



Financing for Development Forum 2024

Overall theme: Enhancing on the path toward the Fourth International Conference on Financing for Development

FFD Intervention - Panel discussion 6: Debt and debt sustainability, 24th April 2024,

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Your Excellencies, Representatives from Multilateral Institutions, the Media, and Comrades from Civil Society

Thank you for the opportunity.

The Debt Crisis is a development crisis that if not checked will soon become a human crisis. With an increasing number of countries, particularly in Africa, paying more in debt service interest payments than on social investments like education and health, is symptomatic of an international system that is working for profits and shareholder returns, and not people.

In essence, we have designed a system that is presently mortgaging future lives and livelihoods for creditor loyalty and accessing global international markets. As the President of the General noted **“Nations should not gamble their peoples future”**.

Distinguished members of this Trusteeship Council, the global debt architecture has evolved as debt instruments have, and it is no surprise that with deeper financialisation of development finance, the system has given rise to more prominent role to entities such as Credit Rating Agencies that have been lamented in this Chamber by both the UN Secretary General, the President of the General Assembly, and the Representative from the United Republic of Tanzania.

During the depth of the Global Pandemic, it must not be forgotten that in this Chamber, the CSO FFD Mechanism and many others noted with deep concern the role pervasive role played by Credit Rating Agencies in discouraging countries from seeking debt relief and restructuring amidst downgrades. It will be recalled that CRAs such as Moody's noted “that ongoing implementation of DSSI poses risks to private creditors, it concluded that the previous ratings already reflected the risks adequately”. Since then, Credit Rating Agencies have proceeded to punish all countries that have opted to enter the Common Framework, itself an ineffective restructuring programme. Four African countries in the Common Framework have all been downgraded. The impact of the behaviour of credit rating agencies is to disincentivise seeking of debt relief and restructuring and instead reinforcing a vicious cycle of borrowing to service debt and not invest in development expenditure.

Distinguished Members, the 2020 Sovereign Credit Review Report by the African Peer Review Mechanism noted: “with the tremendous power of rating agencies to influence market sentiments and investors’ portfolio allocation decisions, COVID-19-induced downgrades could have contributed to deterioration of macroeconomic fundamentals as investors immediately responded by raising the cost of borrowing and withdrawing their capital, aggravating the downside economic situation.”¹ **CRA-downgrades often have a ‘self-fulfilling prophecy’ effect: even countries with strong macroeconomic**

¹ https://au.int/sites/default/files/documents/38809-doc-final_africa_scr_review- mid_year_outlook - eng.pdf

fundamentals, once downgraded, experience a deterioration of their macroeconomic fundamentals, converging to the levels predicted by the rating model.

Conclusion: Need for broader financial regulation

It is important to see the regulation of CRAs within a broader framework for regulation and supervision of financial instruments, actors, hedge funds etc. This should be done through a UN framework, so all developing countries are also at the table in negotiating such regulation to ensure their interests are represented. The Covid-19 led economic crisis is also symptomatic of systemic challenges that the current global financial architecture poses. The debt crisis is revealing the interconnectedness between the role of CRA and FDI in the form debt issuance, capital flight, and undermining of the Domestic Resource Mobilisation (DRM) agenda. The architecture continues to perpetuate extractive practices in the pursuit of profit, all at the expense of people and the environment. There is a complicity of CRAs activities in the undermining of Human Rights and the responses to the current crisis should strengthen the resolve of UN member states to provide a genuine alternative to the present architecture.

Recommendations

1. Further regulation of CRAs

CRAs should therefore be required, through binding regulations rather than voluntary frameworks, to incorporate longer-term human rights-based, gender-sensitive, SDG-aligned, social and environmental indicators into their ratings in order to provide a more comprehensive and fairer picture of the development trajectory of countries being rated.

While improving the quality of CRAs rating methodologies is a critical issue, CRA regulation would also need to focus on issues such as addressing conflicts of interest, promoting alternative market structures to increase competition, and tackling excessive reliance of investors on ratings.

We therefore strongly support the call by the UN Independent Expert on Debt and Human Rights on the urgency of addressing the need for accountability, transparency and regulation of credit rating agencies. However, a key challenge from a developing country perspective has been that much of these regulation discussions are taking place in bodies where they are not represented or inadequately represented (e.g. G20, FSB, Basel Committee, etc.). We therefore recommend that the United Nations take up the question of regulating CRAs.

2. United Nations should lead on regulating CRAs

We further recommend efforts for such a UN commission to study the potential for and facilitate the start-up of the following options, as appropriate:

- United Nations observatory of credit rating service providers: The Secretary General's report to the UNGA in 2013 called for the consideration of establishing a United Nations observatory of credit rating service providers. It was noted that this UN observatory could among other things "certify credit rating products and build consensus on common standards for rating methodologies."**
- Publicly-owned credit rating agencies: This recommendation featured most recently in the 'menu of options' resulting from the process on 'FfD in era of COVID-19 and Beyond' led by the UN Secretary General, Jamaica and Canada. The document recommends the 'Creation of publicly owned credit rating agencies, so that agencies are not both market evaluators and market players as at present. (page 18)". Such a public utility reconstruction has the**

significant potential of facilitating the reduction of CRA monopoly power as well as their ability to constrain policy space for developing countries through their embedded procyclicality, particularly in the context of a pandemic and economic recession. Importantly, public ownership of CRAs widens the possibility of integrating human rights-based and gender-sensitive criterion in the indicators and assessment frameworks of CRAs. Ratings of these public CRAs should provide the benchmarks for portfolio investments of national pension and insurance funds, to become relevant.

- International credit rating agency at the UN: Susan Schroeder, University of Sydney has suggested that such an international agency could “act to validate the work performed by national agencies and private assessors. Its presence would act to counterbalance the influence that private credit rating agencies have over the state of fiscal budgets. Attempting to reduce fiscal deficits during recessions, in response to potential or actual sovereign downgrades, tends to weaken effective demand and economic growth. An international credit rating agency could, conceivably, call a moratorium on downgrades to enable governments to stimulate growth and enhance economies’ shift to recovery”

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