development agenda.

Countercyclicality Window through PCS

PCS not only secures AMFIIs' cost advantage but also underpins their ability to lend countercyclically, stepping up support in downturns when traditional development lenders often retrench. By shielding AMFIIs' balance sheets from sovereign restructuring losses, PCS ensures stable access to low-cost funding even amid global or regional shocks.

Figure 4: Sub-Saharan Africa sovereign-guaranteed debt disbursements by selected MFIs and GDP growth



Notes: Disbursements on long-term debt are drawings by the borrower on loan commitments during the year specified. Long-term external debt is defined as debt that has an original or extended maturity of more than one year. Data are in current U.S. million dollars.

Source: World Bank, International Debt Statistics; World Bank, World Development Indicators.

The distinct countercyclical pattern of AMFIIs, including AfDB, Afreximbank, and TDB, can be observed when compared with IMF and WB across different phases of growth and crisis (Figure 4). Between 2012 and 2016, Sub-Saharan Africa enjoyed average GDP growth of approximately 3.25 percent. During this expansionary phase, AfDB disbursed roughly USD 2.16 billion annually, Afreximbank about USD 125 million, and TDB around USD 20 million, while IMF and WB lending remained relatively muted. This pattern reflects a neutral or mildly procyclical stance, consistent with moderate financing needs in a stable environment.

As growth slowed to 2.4 percent from 2017 to 2019, AMFIIs began to increase their lending ahead of the 2020 crisis: AfDB ramped up disbursements to USD 3.1 billion, Afreximbank tripled its volumes to USD 305 million, and TDB's lending surged above USD 1 billion. IMF and WB financing also rose, indicating anticipation of headwinds. This early scaling of credit demonstrates a proactive, countercyclical inclination enabled by PCS-supported funding stability.

The countercyclical impact of PCS becomes most pronounced in 2020, when GDP contracted by 2.4 percent. AfDB increased its sovereign-guaranteed lending to USD 3.68 billion, and Afreximbank modestly expanded its support, while TDB

retrenched, reflecting institution-specific risk tolerances. By contrast, IMF increased its financing nearly eightfold to USD 18 billion, fulfilling its traditional crisis-lending mandate, while WB disbursements remained roughly constant, suggesting a selective approach. PCS's protection allowed AMFIIs to step in despite market turmoil, filling financing gaps even as private creditors withdrew and Eurobond spreads spiked.

While IMF and WB ramped up countercyclical financing ahead of the 2020 crisis, their stringent policy conditions, cumbersome governance processes, and narrow macroeconomic focus limited their appeal and speed of delivery in many African countries. Regional institutions like AfDB, Afreximbank, and TDB offered more flexible terms, streamlined decision-making, and development-oriented mandates, better aligning with borrower needs for timely support without compromising policy autonomy.

Global financial institutions often tie loans to strict policy prescriptions, such as fiscal austerity, public-sector cuts, and structural reforms, that can be politically divisive and delay disbursement. Negotiating complex memoranda with extensive conditionality slows crisis response and fuels domestic resistance over perceived infringements on national sovereignty. In contrast, regional lenders attach fewer intrusive covenants, focusing

primarily on project safeguards rather than broad macro-policy mandates, thus enabling governments to access liquidity quickly while retaining policy space.

The governance structures of large multilateral entities, dominated by advanced economies and layered approval boards, extend decision cycles by months. This rigidity hampers rapid crisis lending when time is of the essence. Regional Development Banks, by contrast, leverage governance frameworks that reflect borrower-region contexts and empower executive committees to sanction emergency liquidity lines within weeks, significantly enhancing agility in deploying capital.

Whereas global institutions prioritize fiscal discipline, inflation management, and balance-of-payments support, regional counterparts integrate long-term developmental objectives, such as green infrastructure, digital connectivity, and climate resilience, into their financing portfolios. This broader mandate enables borrowers to address both immediate stabilization needs and structural deficits, supporting sustainable growth strategies beyond short-term macroeconomic stabilization.

During the recovery phase (2021–2023), with growth rebounding to 3.4 percent, AMFIs moderated their lending. For instance, AfDB returned to USD 2.51 billion in annual disbursements, Afreximbank

continued its gradual growth, and TDB's volumes declined further. IMF financing tapered to around USD 5.4 billion, and WB stepped up disbursements to support reconstruction and sustained expansion. These adjustments highlight how PCS-backed AMFIs calibrate their portfolios not only in crisis but also in recovery, contributing to a smoothing of credit availability over the cycle.

By guaranteeing their preferred repayment status, PCS equips AMFIs with a durable buffer—one that sustains concessional rates and empowers a countercyclical window. In doing so, AMFIs complement global institutions, reinforcing Africa's financial resilience through both downturns and recoveries.

Conclusion and Recommendations

AMFIs leverage their alliance, AAMFI, to transform PCS into a powerful tool for countercyclical support. By shielding their claims from restructurings, AMFIs consistently achieve recovery rates above 90 percent and deliver implicit concessional financing—offering long maturities, generous grace periods, and lower spreads—without relying on grants. Even as Africa faces elevated default rates and global MDB/DFI funds remain under-utilized, AAMFI's nearly USD 65 billion balance sheet steps into the breach, underwriting critical infrastructure and social projects when markets tighten. To

reinforce this resilience and expand concessional windows, policy must harmonize PCS recognition, diversify funding sources, bolster institutional coordination, and forge deeper global and private-sector partnerships.

To address these challenges and unlock the full potential of AMFIs, this paper recommends a set of policy directions organized under four strategic pillars: (1) legal and regulatory harmonization; (2) capital mobilization and risk-sharing; (3) institutional coordination and capacity building; and (4) global integration and private-sector engagement.

Legal and regulatory

harmonization: Harmonized legislation is required to recognize PCS for all AAMFI members, embedding preferred-creditor provisions into public debt laws, sovereign immunity statutes, and bankruptcy codes. Explicit PCS reciprocity in regional treaties and protocols, anchored in African Union and regional community frameworks, would reinforce AMFIs' seniority and reduce sovereign risk premiums. Standardized public disclosures on loan terms, grace periods, maturities, and recovery outcomes would further demonstrate governance strength and address concerns about institutional capacity.

Capital mobilization and risk-

sharing: Predictable, tiered capital contributions calibrated to economic capacity would strengthen AMFIs'

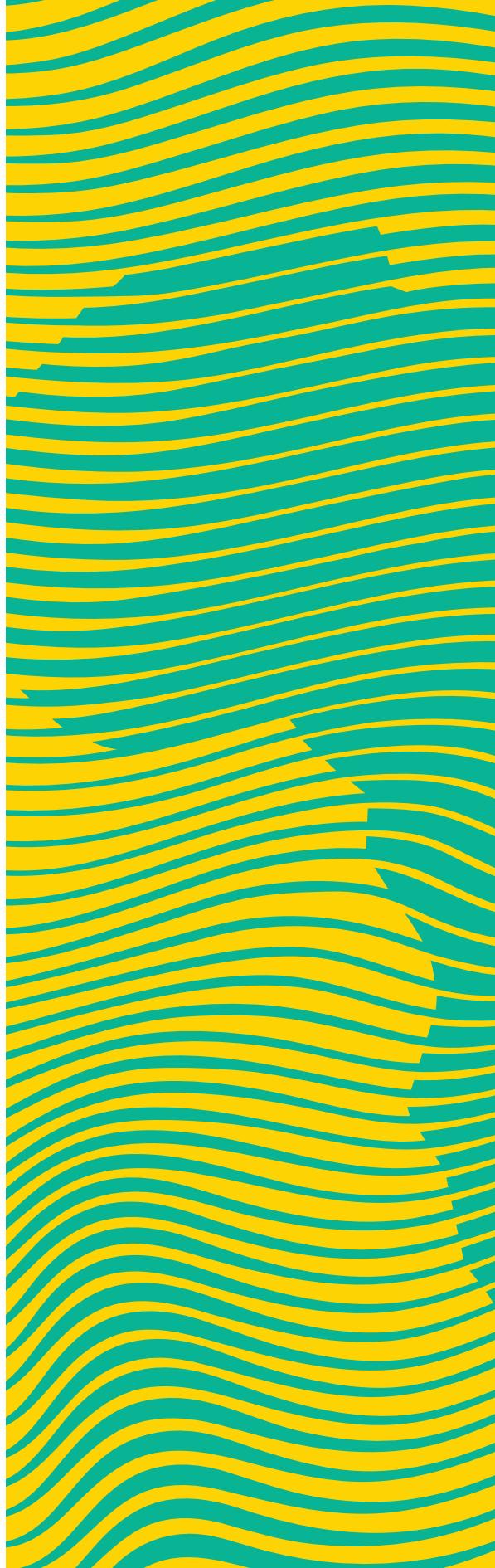
balance sheets and support extended maturities. PCS-backed impact bonds with partial guarantees or first-loss tranches could attract institutional investors, while pan-African co-underwritten risk facilities would underwrite mega-infrastructure projects. Countercyclical liquidity buffers funded during growth periods would ensure rapid disbursement in crises. Enhanced countercyclical lending, through expanding in downturns and moderating as growth returns, would benefit from larger reserves, streamlined emergency lending, and deeper risk-sharing partnerships alongside IMF and WB interventions.

Institutional coordination and

capacity building: An empowered AAMFI secretariat, responsible for policy standardization, sovereign risk database management, and coordinated monitoring, would enable real-time information sharing and unified crisis responses. A continent-wide credit risk assessment framework, adapted to African realities but aligned with global best practices, would harmonize due diligence and clarify risk profiles for investors. Joint training programs, staff secondments, and peer learning on debt restructuring, social and environmental safeguards, and digital finance would bolster governance and operational agility. Integration of AMFI financing into national development plans and medium-term budgets would secure

government support and align projects with country priorities.

Global integration and private-sector engagement: Co-financing agreements with global MDBs and bilateral agencies would leverage PCS to share concessional windows, risk, and technical expertise. Targeted roadshows and investor briefs for pension funds, sovereign wealth funds, and insurers would highlight PCS-backed risk-return profiles and ESG contributions. Partnerships with fintech firms to deploy digital lending platforms and blockchain systems would lower costs, increase transparency, and extend AMFI's reach to SMEs and greenfield sectors. Syndicated credit lines backed by AMFI funding can catalyze broader commercial bank participation, lowering borrowing costs by reducing spreads and extending maturities to strengthen long-term financing sustainability. A blended financing model, combining regional MFI liquidity with IMF and WB balance-of-payments support under borrower-centric conditionality, could maximize countercyclical impact and drive sustainable growth across Africa.



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In Defence of Preferred Creditor Status for African Multilateral Financial Institutions

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Abstract: African multilateral financial institutions (AMFIs) are relevant to development finance, including trade, infrastructure, and regional integration across the continent. Therefore, organized attacks on these institutions contribute to undermining their operational space and interfering with Africa's independent development trajectory. These critiques—often rooted in geopolitical interests—use in particular the tool of preferred creditor status (PCS) and more importantly its treatment. This risks undermining the autonomy of AMFIs and thereby reinforcing Africa's dependency on the Bretton Woods institutions, whose policy frameworks frequently diverge from the continent's development priorities. This paper contends that these attacks are unfounded and misguided given that PCS is grounded in founding treaties. The paper also argues that PCS is vital for safeguarding the resilience and long-term functionality of these institutions, especially in relation to financing projects with high development impact across the continent. The study recommends treaty codification and continent-wide support for PCS to advance the signed treaties.

Keywords: Preferred creditor status, African multilateral financial institutions, sovereign debt restructuring, financial sovereignty.

JEL Classification: F34, G21, O55

Introduction

African multilateral financial institutions (AMFIs)—such as the African Export–Import Bank (Afreximbank), the African Development Bank (AfDB), and the Trade and Development Bank (TDB)—are central to Africa's pursuit of sustainable development. They channel resources into development finance including

trade, infrastructure, and regional integration, and in doing so address structural bottlenecks that global lenders often do not target at scale. The African Development Bank (AfDB) reports that more than US\$50 billion has been invested in infrastructure over the past nine years, underscoring its systemic role in energy, transport, and industrialisation (Reuters, 2024).

Afreximbank has announced a plan to increase its funding for trade among African countries to US\$40 billion by 2026 and is helping to implement the African Continental Free Trade Area (AfCFTA) through tools such as the AfCFTA Adjustment Fund, Collaborative Transit Guarantee Scheme, and Pan-African Payment and Settlement System (Afreximbank 2024; Afreximbank 2023; Afreximbank 2025). The TDB operates on a treaty charter with privileges and immunities across member states and provides short-term, self-liquidating trade finance in Eastern and Southern Africa (TDB Group 2024; MIGA 2020).

Despite these significant contributions, AMFIs recently have faced a deluge of heightened and coordinated attacks primarily from the western press amid debt restructuring in some African countries. The 2025 coverage of Ghana and Zambia generated unfounded dispute over the inclusion of Afreximbank and TDB in restructuring parameters, with significant implications for funding costs and deal timelines (Humphrey 2025; Reuters 2025a). The unresolved questions about how to treat regionally owned multilateral financial institutions (MFIs) in debt workouts is unfortunate and misguided, given that there are no doubts about the status of these institutions. Although public exchanges between Afreximbank and rating agencies

in mid-2025 might illustrate how classification uncertainty can affect market perceptions (Financial Times 2025), that development should not have arisen in the first place. This debate interacts with longer-running scholarship on International Monetary Fund (IMF) conditionality and policy space in Africa. Research shows that conditional lending often narrows fiscal space and hinders industrial policy options, which explains why African governments and policymakers view strong regional lenders as essential to development autonomy (Mkandawire 2014; Kentikelenis, Stubbs, and King 2016).

Preferred creditor status (PCS) sits at the centre of this discussion. In practice, PCS is a *de facto* convention grounded in state behaviour, IMF arrears policies, and market practice rather than a *de jure* legal seniority. Policy papers and legal scholarship describe the IMF's treatment as preferred in restructurings, with multilateral claims typically excluded from haircuts and comparability tests applied across non-multilateral creditors (IMF 2022; Buchheit et al. 2019; Cordella and Powell 2021; IMF 2025). The Global Sovereign Debt Roundtable (GSDR)—co-chaired by the IMF, World Bank, and G20 Presidency—has taken action to standardise expectations about information sharing, timelines, and how multilateral flows are counted during programmes and is yet to definitively settle the status

of newer, regionally owned MFIs (IMF 2025; World Bank 2025).

Against this backdrop, formal recognition of PCS for African institutions is both a legal policy and economic priority to preserve low funding costs, maintain countercyclical capacity, and safeguard region-specific mandates such as AfCFTA-related trade integration and infrastructure-led industrialisation. While PCS is firmly entrenched for global MFIs such as the IMF and World Bank, its application to AMFIs remains inconsistent, contested, and under-theorised. This inconsistency exposes AMFIs to financial vulnerabilities, higher borrowing costs, and diminished trust, all of which undermine their ability to compete globally and serve the regional development challenges. This paper first examines treaty anchors and institutional practice that support PCS-consistent treatment for AMFIs. Next, it documents the development functions and countercyclical interventions AMFIs provide and the geopolitical context that shapes current market narratives. Finally, it identifies practical design choices that can protect operational continuity and credibility for AMFIs.

Understanding Preferred Creditor Status

Working Definition

PCS, often referred to as preferred

creditor treatment in the ratings literature, is a market convention under which sovereigns in stress keep servicing obligations to certain multilateral lenders, even when other debts are reprofiled or restructured. It is not a statutory seniority clause in contracts. Instead, it is sustained by repeated interactions, policy mandates, and expectations that interrupting payments to these institutions would cut off crisis support and raise future borrowing costs. Analytical work models this as an equilibrium in which an international financial institution supplies policy-linked financing at favourable terms and can withhold new lending if arrears occur. In that setting, the institution is repaid in full in equilibrium even when other creditors face losses (Cordella and Powell, 2021).

Historical Context and Evolution

The concept of PCS emerged in the post-World War II era with the establishment of the Bretton Woods institutions (i.e., the IMF and World Bank) to stabilise the global financial system. These institutions were granted de facto PCS through a combination of their founding treaties, state practices, and market dynamics. The Articles of Agreement for the IMF and World Bank implicitly require member states to prioritise repayments, reflecting their systemic importance in preventing worldwide economic crises. Consistent state practice has

reinforced this status over time, as borrowing nations have avoided defaulting on multilateral loans to maintain access to future financing. Private creditors, in turn, recognised PCS in their pricing of sovereign debt, further entrenching the privileged status of these institutions.

For AMFIIs, the evolution of PCS has been less obvious. Institutions such as Afreximbank and the AfDB were established to address Africa-specific development challenges (e.g., financing intra-regional trade and infrastructure). While their founding treaties include provisions that imply PCS, their status is not as universally recognised as that of global MFIs. This discrepancy stems from several factors, including the relatively recent establishment of AMFIIs and their regional—rather than global—focus, as well as the scepticism of international markets regarding their systemic importance. Historical instances, such as Zambia's 2020 debt default, where AMFI loans were subjected to restructuring discussions, highlight the fragility of their PCS claims. Despite these challenges, AMFIIs have made major strides in asserting their creditor priority, leveraging their growing role in African economic integration and development.

How PCS is Sustained in Practice

Although typically not contractual, PCS has strong empirical grounding and underpins the risk characteristics regulators and rating agencies

assign to multilateral exposures. PCS persists through a set of reinforcing policies and behaviours. IMF arrears policies, the World Bank's non-acceleration approach, and regulator handbooks embed this practice by differentiating multilateral development bank (MDB) claims from others. For instance, the IMF maintains a non-toleration policy regarding arrears to multilateral creditors and has framework that govern lending when arrears exist to private or official bilateral creditors. These include lending into arrears to private creditors and lending into official arrears in bilateral sovereign lending. IMF (2022) confirms these policies and clarifies the perimeter; in plain terms, the system strongly incentivises countries to remain current with MFIs or to clear any arrears rapidly, because failure to do so can block access to IMF resources.

Additionally, IMF (2021) and World Bank (2025) note that Afreximbank does not share preferred treatment with private creditors and does not engage in PCS sharing structures. This helps preserve the convention that multilateral claims sit outside restructuring perimeters. Moreover, bank-capital regulations allow a zero percent risk weight for exposures to qualifying MDBs under the standardised approach (BIS 2025). Ratings methodologies for supranationals explicitly assess preferred creditor treatment as a driver of strong asset performance (Moody's Ratings 2025). These

frameworks reflect observed payment behaviour and a low-loss history for multilateral exposures.

Criteria for Eligibility

To be recognised as a preferred creditor, an institution must meet the following key criteria:

- **Treaty-based commitments:**

Afreximbank and the AfDB have founding agreements that imply repayment priority. These clauses provide a legal foundation for PCS.

- **Consistent state practice:**

Borrowing nations must demonstrate a track record of prioritising AMFI loans, even during crises. While many African countries adhere to this practice, exceptions—such as Zambia's 2020 restructuring of AMFI loans—weaken the perception of PCS. Consistent repayment behaviour is critical to establishing AMFIs as preferred creditors among their global peers.

- **Systemic importance:**

AMFIs play an indispensable role in African financial stability by financing critical sectors such as trade, infrastructure, and industrialisation. Afreximbank, for instance, has disbursed more than US\$100 billion to support the AfCFTA, while the AfDB has invested US\$50 billion in energy and transport projects over the past decade. Despite this, their systemic importance is often underappreciated in global

financial governance, limiting the recognition of their PCS.

AMFIs partially satisfy these criteria but face challenges in achieving universal market recognition. Addressing the gaps to obtain it requires AMFIs to strengthen their legal frameworks and demonstrate their indispensable role in regional and global finance.

What PCS Means During a Debt Restructuring

In sovereign workouts, PCS usually has the following practical consequences:

- **Perimeter.** Claims of core MDBs are excluded from debt reduction and net present value haircut calculations. That convention is long-standing in Paris Club practice and in past programmes, even though no single treaty compels it. The GSDR documents common understandings on timelines, information sharing, and comparability tests. These notes also recognise that MDBs contribute to financing packages through net positive flows during programme periods rather than through haircuts (IMF 2025; World Bank 2025).

- **Financing assurances.** In IMF-supported programmes, MDBs agree to provide more money than they receive during the programme. This net positive flow, mainly through grants or concessional loans, helps close

the financing gap that remains after private and bilateral creditors give relief. Recent GSDR guidance asks teams to quantify and publish these net flows by creditor to support coordination and comparability (IMF 2025).

- **Comparability among non-multilateral creditors.** All creditors other than MDBs must provide a similar level of relief, so the country meets the debt targets in its IMF programme. In practice, the official creditor committee first agrees on a target package based on the debt sustainability analysis. Private creditors are then expected to match that package on a like-for-like basis, using standard metrics such as net present value relief and changes to coupons, maturities, and grace periods. MDB contributions are counted through net positive flows rather than haircuts, which keeps the perimeter clear and limits arguments over who must take reductions. The GSDR is moving toward more standard templates for how to calculate and disclose these comparisons across creditor groups, which should speed talks and reduce disputes (IMF 2022; IMF 2025).

What PCS Is Not

PCS is not a legal lien that compels payment by force of contract. It does not prevent arrears to an MDB from ever occurring, nor does it guarantee that all MDBs will be treated alike in

every case. Rather, it is a policy and market convention that becomes self-reinforcing: sovereigns preserve access to vital funding by staying current, and MDBs maintain low funding costs and a capacity to lend countercyclically. The empirical footing of this convention shows up in very low loss and default experience on MDB sovereign books and in repeated references to preferred treatment in rating reports (Cordella and Powell 2021).

Why Clarity Matters for Newer Regional Multilaterals

PCS status is critical for MFIs because it reduces their exposure to default risk, enabling them to borrow at lower interest rates in global capital markets. By ensuring that their loans are protected from haircuts or rescheduling, PCS enhances the financial stability of these institutions, making their bonds more attractive to international investors. For AMFIs, PCS is particularly vital, as it bolsters investor confidence and allows them to channel resources toward Africa's development priorities, such as intraregional trade, infrastructure, and industrialisation. Unlike commercial creditors, who often face significant losses in sovereign debt crises, MFIs with PCS enjoy a privileged position rooted in legal agreements, historical precedent, and systemic importance to global or regional financial systems.

The significance of PCS extends

beyond financial mechanics. It enables institutions such as Afreximbank, TDB, and AfDB to operate as reliable lenders in often volatile regional markets. By reducing the risk of non-repayment, PCS allows AMFIs to offer financing terms that are more favourable than those of commercial lenders, supporting projects that might otherwise be deemed too risky. However, the inconsistent recognition of PCS for AMFIs—compared to the near-universal acceptance for the Bretton Woods institutions—creates a disparity that undermines their ability to fulfil their mandates effectively.

Contemporary fora are converging on shared process principles, yet there are no global standards regarding how to treat regionally owned multilaterals that combine treaty status with some mixed shareholding. The GSDR compendium highlights progress on timelines and information flows, but it leaves classification questions to case practice. As recent African restructurings show, ambiguity about PCS can slow deals and affect ratings. Hence, the case for explicit recognition criteria, addressed later herein (IMF 2025; George and Strohecker 2025).

Legal and Institutional Foundations

PCS rests on three pillars: international legal personality and immunities, policy mandate, and consistent sovereign practice.

The legal basis for PCS in AMFIs is rooted in their founding treaties, which contain provisions designed to protect their financial claims and operational autonomy.

First, the Afreximbank Establishment Agreement grants the Bank international legal personality and provides immunities and freedom of property, assets, and operations from restrictions in member states. These treaty provisions are foundational to protecting operations and, by extension, to maintaining priority in payment practices (United Nations 1995; Afreximbank 1993). Article IX of the Agreement mandates that member states ensure the Bank's assets and operations remain free from restrictions, regulations, controls, or moratoria. This clause effectively implies PCS by obligating member states to prioritise Afreximbank's financial claims, aligning with the principle of *pacta sunt servanda* under the Vienna Convention on the Law of Treaties (1969). Similarly, the AfDB's 1963 Agreement, specifically Article 44, grants the bank immunity from legal processes except in cases related to its borrowing powers, safeguarding its assets from seizure and reinforcing its PSC.

Furthermore, TDB's Charter, operating under the Common Market for Eastern and Southern Africa treaty framework, secures privileges and immunities and is implemented by national

orders. Financial statements and prospectuses reference the protections and tax immunities that flow from charter status. This framework places TDB squarely in the MFI family in legal terms (TDB Group 2017; Uganda Statute 1992; Kenya Legal Notice 2012)

These treaty-based commitments are analogous to those of the IMF and World Bank, yet their enforcement faces significant hurdles. Sovereign immunity often complicates legal recourse, as states may invoke it to delay or avoid repayments. Political pressures during fiscal crises further exacerbate this issue, as governments prioritise domestic obligations over treaty commitments. Moreover, the lack of explicit PCS recognition in global sovereign debt markets undermines AMFIs' ability to assert their priority consistently. To address these challenges, AMFIs could amend their treaties to explicitly codify PCS, reducing ambiguity and strengthening enforceability. Such amendments would align their legal frameworks more closely with those of global MFIs, enhancing their credibility and financial resilience.

Coordinated Attacks on African Institutions

AMFIs such as Afreximbank and the AfDB are pivotal to the continent's economic transformation, financing critical sectors such as trade, infrastructure, and industrialisation.

However, recent critiques, often emanating from Western academic and financial circles, have cast doubt on their efficacy, raising questions about their capitalisation and reliance on external funding. These critiques, while not explicitly coordinated, align with broader geopolitical dynamics that appear to undermine African institutional autonomy. PCS emerges as a critical defence mechanism, bolstering AMFIs' financial stability, enhancing their global standing, and countering narratives that seek to diminish their credibility. The analysis herein expands on the evidence of attacks on AMFIs, their geopolitical implications, and the practical and financial ramifications of PCS, situating these dynamics within the broader context of African economic sovereignty.

Coordinated Attacks on PCS for AMFIs

Recent challenges to PCS for AMFIs can be characterised as coordinated attacks involving private creditors, rating agencies, official creditor committees (such as Paris Club members), and critics, who collectively seek to undermine the repayment priority of institutions such as Afreximbank and TDB. These efforts aim to treat AMFIs as ordinary commercial creditors, compelling them to accept imposed losses alongside private lenders during debt restructurings in African countries. This coordinated pressure is evident in the following

key areas, which together threaten the financial stability and developmental mandates of AMFIs:

- **Rating agency downgrades and warnings:** Rating agencies and financial analysts have intensified scrutiny of AMFI PCS, amplifying creditor pressures through downgrades and warnings that increase borrowing costs. In June 2025, Fitch Ratings downgraded Afreximbank from BBB to BBB-; outlook negative, citing risks from loans to distressed borrowers such as Ghana, South Sudan, and Zambia and warning that inclusion in restructurings could erode PCS, violating Afreximbank's assertion of treaty-based protections (Fitch Ratings 2025a; George 2025). Similarly, JPMorgan analysts cautioned investors to underweight Afreximbank and TDB bonds, arguing that PCS is "under threat" due to potential forced losses in debt restructurings, a concern driven by the so-called "PCS glut" where too many lenders claim priority, leaving private creditors to bear disproportionate losses (Jones 2024; Strohecker and George 2025). These actions reflect a feedback loop where restructuring pressures inform rating assessments, further discouraging investors and raising costs for AMFIs.
- **Pressure in debt restructurings:** In debt-distressed countries such as Ghana and Zambia, official

creditor committees, including Paris Club members, have demanded "comparable treatment", pushing for AMFI loans to be included in restructurings alongside private debt, undermining their PCS (George and Strohecker 2025). In Ghana, the government halted payments to Afreximbank for two years and sought to include its loans in a US\$13 billion debt restructuring, pressured by official creditors to treat AMFIs as commercial entities despite their treaty-backed status (Refinitiv/Reuters via TradingView 2025; Reuters, 2025). Similarly, Zambia's debt restructuring plan incorporated TDB and Afreximbank loans, with creditors insisting on haircuts to align with private lender losses, setting a dangerous precedent for PCS across the continent (Mfula 2025; Strohecker and George 2025a). These demands are coordinated with rating agency actions, as non-compliance risks further downgrades, creating a cycle that weakens AMFIs' financial standing. In Zambia's restructuring sequence, the Official Creditor Committee and Bretton Woods institutions confirmed that the bondholder deal satisfied comparability of treatment parameters under the IMF–World Bank framework. This illustrates how process norms are evolving, yet it leaves open the specific placement of newer regionally led MDB claims. The

emerging practice problem is clear: where legacy MDBs have an uncontested PCS track record, African multilaterals occupy a grey zone with inconsistent expectations. The resulting negotiation frictions can prolong defaults and raise costs for borrowers.

- **Arguments from critics and double standards:** Critics, including some Western-led institutions and commentators, argue that AMFIs' hybrid models—combining partial private ownership and near-market lending rates—disqualify them from PCS, reserving it for highly concessional lenders such as the World Bank (Miriri 2025; Humphrey 2025). This narrative ignores AMFIs' unique role in addressing Africa's financing gaps, such as trade and infrastructure, which global institutions often avoid due to risk or regulatory constraints. Such critiques reflect broader double standards, as Bretton Woods institutions enjoy unchallenged PCS while AMFIs face scrutiny, perpetuating inequities in the global financial system. Under pressure for short-term liquidity from major creditors, African states sometimes prioritise global frameworks over defending AMFIs, amplifying these coordinated efforts. The African Union (AU) and Alliance of African Multilateral Financial Institutions have countered by reaffirming PCS as essential for Africa's financial

autonomy, calling for global dialogue to establish equitable PCS criteria (Brouck 2024; AU APRM 2025; Afreximbank 2024b; Afreximbank 2025b).

These coordinated attacks—through interconnected rating downgrades, restructuring demands, and inequitable critiques—threaten to erode PCS, increase borrowing costs, and limit AMFIs' ability to support Africa's development. The AU's 2024 and 2025 communiques emphasise that PCS is a “necessity, not a privilege” for AMFIs to fulfil their mandates, underscoring the need to resist these pressures through unified continental action (Afreximbank 2024b; Afreximbank 2025b).

Geopolitical Implications of Undermining AMFIs

The undermining of AMFIs has profound geopolitical consequences, perpetuating African dependency on external creditors and limiting policy autonomy. Historically, IMF and World Bank interventions, particularly through structural adjustment programmes in the 1980s and 1990s, constrained African fiscal space by prioritising debt repayment and market liberalisation over industrialisation and social investment (Mkandawire 2014). These policies often led to reduced public spending, deindustrialisation, and increased reliance on commodity exports, entrenching economic vulnerabilities. A weakened AMFI

system risks perpetuating this cycle, as African nations may be forced to turn to global MFIs for financing, accepting conditionalities that prioritise creditor interests over national development goals.

The erosion of AMFI credibility also threatens African economic sovereignty, reflected in the ability of African nations to shape their fiscal and developmental policies without external interference. AMFIs, unlike their global counterparts, offer flexible, tailored financing that aligns with regional priorities, such as the AfCFTA and sustainable infrastructure development. By contrast, global MFIs often impose one-size-fits-all solutions that fail to account for Africa's unique economic challenges. Undermining AMFIs, thus, not only limits access to alternative financing but also weakens Africa's voice in global financial governance, reinforcing a hierarchical debt architecture that privileges Western institutions.

Moreover, the growing influence of non-Western powers, such as China, heighten the geopolitical stakes in African finance. Critiques of AMFIs may serve to counterbalance this shift, ensuring that African nations remain tethered to Western-dominated financial systems. Strengthening AMFIs through mechanisms such as PCS is therefore both a financial and strategic imperative, enabling Africa to assert greater control

over its economic destiny.

Practical and Financial Implications of PCS

Defending the PCS of AMFIs is essential to safeguard their role in Africa's development, countering coordinated attacks that overlook their unique mandates and exacerbate continental vulnerabilities. The following arguments highlight PCS practical and financial implications, reinforcing its necessity.

Financial stability and mandates

PCS enhances AMFI creditworthiness, enabling access to international capital markets at lower rates, which is crucial for fulfilling their Africa-first mandates. The AfDB, with its AAA rating bolstered by implicit PCS, secures financing that reduces costs for African borrowers, supporting a US\$10 billion annual lending portfolio for energy, transport, and industrialisation (AfDB 2024; Fitch Ratings 2025b). Afreximbank's trade finance role could similarly expand, potentially doubling its lending capacity over the next decade if PCS is strengthened, as investor confidence in repayment priority ensures affordable capital (Afreximbank 2024). Without PCS, AMFIs face higher borrowing costs, limiting their ability to finance risky but essential projects such as trade and infrastructure. Backed by 53 African states, PCS is a necessity, not a privilege for

AMFIIs to withstand shocks and promote self-reliant development.

Double standards and inequity

The monopolisation of PCS by Bretton Woods institutions reflects double standards, as AMFIIs address developmental needs that global lenders avoid due to risks or regulations. Denying PCS to AMFIIs forces them to rely on costly commercial debt, deepening the inequities among MFIs. The AU's 2024 and 2025 communiqües underscore the importance of having PCS to attract development capital and advance African-led solutions, which helps to counter these disparities (Brouck 2024). By preserving PCS, AMFIIs can maintain financial autonomy, reducing dependency on external creditors with stringent conditionalities.

Impact on member states

Although PCS obliges member states to prioritise AMFI loans, potentially constraining fiscal flexibility during crises, the long-term benefits are substantial. Access to affordable, African-led financing supports sustainable development and equitable competition. For example, Afreximbank's trade finance programmes have enabled African firms to compete in global markets, while the AfDB's infrastructure investments have driven economic growth in underserved regions (AfDB 2024). These outcomes align with Africa's developmental

priorities, offering a counterpoint to the austerity-driven policies of global MFIs. However, the obligation to prioritise AMFI loans can strain governments facing fiscal distress, as seen in Zambia's 2020 default, where AMFI loans were included in restructuring discussions. To mitigate this, AMFIIs could adopt flexible repayment frameworks, such as moratoria, balancing their PCS privileges with the fiscal realities of member states. Such measures would enhance trust and ensure long-term repayment consistency.

Global debt architecture

PCS elevates AMFIIs above private creditors in the global debt hierarchy, aligning them with Bretton Woods institutions and strengthening their role in debt negotiations. This insulation from haircuts preserves financial health, enabling continued lending for African priorities such as trade integration and infrastructure. Having PCS helps to amplify Africa's voice and credibility in global financial governance. Reforms, such as tiered PCS frameworks, could address creditor concerns while preserving AMFI status, fostering equitable debt solutions. The coordinated attacks on PCS—through downgrades, restructuring pressures, and inequitable critiques—threaten AMFIIs' ability to support Africa's economic sovereignty. Defending PCS is critical to ensure financial stability, counter double standards, support

member states, and strengthen Africa's global financial position. AU-led reforms and global dialogue can institutionalise PCS, reducing dependency on external lenders and fostering resilient growth.

Case Studies and Counterarguments for Preferred Creditor Status of African Multilateral Financial Institutions

AMFIs play a pivotal role in advancing Africa's economic development through financing trade, infrastructure, and industrialisation. Their claim to PCS is central to ensuring financial resilience and operational continuity yet it faces practical and political challenges. By examining case studies of Afreximbank, the AfDB, and Bretton Woods, this section elucidates the strengths and vulnerabilities of AMFI PCS. It also provides recommendations to bolster PCS recognition, addressing both regional and global dynamics that shape AMFI credibility and influence. This analysis underscores the importance of PCS as a tool to counter narratives that undermine AMFIs and enhance their role in African economic sovereignty.

Case Studies

Afreximbank: testing PCS in practice

Afreximbank's claim to treatment consistent with PCS rests on the foundation and immunities of its treaty. Afreximbank (1993) confers international legal personality and sets out privileges and immunities.

Article IX obliges participating states to refrain from administrative, financial, or regulatory measures that would hinder Bank operations. This provides a robust operating shield, although the text does not create a contractual right to repayment priority in sovereign restructurings.

In recent disputes, the Bank has defended its position using legal avenues and public communications rather than an explicit treaty clause on PCS. Notably, in May 2025, the High Court in London ordered the Republic of South Sudan to repay about US\$657 million to Afreximbank under loan agreements, demonstrating that the Bank can secure judgements against sovereign counterparties in major jurisdictions. That case illustrates the enforceability of claims, yet it is not a precedent of treaty-based PCS trumping a restructuring perimeter. Ongoing issues in Ghana and Zambia further show that recognition of PCS for Afreximbank remains contested (Thompson 2025; Phelps 2025).

Afreximbank's system role continues to expand. The Bank reports US\$17.5 billion in trade finance disbursements in 2024 and targets US\$40 billion by 2026. In parallel, the Intra-African Trade Fair platform that Afreximbank convenes has facilitated more than US\$100 billion in cumulative trade and investment deals across its first three editions, supporting AfCFTA implementation and supply-chain building. These facts speak to macro

relevance, even as classification debates persist (Afreximbank 2025). Consolidation of PCS for Afreximbank is likely to come from consistent state practice and clear programme design rather than a new clause inserted into the founding treaty. Practical steps that must be taken include explicit recognition in official creditor minutes and IMF–World Bank documents of MDB-type treatment with net positive flows recorded during programme periods, standardised disclosure of those flows by the creditor, and alignment with evolving guidance under the GSDR. These moves would narrow perimeter disputes, reduce funding premia, and protect trade finance pipelines during adjustment.

African Development Bank: A De Facto PCS model

The AfDB's treatment consistent with PCS rests on its treaty foundation and long record of repayment by member states. AfDB (2011) confers international legal personality and immunities. Article 52 provides immunity from legal process except for cases arising out of the Bank's borrowing powers and sets venue limits for such cases. The agreement does not codify PCS; rather, PCS has emerged in practice from sovereign behaviour toward the Bank and from expectations embedded in programme design and market analysis (United Nations Treaty Collection).

Operationally, the AfDB has maintained very strong credit performance across cycles, though arrears episodes have occurred. Zimbabwe, for example, accumulated arrears to multilateral creditors, including the AfDB, in the 2000s, prompting lending suspensions and later arrears clearance efforts. Past S&P assessments note that the Bank has experienced arrears and defaults by public and private borrowers, even as overall performance remained robust (IMF 2016; Leo and Moss 2009; AfDB 2011).

The Bank's strength is reflected in its AAA rating and funding costs (Fitch Ratings 2025b). Public reporting indicates that AfDB has invested more than US\$50 billion in infrastructure over the past nine years, with a focus on energy, transport, and industrialisation. These attributes are consistent with de facto PCS in practice, which supports low funding costs and sustained net positive flows in crisis periods (Reuters 2024).

Given that PCS is not explicitly stated in the AfDB's founding treaty, clarity in global fora relies on consistent state practice and transparent programme documentation rather than a new legal clause. Ratings methodologies for supranationals, including S&P's criteria, already incorporate preferred treatment and member support when assessing asset performance and funding strength (S&P Global Ratings 2025).

Bretton Woods Precedent: A Blueprint for AMFIs

The IMF and World Bank are the canonical examples of preferred creditor treatment. Their priority is not an explicit legal seniority in the IMF Articles of Agreement. It is a convention sustained by long state practice, the Fund's arrears policies, and market behaviour. The Fund's non-toleration of arrears and lending-into-arrears frameworks, together with official-sector expectations, underpin this treatment in restructurings. Policy papers and academic work describe IMF preferred status as *de facto* rather than *de jure* (IMF 2022; Schadler 2024; European Central Bank 2021).

A concrete illustration comes from the European crisis. In 2012, Greece imposed very large haircuts on private bondholders through the private sector involvement, with a nominal reduction of about 53.5 percent. Greece then repaid the IMF in full and even accelerated repayment from 2019 through 2022. The sequence shows senior treatment of fund claims in practice, even in a systemic crisis (Cheng 2020; Reuters 2021). The World Bank Group is treated similarly in restructurings, and formal models explain why preferred lenders that can limit volumes and withhold finance in arrears are repaid in equilibrium. This logic supports the policy role of multilateral creditors

and the market's expectation of priority (Cordella and Powell 2021).

Recognition of preferred treatment flows from treaty text as well as repeated African state practice and programme design. Thus, African countries that ratified the Agreement Establishing the African Export–Import Bank must respect the Bank's assets and refrain from impeding its operations. The GSDR is converging on clearer documentation of multilateral net flows and comparability rules across non-multilateral creditors, which helps keep the perimeter predictable (World Bank 2025). Moreover, engagement with official creditor fora can lock in treatment: program documents and minutes that record multilateral flows and exclude qualifying MDB claims from haircuts reinforce the convention. Treaty clarifications can help, but the decisive anchor is consistent recognition by the official community. AMFIs, while regionally focused, can adopt similar strategies by engaging AU summits and international platforms to advocate for PCS recognition.

Challenges and Counterarguments

Despite the compelling case for AMFI PCS, several challenges and counterarguments complicate its implementation and acceptance. These issues stem from sovereign debt dynamics, state resistance, and global market scepticism, each of which requires careful consideration

to ensure PCS strengthens rather than undermine AMFI effectiveness.

Sovereign debt dynamics

A common counterargument to AMFI PCS is its potential tension with restructuring goals in fiscal crises. Country authorities often seek to protect essential spending, which can mean suspending some external debt service during adjustment. IMF (2024) explicitly stresses safeguarding social spending in programmes, providing policy grounds for such choices.

Recent African cases illustrate how this interacts with PCS claims. For example, in December 2022, Ghana announced a suspension of payments on selected external debts that excluded multilateral debt and some short-term trade facilities. In May 2025, Ghana asked Afreximbank to discuss debt treatment and stated it had made no debt-service payments to the Bank for two years, indicating that some of its exposure was brought inside the restructuring perimeter (Ministry of Finance 2022; Reuters 2025b).

After defaulting in 2020, Zambia clarified in June 2025 that it would treat a Bank loan as commercial and restructure it within its plan. These examples show the practical challenge: distressed states may argue that comprehensive relief across creditor types is needed to stabilise the economy, which can clash with PCS expectations

for AFMIs (Reuters 2025c).

A workable balance is already outlined in current policy. The GSDR frames MDB participation through net positive flows during programme periods, while comparability of treatment is applied across non-multilateral creditors. AMFIs can align with this approach and still support fiscal recovery by offering time-bound grace periods, temporary interest relief, or rollover of short-tenor trade instruments, documented transparently so that programme financing assumptions are clear. This preserves the economic rationale for PCS — low funding costs and countercyclical capacity — without forcing reductions that would weaken future development finance.

Consensus-building should foreground concrete benefits that align with national priorities. Afreximbank's AfCFTA Adjustment Fund and Pan-African Payment and Settlement System aim to reduce adjustment costs and facilitate cross-border payments, and AfDB reports more than US\$50 billion invested in infrastructure in nine years (Reuters 2024). These examples help explain why preserving preferred treatment supports affordable, African-led finance rather than crowding out social spending.

Global acceptance

A second counterargument is that PCS for AFMIs lacks universal

recognition among non-African creditors and investors. This scepticism has complicated recent negotiations, since some official creditors have argued that African regional lenders should be included in restructurings alongside private and bilateral claims. Reuters coverage of the 2025 cases in Ghana and Zambia documents pressure to treat Afreximbank and TDB as baby multilaterals, which narrowed the perceived gap between these institutions and commercial lenders (Reuters, 2025a).

PCS uncertainty also feeds through to market pricing. Fitch downgraded Afreximbank to BBB- in June 2025R, noting risks if its loans were included in restructurings; the Financial Times reported the bank's rebuttal (Fitch Ratings 2025a; George, 2025). JPMorgan, in 2024, advised underweight positioning in Afreximbank and TDB bonds due to perceived PCS risk. These episodes illustrate how recognition gaps can raise funding costs and weaken policy headroom.

A practical path to wider acceptance is to anchor treatment in the current official architecture. The GSDR and Paris Club materials set process expectations for comparability across non-multilateral creditors and record multilateral contributions through net positive flows, which effectively keep qualifying MDB claims outside haircut perimeters. African multilaterals can strengthen

their case by engaging these fora and by aligning disclosures with playbook guidance.

Demonstrating systemic importance with verifiable metrics also helps. In this regard, Afreximbank and AfDB continue to support the continent in trade promotion and infrastructure development that contribute to accelerating development and structural transformation of African economies. These support the argument that preserving preferred treatment stabilises essential financing for trade integration and critical infrastructure financing.

Mixed ownership

Although some argue that because Afreximbank and TDB include private shareholders they should be treated as commercial creditors, the evidence is not conducive. First, African states intentionally designed hybrid ownership to broaden permanent capital and diversify funding sources. Second, precedent exists outside of Africa. The Development Bank of Latin America and the Caribbean combines sovereign shareholders with 13 private banks and is still assessed by rating agencies as it enjoys preferred creditor treatment, with its own disclosures describing a *de facto* preferred status (S&P Global Ratings 2024; Development Bank of Latin America and the Caribbean 2024). In practice, PCS depends on mandate, treaty status and privileges, and

consistent sovereign behaviour toward the institution, rather than on a single ownership template.

Pricing

Pricing reflects tenor, risk context, and product mix. AMFIs often provide short-term, self-liquidating trade finance and working-capital lines that naturally price above long-dated concessional credits, yet these instruments are macro-critical and stabilising. MDB status has never required uniform pricing. The IMF's arrears framework and the GSDR perimeter focus on creditor type and function, maintaining non-toleration of arrears to multilaterals and applying comparability among non-multilateral creditors (IMF 2022). In theory and practice, preferred treatment rests on mandate, sovereign practice, and the capacity to withhold support, not on coupons. Prudential and ratings frameworks are consistent with this view, recognising distinct risk characteristics and assessing preferred treatment directly.

Recommendations for Strengthening AMFI PCS

To address these challenges and counterarguments, AMFIs must adopt a multifaceted strategy to strengthen PCS recognition and enhance their resilience against critical narratives. The following recommendations provide a roadmap for achieving this.

Strengthening Treaty Provisions

AMFI treaties should explicitly define PCS, clarifying repayment priorities and enforcement mechanisms. For Afreximbank, amending Article IX to include unambiguous PCS language would strengthen its legal standing, reducing ambiguity in debt negotiations. Similarly, the AfDB could revise Article 44 to codify its de facto PCS, aligning its framework with global MFIs. These amendments should be informed by legal expertise to ensure compliance with international law, particularly the Vienna Convention on the Law of Treaties (1969).

Building State Consensus

The AU should prioritise PCS discussions at its summits, fostering agreement among member states on the importance of AMFI repayment priority. Case studies of successful AMFI projects—such as Afreximbank's role in the AfCFTA or the AfDB's financing of renewable energy—could build political support by demonstrating tangible benefits. Engaging finance ministers and central bank governors in these discussions could ensure alignment between national fiscal policies and regional priorities.

Engaging Global Stakeholders

AMFIs must advocate for PCS recognition in international financial forums, leveraging African diplomatic networks to amplify their voices.

Partnerships with the IMF and World Bank could legitimise AMFI PCS, as joint initiatives would signal global endorsement. For example, co-financing projects with global MFIs could highlight AMFIs' systemic importance, encouraging private creditors to accept their PCS.

Countering Critical Narratives

To counter narratives questioning their efficacy, AMFIs should launch public campaigns highlighting their successes. Afreximbank's role in facilitating intra-African trade and the AfDB's significant infrastructure investments are powerful examples that can reshape perceptions (Afreximbank 2024; Reuters 2024). Transparent reporting, stakeholder engagement, and partnerships with African academic institutions could further refute critiques, building a robust narrative of AMFI competence and impact.

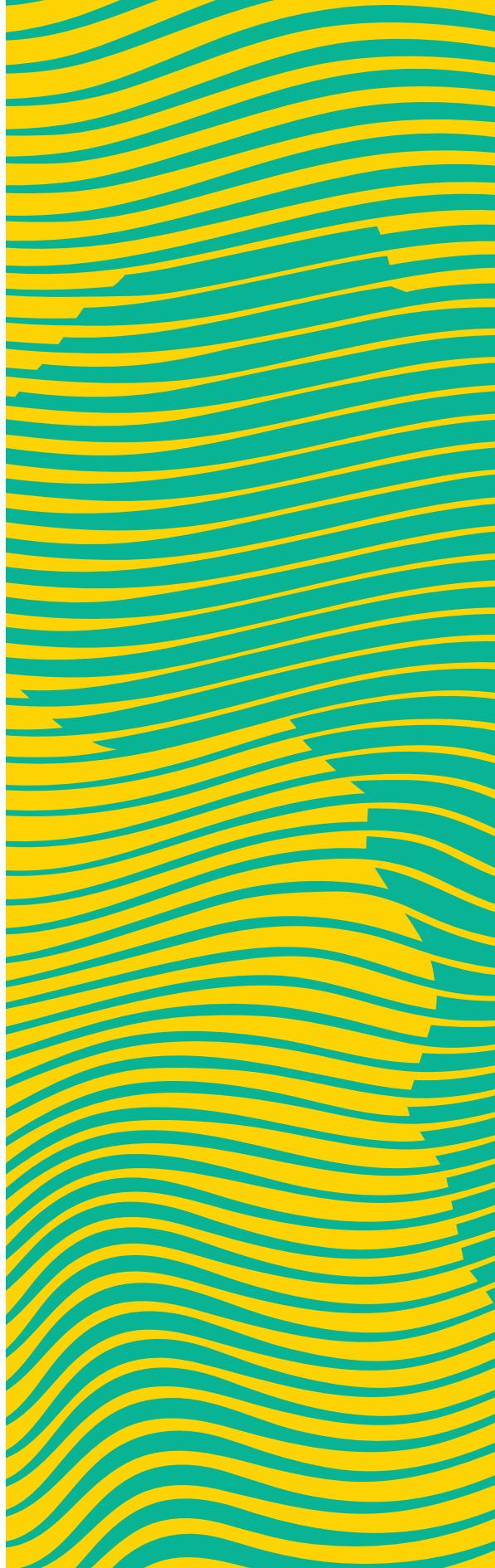
Conclusions

The coordinated critiques of AMFIs, while lacking explicit evidence of orchestration, align with broader geopolitical efforts to maintain African dependency on external creditors. These attacks undermine the credibility of institutions such as Afreximbank and the AfDB, threatening their ability to drive economic transformation. PCS serves as a vital defence, enhancing the financial stability of AMFIs, countering narratives of ineffectiveness, and strengthening

their role in the global debt architecture. By securing universal PCS recognition through treaty amendments and consistent state practice, AMFIs could assert their systemic importance, reduce vulnerabilities, and advance African economic sovereignty.

The stakes are high: a robust AMFI system is essential for Africa to chart its own developmental path, free from the constraints of external financial dominance.

AMFIs are pivotal to the continent's economic transformation, financing critical sectors such as trade, infrastructure, and industrialisation. However, recent critiques, often emanating from Western academic and financial circles, have cast doubt on their efficacy, raising questions about their capitalisation and reliance on external funding. These critiques, while not explicitly coordinated, align with broader geopolitical dynamics that appear to undermine African institutional autonomy. This analysis expands on the evidence of attacks on AMFIs and their geopolitical implications, as well as the practical and financial ramifications of PCS, situating these dynamics within the broader context of African economic sovereignty.



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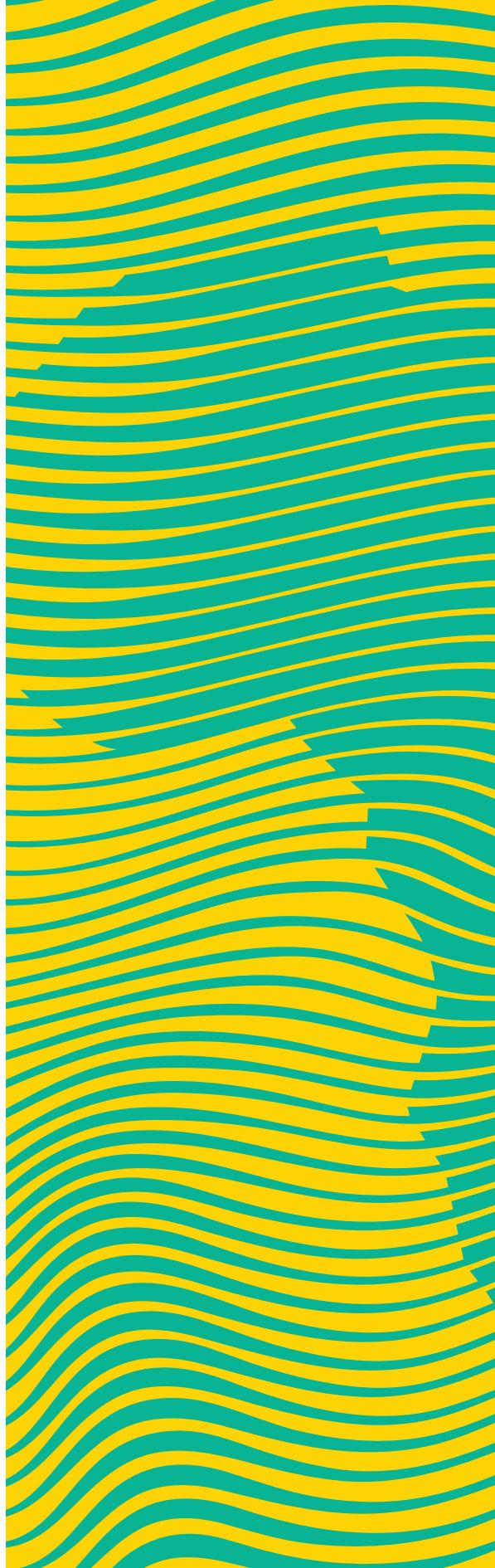
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