2021 FfD Forum

Panel III: Strengthening private creditor and credit rating agencies contribution to pandemic response and recovery

Lead discussant: Input by Jason Braganza, Executive Director, Executive Director, African Forum and Network on Debt and Development (AFRODAD) on behalf of the Civil Society Financing for Development Group (including Women's Working Group on FfD).

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Your Excellencies, Honourable Representatives from Member States, Distinguished Comrades from the Civil Society Movement, good morning, good afternoon, and good evening from the different parts of the globe from where you join this session.

Since the commencement of this year's ECOSOC forum, there have been wonderfully presented statements about global solidarity in building forward together out of the Covid-19 crisis. Yet as continue to deliver our statements and calls for global solidarity we find ourselves at a crisis point where there is indeed very little global solidarity. We are witnessing the emergence of vaccine nationalism and inequality that undermines universal access to vaccination doses that would accelerate the reopening of the global economy. Furthermore, the existing debt relief measure and instruments that have been instituted since the onset of the crisis remain inadequate that are undermined by the very lack of global solidarity that have been spoken about this week.

The exclusion of private creditors remains a hinderance to achieving any meaningful and sustainable solution to reforming the global debt architecture. And ironically keeps firmly on the agenda the continued privatisation of development and the profiteering from the crisis. This latter point being very stark in the conduct of credit rating agencies and elucidated by the Distinguished Representative from Sri Lanka who eloquently stated that credit rating agencies were undermining access to debt relief finance while at the same time forcing developing countries to trade off debt service against providing social buffers for citizens.

To elaborate on the issues pertaining to how the role of private creditors and credit rating agencies.

Firstly, to date private creditors have not participated in the DSSI nor the G20s Common Framework on the treatment of Debt. Private sector participation in the DSSI could yield significant debt service savings in 2021 for some countries currently participating. This would appear to be most attractive for countries with significant debt to the private sector that have lost market access.

Secondly, since the onset of COVID-19, many DSSI-eligible countries have seen several sovereign credit rating and outlook downgrades. Several rating and outlook downgrades have taken place this year, largely reflecting growing financing needs and deteriorating fiscal position stemming from the COVID-19 pandemic. Five countries—Ethiopia, Pakistan, Cameroon, Senegal and Côte d'Ivoire—were placed by the Moody's credit rating agency under review for downgrade in May and June 2020 after they requested bilateral debt service suspension from G20 creditors. The decision reflected fears that DSSI participation raises the risk of losses for private investors, since the G20 has called on private-sector creditors to offer comparable terms, which subsequently could lead to losses to private creditors in the short and medium run.[1] Upon completing the review on 7 August 2020, neither country received a rating downgrade, but Senegal and Ethiopia were placed on negative outlook. While Moody's continues to believe that the ongoing implementation of DSSI poses risks to private creditors, it concluded that the previous ratings already reflected the risks adequately.

Thirdly, up to 11 countries in Africa saw their sovereign credit rating downgraded in the first half of 2020, according to the “Sovereign Credit Rating Review”[2] report produced by the African Peer Review Mechanism - an entity of the African Union - in collaboration with the African Development Bank and the United Nations Economic Commission for Africa. Additionally, 12 countries had their outlooks changed to negative by different CRAs, meaning their assessments were at risk of being cut. As the review states, “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. CRA-downgrades often have a ‘self-fulfilling prophecy’ effect: even countries with strong macroeconomic fundamentals, once downgraded, experience a deterioration of their macroeconomic fundamentals, converging to the levels predicted by the rating model.

And lastly, according to some academics, CRAs methodology in sovereign ratings shows a preference for countries implementing austerity measures. Efforts to endorse fiscal consolidation, decrease spending and, therefore, reduce debt, are seen as credit positive. While stimulus packages that can in the short term increase fiscal deficits and eventually cumulate further debt levels, would be seen as credit negative. The message CRAs portray is that more austerity leads to better ratings and therefore cheaper market access. Austerity is in fact seen as a signal to capital markets that a government is willing to honour its debt obligations. Some have even called this the “downgrade austerity vicious-circle”. In the present context, where CRAs have been placing numerous developing countries on negative watch for a downgrade, this could also be seen as a signal that “spending what is needed on pandemic response could invite ratings downgrades”. Once again, this could prompt the acceleration and worsening of negative economic dynamics and impacts of the present economic crisis.

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.

[1] See Hogson, C., 20 July 2020, “Moody’s Clashes with UN under G20 Debt Relief Efforts”. Available at: https://www.ft.com/content/7d51d373-c12e-4440-a408-e61a939e3a3c

[2] https://au.int/sites/default/files/documents/38809-doc-final_africa_scr_review-_mid_year_outlook_-_eng.pdf