SOVEREIGN CREDIT RATINGS COURSE

Duration: 3 weeks

Beginning of the course: 16 October 2023
Application deadline: 29 September 2023

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SOVEREIGN CREDIT RATINGS COURSE

Call for Applications and Nominations¹

Announcement in Brief

Course Type: Short Term Course
Programme Area: Sovereign Credit Ratings
Date: 16th October 2023
Duration: 3 weeks
Language: Bilingual (French / English)
Application Deadline: 29th September 2023

¹ IDEP and PSDFD strongly encourage and support the participation of suitably qualified female officials in its capacity development and training programme.
Economic literature has shown that sovereign credit rating is a key determinant for access to international financial markets. In fact, a sovereign rating is a forward-looking opinion on the probability that an issuer of sovereign debt will be able to honour its obligations. In the presence of asymmetric information, investors view it as "signal" about the counterparty risk associated with a transaction or an issue by a sovereign entity; for African countries, which are constrained by a limited fiscal space and budget constraints, signalling their creditworthiness through their sovereign rating helps them diversify their sources of funding.

Looking at African countries' credit ratings by the three major credit rating agencies (CRAs), namely Standard & Poor's, Moody's Rating Services, and Fitch Ratings, one will notice that they mostly range from being 'Highly speculative' to 'Substantial risks'. These low sovereign ratings convey to investors a perception of high risk in Africa, particularly in the current context, which could exacerbate some of the structural challenges facing the continent. As a result, sourcing affordable finance on international markets for African countries remain quite a challenge. This affects the overall financing costs of governments and the financial stability of African countries, severely threatening Africa's progress towards the Sustainable Development Goals (SDGs) and prosperity. With limited fiscal space and persistent challenges to source affordable funding, several African countries may need to consider restructuring their debt, with the dual challenge of maintaining their credit rating and reassuring the investment community.

Although credit rating agencies have their methodologies, the main building blocks are more or less the same; ratings assigned to sovereign entities are based on several factors, including: 1. macroeconomic performance; 2. sustainability of public finances and debt; 3. quality of institutions and governance, 4. business environment, 5. economic, social and governance environment; 6. vulnerability to global risks. Several studies have attempted to identify the main determinants of sovereign credit ratings of African countries. A study on the determinants of sovereign credit ratings in Africa has identified the following macroeconomic variables as significant: external balance, inflation, debt to GDP, fiscal balance, income per capita, GDP growth, international reserves to imports, and foreign reserves to GDP. Another has reported that African countries might be disadvantaged by variables such as susceptibility to event risk (usually political risk) and economic environment, often not considered as business friendly, and that the low coefficients on economic growth in the credit rating model imply that macroeconomic factors are relatively less important in determining a country's risk profile in Africa than in other developing and developed countries.

3 Following the work of Spence (1973), economists have developed the Signaling Theory that easily applies to financial markets: investors cannot directly observe quality of sovereigns, so they use a substitute that is observable (a signal) to enable them decide to which sovereign to lend money. The signal will sort the combined low- and high-quality cars into separate markets.
4 See UNDP (2023). Reducing the cost of finance for Africa. The Role of Sovereign Credit Ratings, Regional Bureau for Africa, April 2023
Another important aspect in assessing the key determinants of African sovereign ratings is the availability and reliability of data. Credible macroeconomic data and accurate information about how countries are managing their finances are essential for determining business confidence and market sentiment. Many African economies do not have well-developed domestic financial markets, which implies that constructing a reliable and comparable dataset on government bond spreads is a problematic task, given the low liquidity of sovereign bonds. Furthermore, government bonds are generally less liquid than equities, and published prices are often indicative quotes rather than actual transactions. Finally, during episodes of financial crisis, many emerging market government bonds are not traded regularly and are therefore not priced accurately.\textsuperscript{10} The failure to ensure that financial markets can obtain reliable data leads to investors becoming more speculative. Inaccurate or insufficient data can be detrimental to a country’s risk profile, particularly when country’s economic prospects are perceived as gloomy.

**OBJECTIVE OF THE COURSE**

This course will provide an understanding of the sovereign credit rating process and what determines a rating, as well as the regulation of the rating industry, the role data plays, and how to engage rating agencies and investors more effectively.

**TARGET PARTICIPANTS**

This course is designed for mid and high-level officials who are working in the Ministries of Finance, the Ministries of Budget and the Ministries of Economy; in Central Banks and other Regulatory Agencies; and also in Public Entities in charge of mobilizing resources in the financial markets.

**SKILLS TO BE IMPARTED**

By the end of this course, you will be able to:

- Understand the sovereign credit rating process.
- Better engage credit rating agencies
- Improve the monitoring of the credit rating
- Appreciate the drivers of country risk and their impact on the economy
- Understand the regulation of the credit rating industry

\textsuperscript{10} Kräussl, R 2003, ‘Do Credit Rating Agencies Add to the Dynamics of Emerging Market Crises?’, Journal of Financial Stability
CONTENT

The course will focus on the following:

- Module 1: Generalities on sovereign credit ratings
- Module 2: The rating process
- Module 3: Critical issues and challenges related to sovereign credit rating

MODE OF DELIVERY

The course will focus on the following:

- Language: The course will be delivered in English and French
- Duration: 3 weeks.
- Resource persons: The course will be delivered by a group of experts/trainers invited to lead the programme. These resource persons are top-level professionals with a first-hand knowledge and experience of sovereign credit ratings.

ACCEPTANCE TO THE COURSE

Applicants to the course are expected to have, as a minimum, a bachelor’s degree preferably where courses related to Finance, Economics, or Statistics. In addition, two years of work experience will be required. Women candidates are strongly encouraged to apply.

Until the registration deadline, participants are accepted to the course on a rolling basis and subject to availability of slots.

Applications must be completed exclusively on IDEP online application platform at: [https://idep-applications.uneca.org/?language=en](https://idep-applications.uneca.org/?language=en).

CERTIFICATE OF COMPLETION

A Certificate of Completion will be issued by IDEP to all participants who successfully complete the course-related self-assessments presented for each module.
TECHNICAL REQUIREMENTS

Access to internet is an essential condition for participation. The following specifications, as a minimum in terms of hardware and software, are required to take this e-Learning course, please consult your Network Administrator or Systems person to ensure that you have the following:

- Platform: Windows 95, 98, 2000, NT, ME, XP or superior; Mac OS 9 or Mac OS X; Linux
- Hardware: 64 MB of RAM, 1 GB of free disk space
- Software:
  - Adobe Acrobat Reader
  - Adobe Flash Player
  - Microsoft Office (Windows or Mac) or Open Office
  - Browser: Google chrome, Firefox 36 or higher or Internet Explorer 7 or higher
- Modem: 56 K
- Note that JavaScript, Cookies and Pop-ups must be enabled

CONTACT INFORMATION

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N.B.: IDEP strongly encourages and supports the participation of suitably qualified female officials in its capacity development and training programme