TWN Global Economy Series 34

Curbing the Dominance of Private Credit Rating Agencies Through Multilateral Credit Rating

Bhumika Muchhala and Maria Syed

TWN
Third World Network

Curbing the Dominance of Private Credit Rating Agencies Through Multilateral Credit Rating

Bhumika Muchhala and Maria Syed

TWN
Third World Network

Curbing the Dominance of Private Credit Rating Agencies Through Multilateral Credit Rating

Published in 2026 by
Third World Network Berhad (198701004592 (163262-P))
131 Jalan Macalister
10400 Penang, Malaysia
www.twn.my

The contents of this publication may be republished or reused for free for non-commercial purposes, except where otherwise noted. This publication is licensed under a Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License.

CONTENTS

Executive Summary 1

1. The Shortcomings of Private Credit Rating Assessments 6

2. Establishing a Multilateral Credit Rating Agency 11
Analytical foundations of the MCRA 12
A new methodological framework for the MCRA 17
Key benefits of establishing an MCRA 21

3. The African Credit Rating Agency 23

4. Challenges and Potential Barriers 25

5. The Human Rights Dimension 26

Endnotes 29

NOTE

This is an edited and reformatted version of a paper that was first published as a Policy Profile Brief (No. 5.2) in *The Roadmap for Eradicating Poverty Beyond Growth: Report of the Special Rapporteur on extreme poverty and human rights, Olivier De Schutter* (New Economies for Eradicating Poverty, 2026).

EXECUTIVE SUMMARY

THIS paper outlines the viability of a Multilateral Credit Rating Agency (MCRA) to enable low- and middle-income countries to access capital on terms that adequately reflect their long-term developmental, social and ecological investments. In the existing international financial architecture, the "Big Three" oligopoly of private credit rating agencies (CRAs) issue over 94% of all sovereign risk ratings, acting as an unelected form of economic governance. Their assessments have often been opaque, subjective, methodologically biased and skewed by income rather than actual risk, leading to an "unjustified" risk premium for countries in the Global South and perpetuating underinvestment in high-potential regions. Rating downgrades assigned to developing countries can rapidly worsen political, fiscal, climate and international shocks into crises of sovereign debt, foreign reserves and liquidity. Through their influence on the cost of capital for sovereigns, the procyclical dynamics of CRAs increase interest expenditure burdens on public budgets, repressing funds for critical public services and development objectives.

According to research conducted by the United Nations Conference on Trade and Development (UNCTAD),[1] developing countries faced 3–5 times higher borrowing costs than advanced economies despite the macroeconomic fundamentals of faster growth and lower debt, amongst others. Investment-grade credit ratings are significantly more prevalent among developed economies than developing economies. While 74.6% of developed countries maintain investment-grade ratings, only 9.2% of developing countries do so. Within the developing-country category, investment-grade ratings are held by 18.5% of upper-middle-income countries, 4% of lower-middle-income countries, and none of the low-income countries. This distribution

reflects persistent differences in sovereign credit conditions and access to international capital markets across income groups.

The $30 trillion in global savings per year[2] flow overwhelmingly to the economies which are already rich in monetary, material, infrastructure and investment capital. This leaves a chronic shortfall of financing for countries that urgently need investments amid a context of overstepped planetary boundaries, ecological collapse and climate emergency on the one side and historic inequality, resurgence of authoritarianism and breakdown of social contracts on the other. Evidence from a 2022 assessment by the UN Development Programme (UNDP)[3] indicates that even a one-notch misalignment in sovereign credit ratings across 16 African countries may have resulted in approximately $74 billion in forgone investment opportunities and higher borrowing costs.

In response, an MCRA would be driven by a mandate to produce fairer risk assessments for developing countries that enable the achievement of the right to development, including sovereign debt sustainability and fair conditions of financing.

The paper advances three initial objectives to guide the MCRA:

1. **Incorporate principles of real economic dynamism and diversification as well as social and economic equity into the construction of sovereign creditworthiness.**

The MCRA's analytical foundations will move beyond short-term liquidity risks to recognize the complex relationship between an economy's productive sectors and its long-term structural growth potential. The current CRAs often fail to adequately reflect the actual economic dynamism and positive growth trajectories in developing countries, attributing low ratings regardless of investment quality or growth potential. The MCRA will distinguish between productive and non-productive activities and have an understanding of economies at the industry level. It will evaluate how economic production and sectors contribute to the aggregate social provisioning of goods and services, expand tax bases, and generate medium- to long-term revenues for debt servicing. Secondly, the MCRA will support policies that underpin national firm structures and domestic industrial endogeneity, fostering genuine structural transformation rather than financial dependence and vulnerability to external debt. This includes

assessing how the real economy interacts with local climate resilience and ecological sustainability. Moreover, investment in public systems, services and infrastructure will be recognized as a critical factor directly impacting a country's economic strength, growth trajectory and long-term debt repayment capacity. The MCRA will also systematically analyze small and medium-sized enterprises (SMEs) and the informal sector, which are crucial for employment, livelihoods and trade networks in developing countries, and which often act as stabilizers during times of economic instability.

2. Generate financial information like the private rating agencies, but with an explicit focus on public welfare, sustainability and social and economic equality.

The MCRA's function will explicitly counter the biases of current CRAs, which reflect the interests of creditors and capital markets rather than developmental, social or ecological priorities. The objective is to produce fair risk assessments for developing countries by focusing on public welfare. It will generate information that promotes public welfare, understanding that vital development spending (e.g., on health, social assistance and education) and investments in social welfare infrastructure are strategic outlays that generate future economic returns and improve societal resilience. This contrasts with private CRAs' tendency to view fiscal expansion, even for essential services, as merely increasing fiscal burdens. The MCRA will integrate climate and ecological dimensions into its evaluative frameworks. It will treat climate investments not just as environmental measures but as crucial mechanisms for improving financial stability, addressing social inequalities stemming from climate collapse, and reducing sovereign credit risk. This approach moves beyond merely reproducing existing biases by treating structural exposure to climate shocks as a credit weakness without considering historical responsibility or adaptive capacity. Lastly, the analyses will highlight how domestic economies build local tax and revenue bases towards servicing sovereign debt, and how economic structures facilitate social reproduction and support livelihoods and communities. The MCRA's unique design will enhance support for the UN Sustainable Development Goals (SDGs).

3. **Pilot a new methodology of sovereign risk assessment through longer-term time horizons, eliminating methodological reliance on GDP and taking into account the maturity structure of sovereign debt, among other actions.**

A new methodological framework is fundamental to the MCRA's objective of avoiding the inherent biases of dominant CRAs. This framework will include longer-term time horizons as the current CRAs are criticized for their short-term focus (5–10 years), which hinders long-term social and infrastructure investments. The MCRA will particularly adopt a long-term (e.g., 30–40 years) economic and social development trajectory for its assessments. This shift will allow for the capture of positive human and social development spillovers, facilitate crucial financing for development and climate mitigation strategies, and make assessments more resilient and stable against short-term instability and exogenous shocks. With regard to methodological reliance on gross domestic product (GDP), empirical analysis shows that GDP per capita, not solvency indicators, is currently the strongest predictor of sovereign credit ratings, penalizing low-income countries regardless of investment quality or growth potential. This is intrinsically connected to procyclical investment patterns and the "downgrade-austerity vicious circle". The MCRA will recognize the limitations of GDP centrality and move away from current methodologies that exert pressure for fiscal austerity and disadvantage developing economies.

The proposal for an MCRA however faces significant obstacles, primarily stemming from the structural power of the global financial sector, which, estimated at $520 trillion in size, exerts considerable lobbying influence. The currently dominant CRAs act as gatekeepers to financial markets, influencing the cost of capital and holding an authoritative "epistemic community" status based on their perceived expertise. Despite these challenges, the initiative for an MCRA is strongly supported by international human rights obligations, particularly those outlined in the International Covenant on Economic, Social and Cultural Rights. The ICESCR emphasizes, among others, the international dimension of economic, social, and cultural (ESC) rights, obligating states to cooperate and provide assistance globally. Globalization further underscores the need for a wider interpretation of state responsibilities in human rights. Hence, states, as members of international organizations (including international

financial institutions), have a duty to protect, respect and fulfil ESC rights by ensuring their actions do not impede these rights in other countries and, where possible, contributing positively to the realization of these rights in other countries. This framework provides a robust ethical and legal mandate for the proposed shift, embodied in the MCRA, towards more equitable and development-oriented credit risk assessments.

Endnotes

1. https://unctad.org/news/developing-countries-face-record-high-public-debt-burdens-now-time-reform
2. https://www.unsdsn.org/news/financing-for-development/
3. https://africatalyst.com/credit-ratings-initiative/

Chapter 1

THE SHORTCOMINGS OF PRIVATE CREDIT RATING ASSESSMENTS

CREDIT rating agencies (CRAs) act as a bridge between lenders and borrowers by reducing information asymmetry through the provision of objective, independent and expert information on borrowers or issuers of bonds and other debt instruments and fixed-income securities.[1] Their primary concern is the creditworthiness of the borrower, that is, the ability of a state or an enterprise to meet its debt obligations (e.g., the risk of debt default). Upon evaluating the borrower's financial, political and economic circumstances, CRAs provide their opinion or judgement in letter form; for example, credit ratings such as A, B, C and so forth. In the sovereign sphere, however, these judgements do more than convey information. They influence investor decisions on where to lend money, determine the ease or difficulty of accessing external finance, and shape the pricing of the debt instruments that sovereigns in the Global South repay.[2]

The key channels involve the cost of borrowing, determined through the sovereign yield, and maturity, or the agreed-upon date on which a financial contract or investment ends, triggering the full repayment of a bond or loan. Sovereign yields, or the cost of borrowing through the interest rate, tend to rise as ratings decline. As ratings increase, the cost of borrowing decreases while access to low-interest financing from international capital markets expands. Various indirect benefits may also accrue, such as investment attraction. Analysis of the influence of CRAs on investor behaviour illustrates that ratings affect credit flows and yield levels disproportionately for the Global South, in that yields move in the direction of CRA opinions and assessments to a statistically significant degree.[3]

For developing countries, a vast range of exogenous shocks, from economic and financial crises to climate disasters, pandemics and debt

restructurings, constitute a dominant factor through which risk-rating downgrades, or warnings of an impending downgrade, translate into higher interest rates and tighter financing conditions. Emerging market and developing economies (EMDEs) accounted for more than 95% of sovereign downgrades in 2020. In Africa, 56% of rated countries were downgraded in the same year.[4] The fear of such ratings downgrades prevented many African nations from accessing international capital markets in 2020, even as many developed economies were expanding deficit financing. Such a procyclical dynamic increases the burden of interest expenditure on public budgets while decreasing public funds available for critical public services and domestic economic and social objectives.

Credit ratings are skewed by income, not actual risk. Empirical analysis shows that gross domestic product (GDP) per capita, rather than solvency indicators, is the strongest predictor of sovereign credit ratings, and particularly so over short-term trajectories of five to 10 years.[5] By contrast, a medium- to long-term trajectory is generally understood to extend up to 30 years. According to the scoring methodologies of the CRAs, per capita GDP is a direct determinant of the credit score for sovereign borrowers, with higher GDP per capita translating directly into a higher credit rating. The single factor of GDP per capita also plays a strong indirect role in the qualitative judgements incorporated into credit scores. This penalizes low-income countries regardless of investment quality or growth potential, inflating their cost of capital and deterring both private and public investment. Meanwhile, the debt-to-GDP ratio has not been found to be statistically significant; many high-income countries are accorded triple-A ratings despite debt-to-GDP ratios well above 100%. Countries linked to the US Federal Reserve through swap lines also tend to have better credit scores. Countries with high inflation have lower ratings, even in the context of imported inflation, particularly in developing countries affected by exogenous shocks such as international monetary tightening.

Both credit and debt sustainability frameworks focus on short-term liquidity risks, not long-term structural growth potential.[6] This leads to procyclical investment patterns that funnel capital to already-rich countries and perpetuate underinvestment in high-potential regions. Developing countries in fact have a very high development potential if investments in public systems and services, infrastructure, and domestic production structures and their diversification are duly prioritized and sustained. Thus,

the credit rating system tends to ascribe the lowest ratings to the countries with the greatest prospects while intentionally ignoring the long-term structural determinants of debt sustainability, putting the focus on short-term liquidity considerations.[7] Amid the dominance of financialization across the global economy since the 1980s, one trend, inter alia, is that of borrowing countries from the Global South adopting policies that address the short-term concerns of portfolio investors, even when they are in conflict with long-term development needs. Within CRA methodology, fiscal consolidation is viewed as "credit positive", generating a cyclical dynamic that has been called the "downgrade-austerity vicious circle".[8] During the COVID-19 pandemic, CRAs downgraded numerous sovereigns through placement on a "negative watch". At the height of the pandemic, according to the *Financial Times*, "spending what is needed on pandemic response could invite ratings downgrades".[9]

As national policymakers enact "signals" of creditworthiness, fiscal policy is typically tightened towards an austerity bias. Since the early 2000s, the formulation of fiscal legislation that codifies targets on public expenditure has emerged as a global phenomenon. In over 40 middle-income developing countries, binding fiscal rules have been put into force, typically through legislation in the form of constitutional or ordinary law and subject to domestic or external regulation.[10] Rating reports tend to view fiscal rules legislation in developing countries favourably, often stating that binding caps or ceilings for fiscal expenditure serve the role of anchoring fiscal stability and thereby legitimacy. CRA gradings of sovereign credit risk are embedded within, funded by and accountable to markets, not the public. Consequently, rating agencies are pressured to promote the policies that maximize client profits and market share. The absence of transparency, objectivity and accountability in the process and practice of CRAs has been grounds for critics to highlight their undemocratic nature, by even the most basic standards.

The operating logic of the CRA ratings framework penalizes sovereigns when shocks occur and temporary liquidity relief is sought for recovery. The punitive effects are channelled through rating downgrades, or negative outlooks and warnings, issued by CRAs, which in turn trigger adverse market reactions such as increases in sovereign borrowing costs and exclusion from investment markets and international lending. This logic operates regardless of whether shocks are exogenous (such as pandemics),

climate disasters or financial (such as financial crises and global financial tightening). The vicious cycle generated is rooted in ratings frameworks treating temporary payment difficulties as an explicit signal of defaulting on debt servicing, even when insolvency may not be the case. In this reality, it is no surprise that shock-afflicted countries, particularly in the Global South, hesitate to seek financial relief. The underlying issue also points to contractual mechanisms in sovereign debt frameworks that prevent shock recovery without setting off a default.

In May 2026, the Fitch Ratings agency amended its sovereign rating criteria to permit countries to temporarily pause debt repayments without being treated as being in "default". While the change is admittedly narrow and technical, if enacted in actuality, it can enable developing countries experiencing external shocks to seek timely temporary liquidity relief without automatically triggering a negative risk assessment.[11] In turn, economic and social harm could potentially be averted, or at least mitigated, if disorderly defaults are guarded against.

While this rating criterion shift by Fitch constitutes a critical incremental reform in the international architecture for sovereign debt management, numerous conditions and limitations must be noted.[12] First, it is narrow in scope and excludes nations already in default or facing unsustainable debt levels. Second, safeguards for investors are implanted through the design, allowing bondholders with at least 50% of eligible holdings to block a pause if conditions, such as transparency or equitable creditor participation, are not met. Third, the pause is subject to specific conditions. For example, countries can suspend payments by either declaring a national emergency or seeking emergency International Monetary Fund (IMF) financing. This would also require 30 days' notice to bondholders and participation from at least 60% of other external creditors in similar relief measures. Fourth, it does not address the imperative of fair and timely restructurings for countries in debt distress. And fifth, the use of this shock pause clause is voluntary rather than institutionalized across all CRAs, and is not yet tested at scale.

The criticisms of CRA methodology are not limited to traditional sovereign risk indicators such as fiscal balances, external liquidity or institutional strength. They also extend to the newer domains through which CRAs are expanding their evaluative frameworks, including climate-related risk. In this respect, the incorporation of climate vulnerability into

sovereign ratings does not necessarily resolve the longstanding problems of discretion, asymmetry and procyclicality. On the contrary, it may reproduce them in a new form, particularly where structural exposure to climate shocks is treated as a credit weakness without adequate consideration of historical responsibility, unequal adaptive capacity or the development constraints faced by vulnerable economies.

Chapter 2

ESTABLISHING A MULTILATERAL CREDIT RATING AGENCY

WHILE there exist a range of policy recommendations and remedial formulations to address the methodological biases, punitive logic and monopoly structure[13] of dominant private CRAs, proposals to establish a Multilateral Credit Rating Agency (MCRA) are still nascent and few. One of the key existing proposals has been advanced by academic Susan Schroeder, who has published several papers and articles on a possible schematic for an MCRA that would act as a counterweight to the collective power of private CRAs. In this section, we develop a possible framework, principles and analytical foundations for an MCRA comprising, for example, building productive capacity, strategic public investment and economic diversification and real economy dynamism. Three central objectives would guide the MCRA's orientation and functions. First, incorporating principles of real economic dynamism and diversification into the construction of sovereign creditworthiness, with an imperative to produce fairer risk assessments for developing countries. Second, generating financial information as in the case of the private rating agencies, but with an explicit focus on public welfare, sustainability and social and economic equality.[14] Third, the MCRA will pilot a new methodology of sovereign risk assessment that enables the achievement of both debt sustainability and long-term economic and social development.

Analytical foundations of the MCRA

Dynamism of the real economy

Despite improvements in their macroeconomic and institutional conditions, developing countries may not see corresponding upgrades in their sovereign credit ratings. This suggests that the actual economic dynamism and positive growth trajectories in developing countries are not always adequately or proportionally reflected by the major CRAs. This perceived lag or insufficient recognition of domestic fundamentals is a significant criticism levelled by leaders from developing countries, particularly in Africa, who argue that CRAs may lack adequate understanding of national contexts due to limited local presence and systemic biases.

The analytical orientation of the MCRA recognizes the complex relationship between the economy and industrial and productive sectors beyond cyclical behaviour or shocks by distinguishing productive and non-productive activities and understanding economies at the levels of their industries. This would enable the MCRA to channel a critical dimension of economic dynamism, referring, inter alia, to how economic production and sectors are contributing to the aggregate social provisioning of goods and services, tax bases and, in turn, medium- to long-term revenues to service national debts.

National and green industrial policies that actively support national firm structures and domestic industrial endogeneity must be taken into account in assessing sovereign risk. The current model of derisking private finance risks trapping low- and middle-income countries in financial dependence, thereby exacerbating external debt vulnerabilities instead of fostering genuine structural transformation through the upgrading and enhanced dynamism of local firms.[15] Without such strategic development-oriented economic diversification planning, states struggle to discipline private capital, lose control over strategic sectors as foreign investors dictate terms, and remain vulnerable to unequal economic exchange, exporting volatile commodities rather than developing advanced industrial capabilities. Furthermore, adherence to macrofinancial frameworks like the Wall Street Consensus,[16] which limits state policy tools, hinders a nation's ability to strategically coordinate and finance its own green industrialization. Therefore, an MCRA should collate data from multivariate sources and thoroughly assess

the extent to which national as well as international economic, trade and industrial policies build domestic capacity, reduce dependencies and ensure state leadership over its value chains. Such factors will, in the medium to long term, indicate the potential of economic resilience, thus legitimizing a healthier credit profile.

Furthermore, by fostering domestic aggregate demand, local job creation, and control over green value chains, these policies prevent "enclave-type resource extraction" where the sovereign is rendered a mere consumer of technology from rich countries and generator of yield for foreign investors. This builds a more resilient and diversified economy, strengthening the tax base and revenue streams. Such an approach also allows for greater state autonomy and fiscal space, enabling strategic coordination between fiscal, monetary and industrial authorities to finance green industrialization domestically, instead of being constrained by the Washington Consensus's macrofinancial status quo. Ultimately, by retaining economic benefits internally, mitigating unequal exchange and reducing financial dependencies, a focus on national firms and domestic endogeneity improves a country's financial resilience and capacity to service debt, leading to enhanced sovereign creditworthiness.[17]

Labour productivity is a salient factor for an MCRA to consider in sovereign risk ratings because it serves as a fundamental determinant of a country's long-term economic productivity and financial resilience. A dynamic developmentalism in labour productivity facilitates sustainable economic growth, increasing per capita income and overall economic size, which are key components of the economic risk or economic strength pillars assessed by rating agencies.[18] Furthermore, a more productive workforce expands the tax base, enhancing government revenues and improving the country's fiscal balance and ability to service public debt, thereby mitigating public financial risk and concerns about debt affordability. With regard to external risk criteria determined by CRAs, higher labour productivity boosts a nation's international competitiveness, strengthening its export capacity, improving its balance of payments, and bolstering its foreign currency reserves. Finally, a commitment to enhancing labour productivity often reflects positively on political and institutional risk as part of the national governance assessment, as it necessitates effective policy frameworks and consistent investments in education and infrastructure. Therefore, while not always an explicit standalone pillar, labour productivity's pervasive

influence on a country's holistic development, fiscal health, external position and institutional quality makes it a crucial consideration for comprehensive and transparent sovereign risk assessments by an MCRA.

With regard to climate and ecological dimensions, attention to how the real economy is interacting with local climate resilience and ecological sustainability provides an integrated picture of the interrelation between production and climate. Another critical consideration relates to a rigorously holistic comprehension of how the various sectors of a national economy impact national employment opportunities, local community development, climate and ecological sustainability as well as access to public and social goods and services. Through detailed analysis of domestic economic sectors, an MCRA can assess the national economy on a far more complex and multidimensional level than current CRAs do, incorporating insights on how domestic economies are building the local tax and revenue base towards servicing sovereign debt. Ultimately, such an approach has the potential to identify new ways to attenuate sovereign risk while also illustrating how the real economy shapes the ability of societies to reproduce themselves. By gleaning information on what communities need, what could be done better and how they can be made more self-sufficient, an MCRA will assess risk in relation to multidimensional sustainability in an economy that supports livelihoods and communities.

Furthermore, systematic analyses of economic and productive configurations can also assess small and medium-sized enterprises (SMEs) and the informal sector, which are primary terrains of employment and livelihoods in developing countries as well as key sectors in the network of trade and supply chains domestically and globally.[19] In the event of a shock, such as the COVID-19 pandemic, SMEs bear the brunt of corporations' decisions to delay payment to protect their cash flows. Banks that hold discounted trade receivables and trade credit insurers also suffer, in addition to SMEs' employees and household consumption. Meanwhile the informal sector encompasses a range of activities which lie beyond market activities. The informal sector can be a stabilizing feature that ensures social provisioning can occur while the formal sector experiences a bout of instability.

Social and economic provisioning and equity

Public investment in public systems, services, and physical and social infrastructure is a critical factor for an MCRA to consider, in great measure because it directly impacts a country's economic strength, growth trajectory and long-term debt repayment capacity. Such investments enhance productivity, foster economic diversification, improve human capital and build resilience, all of which are fundamental to a sovereign's ability to generate wealth and manage its finances effectively. These investments are recognized as fundamental drivers of productivity and sustainable economic growth, distinguishing "good" expenditures that expand human capital and infrastructure from other government spending. Furthermore, the quality and effectiveness of these investments serve as indicators of institutional strength and governance, providing insights into policy execution and resource allocation. For developing countries, progressive public investment is vital for achieving development goals and can help mitigate perceived biases and information asymmetries by demonstrating robust underlying fundamentals that might otherwise be overlooked by traditional rating methodologies.

The MCRA would challenge the prevailing short-term austerity focus that often penalizes critical social development spending in developing economies, instead acknowledging that strategic public investments, while potentially increasing debt in the short term, lead to improved creditworthiness, lower borrowing costs and help address crucial development priorities over time, thereby preventing the procyclical downgrades that can worsen economic crises.[20] By building resilient systems and reducing the severity of future economic shocks, such productive social investments ultimately create more fiscal space, lower borrowing costs and, over the medium to long term, reduce the burden of interest payments. The MCRA would recognize these long-term benefits, distinguishing welfare-improving expenditures as crucial for enhancing creditworthiness rather than penalizing them with procyclical downgrades.[21]

Alongside public investment in social sectors and public goods, climate investment is another critical consideration for an MCRA due to its direct impact on a country's financial stability and creditworthiness. As climate change intensifies, extreme weather events and economic disruptions can strain public finances, escalate debt and hinder a government's ability to

meet its obligations. Conversely, strategic investments in climate change readiness, such as renewable energy infrastructure and adaptive measures, bolster a nation's resilience, mitigate environmental and economic risks, and foster long-term sustainable growth. These efforts not only enhance a country's capacity to manage climate challenges but also signal proactive risk management to international investors, ultimately influencing borrowing costs and sovereign credit ratings. Therefore, climate investments positively affect sovereign credit risk by enhancing a country's long-term economic stability and resilience, thereby mitigating the financial burdens associated with climate change. Such investments, broadly categorized under "climate change readiness", involve strategic actions such as adopting sustainable and climate-friendly policies, investing in renewable energy sources, implementing carbon pricing mechanisms and promoting energy efficiency. By undertaking these measures, a nation can significantly reduce its reliance on fossil fuels and lessen its exposure to environmental risks, which in turn fosters a transition towards a more resilient, low-carbon economy. This proactive approach creates a more favourable business environment, attracts sustainable investments and contributes to sustained economic growth, all of which strengthen public finances and a government's capacity to service its debt. The empirical evidence supports this, showing that countries with higher climate change readiness exhibit lower sovereign credit default swap spreads, particularly in scenarios of higher credit risk, indicating a direct reduction in the perceived cost of government borrowing and an improvement in overall creditworthiness. Therefore, climate investments not only address environmental challenges but also serve as a crucial mechanism for improving a nation's financial stability, addressing social inequalities stemming from climate collapse and reducing its sovereign credit risk.[22]

Such a reimagined elevation to the analytical foundations of an MCRA accomplishes far more than merely adjusting or providing minor updates to the methods of the private rating agencies. Simply generating modest changes or adjustments would risk their absorption by the private agencies into their own methods and make the MCRA's approaches redundant and the agency itself unnecessary. The output and analyses of the MCRA must be strategically unique in order to mark an autonomous terrain of operation that is not replicable by private rating agencies.[23] A bold approach would potentially be enabled through access to the wealth of data and research

generated by the various programmes, agencies and funds housed within the United Nations and across its field offices globally, particularly in the Global South. As such, the MCRA would have a distinguished role, edge and design for supporting sovereigns in the context of rapidly evolving geopolitical and systemic economic developments.

A new methodological framework for the MCRA

A new methodological framework underpins the central objective of an MCRA to pilot new methods and criteria in sovereign risk assessment that avoid the biases inherent in the dominant CRAs. The following key aspects are fundamental towards generating a more accurate and forward-looking assessment of developing countries' creditworthiness:[24]

Longer-term time horizons

Current sovereign credit ratings are criticized[25] for their short-term focus, which hinders long-term social and infrastructure investments, particularly in developing economies. This short-term orientation, emphasizing austerity, fails to distinguish between vital development spending (e.g., on health, social assistance programmes and education) and other expenditures, leading to punitive rating actions that limit fiscal space for essential long-term growth. Basing credit ratings on a long-term (e.g., 30–40 years) economic and social development trajectory is of utmost importance in transforming the methodology of sovereign risk assessment. The current 5–10-year trajectory used by the IMF[26] is wholly insufficient, as is the reliance on past economic performance, both of which are employed in current rating methodologies which have been developed for the explicit profit-maximizing objectives of financial investors and client institutions. At present, the timeframe preferred by investors (3–5 years) exerts undue pressure on sovereigns, reducing sensitivities to exogenous shocks and their myriad impacts. Time horizons also need to be lengthened to reflect the positive impacts of long-term infrastructure development. Importantly, debt-to-GDP ratios[27] also need to be assessed in accordance with the 30–40-year scenario, rather than the 5–10-year scenario as is currently done. The shift to longer-term ratings that consider horizons beyond a single economic cycle allows for the capture of positive human and social development

spillovers and facilitates crucial financing for development and climate mitigation strategies, especially for vulnerable economies.[28] Longer time horizons would render sovereign risk assessments more resilient and stable in the face of instability. Increased accuracy and stability of assessments of developing countries will also ultimately clarify financing gaps and needs.

Ultimately, a time horizon shift will positively transform rating methodology in four key ways. Firstly, a long-term perspective would effectively overcome the inherent short-term bias of current rating methodologies and allow vital benefits to materialize and be adequately and promptly reflected in sovereign rating assessments. Secondly, extending time horizons allows an MCRA to clarify distinctions between different types of government expenditures,[29] moving beyond the current indiscriminate emphasis on fiscal austerity. Presently, all fiscal expansions, including essential infrastructure investments or welfare expenditures with the potential for positive human capital spillovers, are often viewed negatively as merely increasing fiscal burdens. A long-term approach would recognize that investments in social welfare infrastructure, for instance, are not just short-term costs but strategic outlays that generate future economic returns and improve societal resilience. This would allow the rating system to move beyond a singular focus on immediate debt-to-GDP ratios or interest payments as primary indicators, thus enabling fiscal expansion that genuinely aligns with sustainable development goals.

Thirdly, a long-term view is essential to ameliorate the dynamics of international financial subordination and provide transformative fiscal space for developing economies. By recognizing the value of developmental spending, a long-term perspective could mitigate the threat of pre-emptive downgrades that often discourage crucial countercyclical policies or participation in debt relief initiatives.[30] This would provide developing economies with greater flexibility to make necessary investments without facing prohibitively expensive borrowing costs. Fourthly and finally, the urgency of the climate crisis underscores the need for a long-term perspective in credit ratings. Developing economies are often on the frontlines of climate change impacts and require significant long-term investments in adaptation and mitigation strategies.[31] A rating methodology that accounts for sustainability and future risks would allow for public investments in climate resilience, recognizing that failing to address climate challenges today will likely incur far greater economic and social costs in the future.

Eliminating methodological reliance on GDP

The key consideration in moving away from the centrality of GDP in existing CRA methodology[32] is the recognition that economic growth alone does not and cannot fully capture human well-being, equity, sustainability or resilience. Historically, GDP was developed during wartime to measure what could be produced and sold.[33] From the outset, the measure excluded essential forms of value, particularly unpaid care work that sustains families, as well as the natural systems such as rivers and forests that underpin planetary boundaries. Today, it operates within a global system increasingly concentrated in the hands of a small number of oligarchic actors. One critical perspective highlights the staggering economic cost of war,[34] nearly $20 trillion annually, or around 11.6% of global GDP, and asks what could be achieved if resources were instead directed towards care, peace, human capabilities and the protection of the living world. In response to these limitations, a recent framework proposed through a United Nations intergovernmental process introduces a dashboard of 31 indicators grounded in the Sustainable Development Goals (SDGs), aimed at promoting "equitable, inclusive, and sustainable well-being".[35] This framework is structured around four dimensions: foundational principles (peace, human rights, and respect for the planet); current well-being; equity and inclusion; and sustainability and resilience.

The expansion and formal recognition of the care economy[36] within broader economic measurement systems further strengthens the case for moving beyond GDP-centric analysis, particularly in pursuit of more equitable redistribution of income. In this context, the limitations of GDP centrality become especially relevant to the development of the methodology for an MCRA, for three core reasons. Firstly, current credit rating methodologies often exert pressure on developing economies to adopt fiscal austerity, resulting in reduced investment in critical social sectors such as health and education, introduction of privatization schemes, public sector wage freezes, targeted social safety nets, and increase in indirect taxation like goods and services tax (GST) and value-added tax (VAT). An improved credit rating framework would instead recognize the long-term positive spillover effects of public investments on human capital formation and sustainable economic growth, aligning assessments with the promotion of human rights and social well-being, as recommended by UN expert reports.

Secondly, the procyclical nature of existing rating systems frequently leads to downgrades and increased borrowing costs during periods of crisis, thereby intensifying economic downturns and potentially contributing to debt distress.[37] This dynamic was evident during the COVID-19 pandemic, when several developing economies faced punitive downgrades despite expanding essential social spending. An MCRA would aim to stabilize economies rather than amplify cycles of crisis, potentially by distinguishing between development-oriented public investment and other forms of expenditure.

And thirdly, current methodologies often embed structural biases that disadvantage developing economies, for example, by overemphasizing GDP size and penalizing less diversified economic structures. These biases reinforce unequal positions within the international financial architecture. An alternative and more equitable rating framework would therefore need to adopt a more balanced and context-sensitive approach that does not reproduce existing global financial inequalities.

Other methodological considerations

Other methodological considerations include taking into account the maturity structure of sovereign debt;[38] long-term debt is inherently less risky than short-term debt as it avoids rollover risk. In addition, taking account of the uses of sovereign debt (e.g., the capital assets that are being funded by sovereign borrowing, including human capital and infrastructure) as well as regional monetary arrangements to ensure liquidity of member governments addresses methodological bias relating to debt sustainability. Importantly, not penalizing exogenous shocks,[39] climate disasters and sovereign debt restructuring initiatives plays a profound role in moving rating methodology towards genuine long-term debt sustainability by averting downgrades or warnings. A key action that an MCRA could undertake is to place a temporary moratorium on ratings in the event of exogenous shocks. On the matter of subjective assessments of government institutions and political stability, which may reflect inherent biases towards developed countries and ignore economic fundamentals, the MCRA methodology could actively solicit analyses and appraisals from in-country experts and researchers in order to ensure that the "home bias"[40] of conventional CRA methodology is averted.

The MCRA methodology should support enhanced transparency of sovereign risk assessment and the empirical methods underpinning its opinions. Increased transparency will, in turn, promote trust and confidence in the issued sovereign ratings by, for example, reducing uncertainty and helping to align ex ante and ex post results. The MCRA can also catalogue and disseminate experiences with the rating industry and their products, as well as the effectiveness of innovations and regulatory changes. Last but certainly not least, the MCRA will centre stakeholder engagement in its methodology. There exists a wide range of stakeholders because of the heavy use of sovereign exposures for asset management, portfolio structure, regulatory purposes, and implementation of fiscal and monetary policies. By expanding engagement, the MCRA would facilitate understanding of the challenges faced by sovereigns and what they need to accomplish for their societies. Furthermore, stabilizing the ratings of EMDE sovereigns would also be helpful for thwarting the predatory activities of vulture funds. Vulture funds purchase distressed debt at low prices with the intention of using the legal process to thwart restructuring and litigate forced payment for short-term, speculative gain.

Key benefits of establishing an MCRA

- **An enabling environment for sustainable economic development:** Positive growth trajectories, particularly through long-term infrastructure investment (which can take 10–30 years), are critical for developing countries to achieve economic development and the SDGs. If these long-term growth prospects are properly recognized and factored into sovereign assessments, they would lead to more stable and higher credit ratings.

- **Long-term reductions in debt distress:** Sustained economic development through diversification and employment creation increases a country's revenue base, making it easier to manage existing debt loads and service debt commitments. Stronger economic performance allows sovereigns to achieve fiscal balance and reduces their reliance on borrowing, thereby lowering the debt-to-GDP ratio and improving overall fiscal strength.

- **Increased economic resilience and diversification:** Dynamic growth often leads to more diversified economies, reducing dependence on a single industry (like commodity exports) and making them less vulnerable to specific market fluctuations or external shocks. This inherent resilience strengthens a sovereign's ability to withstand economic downturns and maintain creditworthiness.

- **Stabilized ratings and investor confidence:** When economic dynamism and long-term growth potential are accurately reflected in sovereign ratings (e.g., by using longer time horizons suitable for development stages), these ratings become more stable and less sensitive to short-term shocks. The increased accuracy and stability give investors interested in longer-term horizons the confidence to engage, thereby improving access to funding and potentially lowering borrowing costs.

- **Improved creditworthiness of domestic entities:** A sovereign's strong creditworthiness underpins the credit quality of other entities within its borders. A positive economic trajectory that reduces sovereign risk consequently strengthens the creditworthiness of municipal, corporate and financial institutions, facilitating broader economic activity and investment.

- **Facilitation of social reproduction:**[41] A comprehensive understanding of industrial configuration, distinguishing between productive and non-productive activities, and how they interact with geographical regions and climate conditions, allows for a clearer picture of an economy's health. Positive growth in truly productive sectors strengthens a society's ability to reproduce itself sustainably, thereby reducing long-term risks.

Chapter 3

THE AFRICAN CREDIT RATING AGENCY

THE African Credit Rating Agency (AfCRA) is a strategic continental initiative established by the African Union heads of state and government to address the negative impact of external credit rating assessments on African economies. Its vision is to be a technically rigorous, independent and internationally credible institution that provides sovereign and sub-sovereign credit assessments. These assessments are based on a nuanced understanding of African economic structures, vulnerability profiles and pathways for structural transformation.

AfCRA's objective is not to challenge existing global rating agencies but rather to complement them by reducing information asymmetries, improving risk differentiation and strengthening analytical transparency.[42] This aims to lead to more accurate pricing of African sovereign risk and mitigate contagion effects from often treating diverse African economies as a homogeneous asset class. A central pillar of AfCRA will be its institutional independence, ensuring operational autonomy, protection from political influence, strict conflict-of-interest safeguards and comprehensive methodological transparency. AfCRA will use an analytical approach[43] that combines traditional fiscal, monetary and external sustainability indicators with forward-looking metrics like climate exposure, natural capital, demographic trends, structural reforms and regional integration under the African Continental Free Trade Area. It will focus on how climate vulnerability interacts with debt sustainability, aiming to prevent temporary shocks from leading to disproportionate rating penalties, while still maintaining rigorous assessments of liquidity risks and institutional effectiveness.

AfCRA's implementation will be phased, starting with establishing a robust legal framework, recruiting expert analysts and publishing detailed methodologies. Subsequent phases will broaden its coverage to include sub-sovereign entities, development finance institutions and specialized instruments like green bonds.[44] To ensure analytical autonomy, AfCRA will pursue diversified revenue streams for financial sustainability. Moreover, the successful implementation of AfCRA is expected to lead to better risk differentiation among African sovereigns, reduced market volatility, stronger domestic capital markets and more stable financing for development-oriented investments. Its legitimacy will be built on technical excellence, clear methodology, institutional independence and recognition from global institutional investors.

The goal of this methodology is to reduce notions of higher risk among international investors and narrow the gap between how African and non-African regions are assessed, thereby reducing country risk premiums and borrowing costs for African nations. The criteria considered[45] would incorporate the traditional determinants of GDP growth, public debt, reserves, inflation, political risks, exchange rate regime and monetary policy as well as additional criteria like transparency of budget processes and data transparency by incorporating peer reviews and experience-sharing practices. Coverage is planned to eventually encompass unrated African governments, corporates and local governments, bonds by parastatal bodies and counties, green bonds, social bonds, sustainability-linked bonds, SME grading and due diligence, bank facility ratings, real estate investment trusts, and bonds issued by corporates, financial institutions, banks and development finance institutions, with additional environmental, social and governance (ESG) advisory and assessment services including second-party opinion and more detailed products tailored to local capital markets.

Chapter 4

CHALLENGES AND POTENTIAL BARRIERS

THE challenges within the international political economy of finance and credit are significant and looming. Some pressing issues include:

- The sheer size and structural power of the global financial sector, which was estimated to amount to approximately $520 trillion by the end of 2024,[46] imbues it with inordinate lobbying influence to shape decision-making within governments and international financial and standard-setting institutions as well as regulatory institutions.

- The monopoly formation of the "Big Three" credit rating agencies – Moody's, S&P and Fitch Ratings – which together issue more than 94% of outstanding credit ratings globally, constitutes an entrenched institutional fortress.

- The Big Three agencies act as gatekeepers to financial markets and thus exercise considerable influence over countries' cost of capital at all times, which enables them to reward or penalize sovereign political and policy choices through the channel of the ratings issued. The interest rate that a country has to pay on its debt is de facto shaped by the construction of creditworthiness determined by the Big Three.

- Rating agencies constitute an "epistemic community", defined as "networks of knowledge-based experts" that address complex, seemingly technical problems.[47] The recognized expertise and competence of rating agencies proffer them an authoritative claim to offering good advice, and their control of expertise is an important dimension of their structural financial power.

Chapter 5

THE HUMAN RIGHTS DIMENSION

THE initiative to establish an MCRA is aligned with the realization of economic and social rights. The salient aspects regarding the rights enshrined in the International Covenant on Economic, Social and Cultural Rights (ICESCR)[48] are:

1. **International dimension of ESC rights:** While the realization of economic, social and cultural (ESC) rights traditionally has a territorial scope, states are increasingly dependent on international cooperation due to transnational financialization and globalization. This means the realization of ESC rights has critical international dimensions. The ICESCR, through Article 2(1), explicitly refers to obligations of States Parties to take steps, "individually and through international assistance and co-operation", to progressively achieve the full realization of these rights, suggesting an explicit international or extraterritorial scope.

2. **Impact of globalization:** The process of globalization, characterized by increased international transactions and the involvement of various actors (states, international organizations, companies), has led to a wider interpretation of traditionally territorial concepts like jurisdiction and national sovereignty in human rights matters. The UN Committee on Economic, Social and Cultural Rights (CESCR) notes that while globalization isn't inherently incompatible with ESC rights, without appropriate policies, it risks diminishing the central role of human rights.

3. **General legal basis for international obligations:** States have a duty to cooperate under general international law, and international cooperation for human rights promotion is well established in the UN Charter (Articles 55 and 56). This includes a negative obligation to avoid activities that substantially harm the rights of other states and their citizens and may imply a positive obligation to contribute to human rights realization in other countries.

4. **Influence of international organizations:** Decisions and policies of international financial institutions like the IMF and World Bank, the World Trade Organization (WTO), and UN sanctions can significantly affect the enjoyment of ESC rights in member states and third countries. These organizations, though not parties to the ICESCR, are increasingly viewed as being bound by general international law, including human rights provisions of the UN Charter, and as specialized UN agencies, they should contribute to human rights observance.

5. **State obligations as members of international organizations:** States, as members of international organizations and parties to the ICESCR, have human rights obligations even when acting within these bodies. These obligations can be categorized as:

    - **Obligations to protect:** States have a duty to ensure that non-state actors, including international organizations in which they exercise influence, observe ESC rights in other countries. The CESCR specifically states that "States parties have an obligation to ensure that their actions as members of international organizations take due account of the right to health".

    - **Obligations to respect:** States must refrain from actions that might impede the realization of ESC rights in other countries, such as ensuring UN Security Council sanctions regimes do not violate fundamental ESC rights, particularly the core of these rights.

- **Obligations to fulfil:** This involves positive duties for states, particularly richer ones, to contribute to the realization of ESC rights in other countries through assistance like development aid. While this is the most controversial aspect, it is seen as part of the "law as it ought to be" (*de lege ferenda*) and is encouraged by the CESCR.

Need for further clarification and development: *There is a recognized need for further legal confirmation and progressive development of these international obligations, particularly those to protect and fulfil. This includes greater awareness among international organizations and their member states of the human rights impact of their policies, clarification of international obligations through state practice, and application in case law and quasi-jurisprudence of UN human rights treaty bodies.*

ENDNOTES

1. Li, Y. (2021). Debt relief, debt crisis prevention and human rights: The role of credit rating agencies (A/HRC/46/29). Office of the United Nations High Commissioner for Human Rights.
2. Elkhoury, M. (2008). Credit rating agencies and their potential impact on developing countries (UNCTAD Discussion Paper No. 186). United Nations Conference on Trade and Development.
3. Cantor, R. and Packer, F. (1996). Determinants and impact of sovereign credit ratings. *Economic Policy Review*, 2(2).
4. Fofack, H. (2021). The ruinous price for Africa of pernicious perception premiums. Brookings.
5. Sachs, J. D., Sachs, L. E., Camelo Vega, A. M. and Willis, B. M. (2025). The Cost of Capital: Lowering the Cost of Capital for Climate and SDG Finance in Emerging Markets and Developing Economies (EMDEs). Columbia Center on Sustainable Investment.
6. Elkhoury, M. (2008). Credit rating agencies and their potential impact on developing countries (UNCTAD Discussion Paper No. 186). United Nations Conference on Trade and Development.
7. Ibid.
8. Sager, F. and Hinterleitner, M. (2016). How do credit rating agencies rate? An implementation perspective on the assessment of austerity programs during the European debt crisis. *Politics & Policy*, 44(4), 783–815, https://doi.org/10.1111/polp.12165
9. Pilling, D. (2020). Developing Countries Face a Covid-19 Credit Rating Trap. *Financial Times*, June 2020.
10. Brenck, C. Z. and Marques, P. R. (2023). The politics of fiscal restraint: Three decades of rule-based fiscal policy in Brazil. Phenomenal World, 5 October, https://www.phenomenalworld.org/analysis/brazil-fiscal-rules/
11. Goldin, N. and Cash, D. (2026). Rating Agency Fitch Changes Its Criteria on Pausing Debt Repayments: Why It Matters. The Conversation, 28 May, https://theconversation.com/rating-agency-fitch-changes-its-criteria-on-pausing-debt-repayments-why-it-matters-283098
12. Reuters (2026). Bond Investors Propose Crisis “Pause Clauses” for Emerging Countries. 20 April, https://www.reuters.com/business/finance/bond-investors-propose-crisis-pause-clauses-emerging-countries-2026-04-20/
13. The “Big Three” credit rating agencies are Moody’s, S&P and Fitch Ratings, which together issue more than 94% of outstanding credit ratings globally. As such, they form a monopoly structure.
14. Schroeder, S. (2023). Multilateral Credit Rating Agency. In E. Pérez Caldentey and F. G. Villarreal (eds.), *Innovative Financing Instruments in Latin America and the Caribbean*, Project Documents (LC/TS.2022/229) (Santiago: Economic Commission for Latin America and the Caribbean).

15. Gabor, D. (2021). The Wall Street Consensus. *Development and Change*, 52(3), 429–459, https://doi.org/10.1111/dech.12645
16. Juhász, R., Lane, N. and Rodrik, D. (2024). The New Economics of Industrial Policy. *Annual Review of Economics*, 16 (August 2024), 213–242, https://doi.org/10.1146/annurev-economics-081023-024638
17. Gabor, D. and Sylla, N. S. (2023). Derisking developmentalism: A tale of green hydrogen. *Development and Change*, 54(5), 1169–1196, https://doi.org/10.1111/dech.12779
18. Ibid.
19. Schroeder, S. (2023). Multilateral Credit Rating Agency. In E. Pérez Caldentey and F. G. Villarreal (eds.), *Innovative Financing Instruments in Latin America and the Caribbean*, Project Documents (LC/TS.2022/229) (Santiago: Economic Commission for Latin America and the Caribbean).
20. Vijaya, R. (2024). Sovereign Credit Rating: Impact on Social Spending and Fiscal Space. *Review of Radical Political Economics*, 57(2), 177–196.
21. Barta, Z. and Johnston, A. (2023). *Rating Politics: Sovereign Credit Ratings and Democratic Choice in Prosperous Developed Countries* (Oxford: Oxford University Press).
22. Naifar, N. (2023). Does climate change affect sovereign credit risk? International evidence. *Borsa Istanbul Review*, 23(S1), S84–S95, https://doi.org/10.1016/j.bir.2023.10.001
23. Schroeder, S. (2015). *Public Credit Rating Agencies: Increasing Capital Investment and Lending Stability in Volatile Markets* (New York: Palgrave Macmillan).
24. Loussouarn, T. and Vasse, T. (2025). Sovereign credit ratings in developing countries: Regional biases and subjectivity factors (AFD Research Paper No. 385). Éditions Agence française de développement.
25. Ibid.
26. Vijaya, R. (2024). Sovereign Credit Rating: Impact on Social Spending and Fiscal Space. *Review of Radical Political Economics*, 57(2), 177–196.
27. Elkhoury, M. (2008). Credit rating agencies and their potential impact on developing countries (UNCTAD Discussion Paper No. 186). United Nations Conference on Trade and Development.
28. Vijaya, R. (2024). Sovereign Credit Rating: Impact on Social Spending and Fiscal Space. *Review of Radical Political Economics*, 57(2), 177–196.
29. Ibid.
30. Li, Y. (2021). Debt relief, debt crisis prevention and human rights: The role of credit rating agencies (A/HRC/46/29). Office of the United Nations High Commissioner for Human Rights.
31. United Nations Environment Programme (2025). *Adaptation Gap Report 2025: Running on Empty* (Nairobi: UNEP), https://www.unep.org/resources/adaptation-gap-report-2025
32. Sachs, J. D., Sachs, L. E., Camelo Vega, A. M. and Willis, B. M. (2025). The Cost of Capital: Lowering the Cost of Capital for Climate and SDG Finance in Emerging Markets and Developing Economies (EMDEs). Columbia Center on Sustainable Investment.

33. Oxfam (2023). Radical pathways beyond GDP: How feminist and decolonial alternatives can deliver human and planetary wellbeing (Oxfam Discussion Paper). Oxfam International, https://policy-practice.oxfam.org/resources/radical-pathways-beyond-gdp-how-feminist-and-decolonial-alternatives-can-deliv-621539/
34. Parramore, L. (2025). Trillions for War, Pennies for People: How Soaring Military Spending Fails Americans. Institute for New Economic Thinking.
35. High-Level Expert Group on Beyond GDP (2026). Counting What Counts: A Compass of Progress for People and Planet. United Nations.
36. Dengler, C. (2026). Invisible debts: A feminist ecological economics approach to debts from below. *Feminist Economics*, 32(2), 394–414, https://doi.org/10.1080/13545701.2026.2628777
37. Vijaya, R. (2024). Sovereign Credit Rating: Impact on Social Spending and Fiscal Space. *Review of Radical Political Economics*, 57(2), 177–196.
38. Sachs, J. D., Sachs, L. E., Camelo Vega, A. M. and Willis, B. M. (2025). The Cost of Capital: Lowering the Cost of Capital for Climate and SDG Finance in Emerging Markets and Developing Economies (EMDEs). Columbia Center on Sustainable Investment.
39. Loussouarn, T. and Vasse, T. (2025). Sovereign credit ratings in developing countries: Regional biases and subjectivity factors (AFD Research Paper No. 385). Éditions Agence française de développement.
40. The "home bias" of CRAs refers to the tendency for sovereign rating methodologies and assessments to be influenced directly or indirectly by the institutional, informational and market perspectives of the advanced economies where the major CRAs are headquartered. This can contribute to systematically less favourable treatment of developing countries, even when objective fundamentals are similar.
41. Bhattacharya, T. (2017). *Social Reproduction Theory: Remapping Class, Recentering Resistance* (London: Pluto Press).
42. United Nations Conference on Trade and Development (UNCTAD) (2024). Credit rating agencies, developing countries and bias.
43. African Peer Review Mechanism (2024). An Africa Credit Rating Agency (AfCRA): Key shaping the new global financial architecture.
44. Development Reimagined (2026). The Africa Disagreement Tax.
45. African Peer Review Mechanism (2024). An Africa Credit Rating Agency (AfCRA): Key shaping the new global financial architecture.
46. McKinsey Global Institute (2025). Out of Balance: What's Next for Growth, Wealth, and Debt. https://www.mckinsey.com/mgi/our-research/out-of-balance-whats-next-for-growth-wealth-and-debt
47. Haas, P. M. (1992). Introduction: Epistemic Communities and International Policy Coordination. *International Organization*, 46(1), 1–35.
48. Coomans, F. (2007). Application of the International Covenant on Economic, Social and Cultural Rights in the Framework of International Organisations. In A. von Bogdandy and R. Wolfrum (eds.), *Max Planck Yearbook of United Nations Law* (Vol. 11, pp. 359–390). Koninklijke Brill N.V.

CURBING THE DOMINANCE OF PRIVATE CREDIT RATING AGENCIES THROUGH MULTILATERAL CREDIT RATING

Credit rating agencies effectively act as gatekeepers to financial markets, with their credit risk assessments influencing countries' borrowing costs and access to investments. However, their ratings often fail to present an accurate picture of a country's situation, skewed by a disproportionate focus on income and a narrow short-term outlook. These methodological shortcomings have contributed to unequal investment patterns that channel capital to already-rich countries while depriving developing economies of much-needed finance.

This paper makes the case for a Multilateral Credit Rating Agency to serve as a counterweight to the currently dominant private agencies. The proposed MCRA would base its ratings on a longer time horizon and reduce reliance on income criteria. By recognizing economic dynamism and public investment as key determinants of long-term growth potential and financial resilience, it would aim to produce fairer sovereign risk assessments more attuned to a country's development prospects.

BHUMIKA MUCHHALA *is a political economist and senior advisor with the Third World Network.* **MARIA SYED** *is a feminist economist and consultant with TWN.*

TWN GLOBAL ECONOMY SERIES

is a series of papers published by Third World Network on the global economy, particularly on current developments and trends in the global economy, such as those involving output, income, finance and investment. It complements the TWN Trade and Development Series which focuses on multilateral trade issues. It aims to generate discussion on and contribute to appropriate policies towards fulfilling human needs, social equity and environmental sustainability.