



CORPORATE GOVERNANCE

A credit rating perspective

Summary

Corporate governance (governance) is a core factor influencing an issuer's ability to meet its financial obligations, primarily through the quality of decision-making and risk management. While weak governance rarely leads directly to default, it can materially amplify solvency and liquidity risks by failing to identify emerging operational issues or delaying corrective action.

Intelligence Africa Ratings ("IA") views governance as an important qualitative credit consideration that influences the reliability of an issuer's financial information, the credibility of management's forward-looking plans and the likelihood of adverse, event-driven credit deterioration. Governance factors focus on the quality of oversight and execution. While IA generally treats strong governance as a baseline expectation and therefore rarely applies a positive adjustment, a negative governance adjustment may be warranted where management exhibits weaknesses such as poor execution track record, limited industry experience, or poor oversight that increases the risk of adverse surprises and delayed corrective action.

1. What governance is really testing (the credit lens)

As credit analysis is inherently forward-looking, a core governance question is whether an issuer's decision-making and internal controls are strong enough to help preserve balance-sheet resilience and protect creditor interests, particularly under stress. In practice, two themes are often central to the governance assessment: management depth (key-person risk) and board independence. For example, high reliance on a founder/CEO can increase execution risk when conditions deteriorate, while an empowered independent board (supported by effective committees) enhances independent oversight, constrains aggressive financial policy, and improves discipline around related-party transactions and disclosure. Strong governance is typically evidenced by:

- Credible information: timely reporting, consistent accounting policies and clear financial disclosures.
- Disciplined financial policy: leverage, dividend policy, and liquidity buffers aligned with business strategy.

2. Governance channels that influence credit risk

From a credit perspective, the most material governance weaknesses typically show up through four channels:

- Related-party risk and value leakage, arising from non-arm's length transactions with affiliated entities, where mispricing or non-market terms may result in value transfer, thereby weakening solvency and potentially placing pressure on the issuer's liquidity position.
- Risk appetite and funding structure, where excessive or poorly controlled risk-taking; such as expansion into non-core or higher-risk activities without commensurate risk management may expose the issuer to elevated downside risk and weaken solvency. Structural weaknesses in funding, including short-term funding of long-term needs, maturity concentration, or foreign currency borrowing without effective hedging, may create refinancing risk and place pressure on liquidity.
- Controls and audit discipline, evidenced by weaknesses in treasury, procurement and receivables controls. This may also be reflected in weak financial reporting discipline, including delayed loss recognition, as well as inadequate tracking of obligations as they fall due.
- Board effectiveness and independence, reflected in the board's ability through independent directors and strong committees to challenge aggressive policies, enforce risk limits, and escalate early when stress emerges.

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3. Practical signals

In practice, these signals commonly support (or weaken) our credit view:

Credit-neutral/supportive governance

- Clear maturity profile and refinancing plan; covenant headroom monitored and disclosed.
- Profit-to-cash reconciliation, with clear explanation of working-capital swings.
- Robust related-party policy and disclosure of material transactions and balances.
- On-time audited reporting, stable auditor relationships, and consistent accounting policies.

Credit-negative governance

- Late financial statements, frequent restatements, or unexplained accounting changes.
- Profitability narrative driven by one-off gains, where management overemphasises non-recurring or non-core income to present a stronger performance profile, masking weak underlying and recurring earnings.
- Material related-party balances with limited terms, weak underwriting, or opaque settlement timelines.
- Limited disclosure on encumbrance, contingent liabilities and guarantees.

4. How it influences rating outcomes

Outside of ESG (Environmental, Social and Governance) Profile Adjustments, governance factors also influence ratings by shaping our confidence in forecasts (earnings, cash flow, and liquidity). Where governance is weak, this reduces forecast reliability and may warrant more cautious assumptions. However, credit ratings are intended to be accurate, forward-looking opinions of an issuer's credit risk profile rather than inherently conservative assessments. Strong governance supports predictability and more resilient outcomes under stress, while weak governance introduces a downside bias by increasing the risk of adverse surprises and delayed corrective action.



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