CIVIL SOCIETY
FINANCING FOR
DEVELOPMENT
Mechanism

Third Preparatory Committee (PrepCom) for the Fourth International Conference on Financing for Development (FfD4), NY, 10-14 February, 2025

February 13, 2025

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Credit rating agencies are powerful, concentrated, unregulated and opaque financial actors affecting sovereign borrowing costs, market access and indebtedness. Three concerns are highlighted here:

First, a **conflict of interest** is generated by the 'issuer pays' model, where rating agencies deliver judgments to the very financial clients who pay them for assessments, raising questions over the objectivity and legitimacy of the methodology.

Second, ratings are **procyclical**: during economic downturns, global shocks and climate disasters, sovereign ratings are downgraded at the very moment when countries require liquidity through affordable and predictable market access to respond to urgent economic, health and climate disaster response needs. When a sovereign is downgraded by rating agencies it faces a **cascade of adversities**, such as higher borrowing costs and decreased market access that can potentially trigger a wave of sell-offs and capital outflows, which leads to currency depreciations and higher debt servicing, reduced foreign exchange reserve buffers and higher import bills, often stoking cost-of-living crises as the real value of wages plummet.

Third, policy measures with an **austerity bias** are viewed by rating agencies as 'credit positive,' while spending measures to facilitate economic and social recovery from crises are assessed as 'credit negative'. The operative message emitted by CRAs is that fiscal consolidation generates higher ratings and therefore better terms of market access to international credit. In turn, a cyclical dynamic is created that scholars of rating agencies call the "**downgrade-austerity vicious-circle.**"

Gender inequalities are deepened as women disproportionately shoulder the economic contraction and higher debt burdens of downgrades through channels such as employment loss and higher unpaid care economy work. **Climate and ecological sustainability** is threatened when nations face higher interest rates in times of disasters and urgent financing needs.

Based on the above rationales, in **paragraph 55** of the systemic section, we request deletion of sub-paras a) and b) and their replacements with the following text:

a) We resolve to establish an **Intergovernmental Commission under ECOSOC to regulate Credit Rating Agencies** including ESG rating bureaus. The Commission will aim to:

- Establish a **regulatory framework** that can address current dysfunctionalities, from a developing country perspective, in terms of bias and pro- cyclicality in ratings, as well as tackle market concentration and conflicts of interest.

- Examine **institutional innovations** required to correct and avert the adverse impacts of CRAs, such as for example suspending sovereign downgrades during times of debt distress to prevent the worsening of debt distress as well as the adoption of common guidelines to incorporate SDG-aligned, social and environmental, as well as human rights and gender equality indicators into rating methodology.

- Explore proposals such as the establishment of an **independent and public credit rating agency** within the auspices of the UN to provide more transparent and equitable assessments of creditworthiness.

Rating agencies act as **de facto supranational and unelected policy makers** across many developing countries, as they shape economic realities even while their methodology and effects contradict basic elements of equity and legitimacy.

Thank you.