Preparatory Committee (PrepCom) for the Fourth International Conference on Financing for Development (FfD4) Second Session, NY, 3-6 December, 2024

Jason Braganza, AFRODAD, and the CS FfD Mechanism Intervention delivered at the Interactive Discussion 7: Addressing Systemic Issues

5 December 2024

Your Excellencies, Representatives from Multilateral Institutions, the Media, and Comrades from Civil Society, I speak on behalf of the African Forum and Network on Debt and Development, and the CSO FFD Mechanism.

Thank you for the opportunity.

We commend the efforts to pull together the elements paper based on over 300 submissions.

Addressing systemic issues in FF4 is more than rhetoric. Is it about establishing norms and practices that restore trust in the multilateral system, and more importantly address the fundamental inadequacies in present initiatives to address the poly-crisis and move us meaningfully towards the SDGs.

For example, the elements paper proposal on Credit Rating Agencies calls "***Create or find a space for regular dialogue among Member States, credit rating agencies, regulators, standard setters, long-term investors, and other public institutions, initial discussions could address, for example, more appropriate rating actions during debt swaps/restructurings."***

This proposal falls way short of expectations and bears little appreciation of the pervasive role of CRAs that has been articulated by several member States like Indonesia, Yemen, Zimbabwe, the Group of 77 and China, and Africa Group.

CRAs are a deterrent to effectively addressing the debt crisis that is a major impediment towards SDG financing given the crowding out effect due to debt service interest repayments. CRAs disincentivise restructuring process and dissuade countries from seeking assistance for fear of downgrades. Furthermore, the opaque and subjective methodology tends to create bias in ratings and increase the cost of borrowing from internation capital markets.

As such, Civil Society strongly recommend a more radical and progressive to addressing the disruptive role of CRAs which undermines debt resolution.

We call for:

1. **Establish a universal, intergovernmental ECOSOC Commission to regulate Credit Rating Agencies (CRAs)**
    a. The UN should lead in furthering CRA supervision and regulation, including ESG rating bureaus, by convening a universal, intergovernmental commission under ECOSOC to examine needed international institutional innovations required to correct and avert the adverse impacts of CRAs
    b. The Commission should also further study proposals such as establishing an international public credit rating agency at the UN to provide more transparent and equitable assessments of creditworthiness.

2. **Establishment of UN Framework Convention on Sovereign Debt that has regulation of CRAs as one of its pillars.**

There is widespread agreement on the need to regulate CRAs. While this is a long-lasting issue, recent pandemic and debt crises exposed the current dysfunctionalities, from a developing country perspective, in terms of bias and pro-cyclicality in ratings, market concentration and dominant position, and conflicts of interest. Current debates are largely focused on soft interventions and voluntary measures, often with the direct participation of those same market actors that need to be regulated.

Beyond the inadequacy of CRAs rating methodologies and bias in implementation that undermine developing countries' access to capital markets and increase their borrowing costs by inflating risk premiums, CRA regulation also need to focus on issues such as conflicts of interest, promoting competition to avoid quasi-monopolistic market dynamics.