Mispricing development: **sovereign ratings** and the **human cost of capital**

Photo: Farmer harvesting avocados. Adobe Stock

Executive Summary

This article examines the challenges posed by the existing global credit-rating system for developing countries, arguing that sovereign mispricing extends far beyond international bond markets and ultimately affects entire commodity value chains, including the livelihoods of smallholders and SMEs. Building on discussions initiated at the Fourth International Conference on Financing for Development (FfD4) in Sevilla, Spain, in June 2025, and subsequently advanced at the Third United Nations Conference on Landlocked Developing Countries (LLDC3) in Awaza, Turkmenistan, in August 2025, the article explores how current rating methodologies influence borrowing costs, investment flows, and development prospects across the Global South.

The article concludes by assessing the case for a multilateral credit-rating agency as a complementary mechanism to support a more balanced, transparent, and inclusive global financial architecture capable of better serving the needs of developing economies.

This article is contributed to the Common Fund for Commodities (CFC) by Mr. Igor Zelezetskii, a leading expert in sovereign risk, credit-rating methodologies, and sustainable development finance.

1. Introduction

In 2022, the thirty-two landlocked developing countries paid a conservatively estimated USD 86.7 billion in avoidable costs[1]. The figure combines higher coupon payments on existing debt, costlier imports after currency depreciation linked to rating actions, capital flight after downgrades, asset-base losses, and related fiscal effects. It is equal to about 8.5 per cent of the group's combined GDP, larger than the annual output of all but two of its members, and roughly three times the official development assistance they received in the same year. The unwanted billions are not inevitable. They are the price of inaccurate information.

On 30 March 2026, the Economic and Social Council of the United Nations returned to credit ratings for the first time

[1] The estimate is the article's own application of a six-channel damage model to the thirty-two landlocked developing countries for reference year 2022. The channels are debt servicing (0.25 per cent per notch applied to public debt), future borrowing (0.3 per cent of GDP), capital outflow (0.3 per cent of GDP), import-cost increases (5 per cent applied to imports), asset depreciation (5 per cent of GDP), insurance premia (0.4 per cent of GDP), and budget-deficit widening (0.5 per cent of GDP). The parameter set is more conservative than the one used for the twelve-country African sample in Section 4. Two of the thirty-two countries (South Sudan and Turkmenistan) lack 2022 import-share data, and totals are reported on a conservative basis. The figure was first presented at The Unwanted Billions: Inaccurate Credit Ratings, Stranded Capital, and a Blended-Finance Solution, side event of the Third United Nations Conference on Landlocked Developing Countries (LLDC3), Awaza, 6 August 2025. Comparative orders of magnitude in the same paragraph draw on World Bank International Debt Statistics for 2022 external public-debt service, UN-OHRLLS estimates of the LLDC infrastructure financing gap, and OECD-DAC data on official development assistance to LLDCs in 2022. Underlying dataset on file with the authors.

since 2014[2]. The meeting was convened under the Sevilla Commitment[3], which asked Member States to establish a recurring high-level dialogue on credit ratings, to improve transparency and forward-looking methodology, to revise the sovereign ceiling rule, to improve the treatment of restructurings, and to reduce mechanistic reliance on ratings. The Deputy Secretary-General opened the meeting with a call to reimagine the credit rating system, including the sovereign ceiling[4]. Avinash Persaud, speaking as special advisor to the President of the Inter-American Development Bank, described the current rating mechanism as a symptom of a broken international financial system[5]. That was not another seminar complaint. It was a UN platform, a formal development finance mandate, and a senior multilateral voice saying that the rating architecture itself had become a reform subject.

This article brings together three lines of analysis that have usually travelled separately. The first is empirical and measures the damage that current rating practices impose on developing economies through borrowing costs, asset depreciation, capital outflow, import costs, and fiscal consequences. The second is methodological and asks why ratings come out the way they do, with particular attention to the qualitative overlay, time horizons, currency conventions, the sovereign ceiling, and the special treatment of the reserve-currency issuer. The third is institutional and tests whether domestic rating agencies can realistically become the answer. The conclusion is that the viable reform path is not another local agency acting alone, but a multilateral credit rating institution operating on the global scale, with a defensible methodology, regulatory credibility, and governance insulated from both private capture and political interference.

The argument is revisionist, but the revisionism is not ornamental. It rests on the claim that rating methodology has become part of public financial infrastructure. Once ratings determine bank capital treatment, investment-grade eligibility, central bank collateral treatment, and index inclusion, an error in methodology is no longer just an opinion with a letter attached. It becomes a pricing machine. If the machine misreads developing economies, the bill is paid in debt service, lost investment, and development projects that never become financeable.

This article does not claim that all developing-country ratings are wrong, or that market spreads are invented by rating agencies. It claims something narrower and more damaging for the current system. Where rating methodology applies developed-market assumptions, short-horizon liquidity filters, hard-currency penalties, and broad sovereign-linkage rules to economies with different structures, it can convert incomplete information into a lower rating. Because the rating is then embedded in regulation and mandates, the lower rating becomes part of the cost of capital. The problem is therefore not merely analytical. It is institutional.

The implications of sovereign mispricing are especially acute for the group of sixteen countries that are simultaneously classified as both Least Developed Countries (LDCs) and Landlocked Developing Countries (LLDCs), referred to in recent Common Fund for Commodities (CFC) and UN-OHRLLS policy discussions as the 'Absolute Sixteen (A16)[6].' These countries combine multiple structural disadvantages: geographic isolation, high logistics costs, low productive capacity, commodity dependence, climate vulnerability, shallow domestic financial markets, and constrained access to international capital.

In such contexts, sovereign rating distortions do not merely increase borrowing costs; they reinforce existing structural exclusion from trade, investment, and value-addition opportunities. The resulting financing penalties can become self-reinforcing, limiting the very infrastructure, SME development, and productive transformation investments required to improve underlying credit fundamentals.

The 'Absolute Sixteen' therefore illustrates how sovereign ratings can interact with geography, commodity dependence, and development asymmetries to produce a cycle of persistent undercapitalization. In these economies, sovereign mispricing is not only a financial issue; it becomes a structural development constraint.

The argument also avoids the easy but weak claim that domestic agencies can solve the problem if governments simply support them. Domestic agencies matter, but the capital that prices sovereigns, infrastructure, banks, securitisations, and

[2] United Nations General Assembly, Resolution A/RES/68/304 (2014); General Assembly thematic debate, 'The role of credit rating agencies in the international financial system' (10 September 2013); Economic and Social Council follow-up meeting, 'The Impact of Credit Rating Agencies on Financing for Sustainable Development' (2014); UN Department of Economic and Social Affairs, Concept Note: Special Meeting of ECOSOC on Credit Ratings (30 March 2026).

[3] Compromiso de Sevilla, Outcome of the Fourth International Conference on Financing for Development, A/RES/79/323 (2025), ¶ 55(a). The Sevilla Commitment mandates a recurring special high-level meeting on credit ratings under the auspices of ECOSOC, calls for more transparent and forward-looking methodologies, fairer treatment of debt restructurings, revisions to the sovereign ceiling rule, and reduced reliance on ratings, and creates a UN-led dialogue to guide appropriate use and regulation of credit ratings. See also UN Department of Economic and Social Affairs, Concept Note: Special Meeting of ECOSOC on Credit Ratings (30 March 2026).

[4] Remarks by H.E. Ms. Amina J. Mohammed, Deputy Secretary-General of the United Nations, opening of the 2026 ECOSOC Special Meeting on Credit Ratings, ECOSOC Chamber, 30 March 2026 (transcript). The phrase used was a 'global call to reimagine the credit rating system,' including a review of the sovereign ceiling concept.

[5] Keynote address by Mr. Avinash Persaud, Special Advisor on Climate Change to the President of the Inter-American Development Bank, 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026 (transcript). The current rating mechanism was characterized as a 'symptom of a broken international financial system.'

[6] The concept of the 'Absolute Sixteen,' developed by the Common Fund for Commodities (CFC), identifies the sixteen countries simultaneously categorized as both Least Developed Countries (LDCs) and Landlocked Developing Countries (LLDCs). The framework builds upon broader literature concerning structurally disadvantaged and 'artificial' states, including countries affected by geographic fragmentation, externally imposed borders, commodity dependence, and constrained state formation. See, inter alia, Alberto Alesina, William Easterly, and Janina Matuszeski, Artificial States (Harvard University, 2006), which argues that externally imposed and structurally fragmented state formations often correlate with weaker political and economic outcomes. The 'Absolute Sixteen' framework extends this discussion by emphasizing the compounded interaction of landlockedness, least-developed-country status, commodity dependence, climate vulnerability, and restricted access to affordable development finance.

cross-border debt normally moves on the global scale. The real question is who can produce a credible global-scale assessment that investors and regulators can use without waiting for permission from the same three firms whose methodologies are being challenged.

2. The ECOSOC moment

The institutional weight of the 30 March meeting matters before its substance. ECOSOC is one of the six principal organs of the United Nations, and its return to credit ratings placed the issue on a Member State track rather than leaving it in the world of expert papers and side events. Proposals that looked like advocacy before Sevilla can now be treated as follow-up to a mandate that Member States have adopted.

Photo: Adobe Stock

The 2014 ECOSOC discussion had placed ratings on the development finance agenda, but it did not create an operational path. The 2026 meeting was different because the Sevilla Commitment had already named the rating issues that matter. It called for more transparent and forward-looking methodologies, fairer treatment of debt restructurings, revision of the sovereign ceiling, reduced reliance on ratings, and a recurring dialogue among governments, agencies, regulators, standard setters, long-term investors, and public institutions that publish independent debt sustainability analysis. That list is unusually concrete. It points directly to methodology, regulation, and institutional use.

Brazil placed the public and multilateral rating agency idea on the intergovernmental record. Its intervention stated that a case could be made for creating a public and multilateral rating agency that would serve as a benchmark for comparison with private ratings[7]. The Third World Network then endorsed the proposal from the official civil society slot[8], and the Children and Youth Constituency called for a universal intergovernmental process under ECOSOC auspices[9] for governance of the credit rating system. These interventions did not create an institution by themselves. They changed the status of the idea. A proposal that had mostly circulated in expert and academic settings now had a Member State sponsor and support from recognised constituencies inside the financing for development process.

China's closing intervention shifted the map further. Its earlier remarks had stayed within the familiar frame of better methodology, stronger supervision, and improved rating quality. After Brazil and the Third World Network had spoken, China encouraged developing countries to build their own rating and assessment systems and to accelerate the pace at which their agencies go global, with the aim of strengthening global influence and competitiveness[10]. In rating language, going global means moving onto the international scale, which is where sovereigns are compared across jurisdictions and where the Big Three operate almost exclusively. China did not announce a multilateral agency, but it did indicate that direct competition on the global scale had entered the range of acceptable outcomes.

A parallel academic line has formed close to the United Nations system. Publications since 2024 from the Columbia Center on Sustainable Investment, led by Lisa Sachs and supported by the work of Professor Jeffrey Sachs as President of the UN Sustainable Development Solutions Network and adviser to three UN Secretaries-General, have argued that sovereign risk in developing countries is overstated, that per-capita GDP receives disproportionate weight, that the sovereign ceiling should be revisited, and that a public or multilateral rating platform should be considered[11].

[7] Statement by the Delegation of Brazil, 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026, transcript at pp. 32–33: in the ultimate analysis, an argument could be made for the creation of a public and multilateral rating agency that would serve as a benchmark for comparison with private ratings.

[8] Statement by the Third World Network (TWN), speaking under the official civil society slot coordinated by the Civil Society Financing for Development Mechanism, 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026, transcript at p. 55: greater plurality of agencies is necessary, and in this respect, in line with Brazil's statement made earlier this morning, the creation of a multilateral rating agency is a viable proposal. The Civil Society Financing for Development Mechanism (CS FfD Mechanism) is a recognized structure for civil society participation in the FfD process operating under the mandate of paragraph 132 of the Addis Ababa Action Agenda. TWN is an independent expert and policy network founded in 1984 in Penang, Malaysia, with regional secretariats and a Geneva office, and accreditation with several UN bodies.

[9] Statement by Constituency Children and Youth (FfD), 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026, calling for a 'universal intergovernmental process under the auspices of ECOSOC for governance of the credit rating system.'

[10] Closing intervention by the Delegation of China, 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026, transcript at p. 76: encouraging and supporting developing countries in building their own rating and assessment systems, and accelerating the pace at which their rating agencies go global with a view to continuously strengthening their global influence and competitiveness. Compare with the earlier intervention by China within the Group of 77 statement, which had focused on rating-quality improvement, methodological optimization, and stronger CRA supervision.

[11] Columbia Center on Sustainable Investment (CCSI), Columbia Climate School and Columbia Law School, 'The Cost of Capital in Developing Countries' (2024), and follow-up publications. CCSI is led by Professor Lisa Sachs (Director). Professor Jeffrey D. Sachs, President of the UN Sustainable Development Solutions Network (UN SDSN), has served as advisor to three United Nations Secretaries-General. CCSI's methodological position aligns with the critical core of the current discussion: systematic overstatement of sovereign risk for developing countries, disproportionate weight on per-capita GDP, the need to revisit the sovereign ceiling concept, and support for a public multilateral rating platform as an alternative to the private Big Three.

That line matters because it gives the political opening a methodological vocabulary. The policy window therefore is not a loose mood. It has a mandate, a Member State proposal, civil society support, a signal from China, and a body of technical work that can be converted into an institutional proposal.

The window will not stay open indefinitely. The next contour of reform will be shaped by whoever arrives first with a proposal that is both politically usable and methodologically ready. The wrong response would be to arrive with slogans about fairness. The right response is to arrive with a rating architecture that can survive the questions of regulators, investors, MDB credit officers, and former rating committee chairs.

The 30 March meeting should therefore be read as a hinge, not as a climax. The Sevilla Commitment has therefore altered the institutional status of sovereign credit ratings within the international development architecture. Prior to Sevilla, credit ratings were often treated primarily as technical market instruments or private-sector analytical tools. Post-Sevilla, they increasingly form part of the broader Financing for Development agenda, particularly where sovereign ratings shape fiscal space, access to capital, infrastructure investment, climate finance, and the cost structure of commodity-dependent economies.

The significance of the ECOSOC process lies not only in its critique of existing methodologies, but in its implicit recognition that sovereign ratings now operate as a form of global financial infrastructure with direct developmental consequences. The debate has therefore moved beyond questions of market efficiency into questions of developmental equity, institutional legitimacy, and systemic resilience.

The 30 March meeting did not solve the rating problem, and it did not bind Member States to create a new agency. Its significance lies in changing what can now be proposed without sounding institutionally premature. Before the meeting, a multilateral CRA could be treated as an interesting but remote idea. After the meeting, it can be presented as one possible implementation route for a live UN mandate.

3. The rating architecture and what it produces

Three privately owned agencies sit at the centre of global credit assessment. S&P Global Ratings, Moody's Investors Service, and

Photo: Rice farmers. Adobe Stock

Fitch Ratings account for about 92 per cent of rating revenues in the European Union[12] and issued more than 94 per cent of outstanding ratings in the United States[13] as of the end of 2024. The regional figures understate their global role because the same agencies determine sovereign ratings, define the investment-grade threshold for benchmarked portfolios, and sit inside regulatory frameworks that shape bank capital, insurer treatment, central bank collateral rules, and securitisation eligibility.

Their sovereign coverage is also decisive. S&P rates around 137 sovereign governments, Moody's around 140, and Fitch around 122. At the end of 2025, roughly three-quarters of United Nations Member States held a sovereign rating, while 51 countries had no rating from any of the three agencies, including 22 African countries[14]. A sovereign that wants regular access to international capital markets normally needs at least one of these ratings, and often needs all three. The commercial opinion therefore becomes a public gateway. The same ratings shape the G20 financial-stability agenda, Basel implementation[15], and the operational frameworks through which the IMF and the World Bank engage with debt sustainability, market access, and financial-sector regulation.

The architecture reproduces itself through consolidation. Moody's completed the acquisition of South Africa's Global Credit Rating in 2024, acquired Peru's Class & Asociados in 2022, holds a majority stake in India's ICRA, and announced in 2025 that it intended to secure a majority equity stake in Egypt's MERIS[16]. S&P Global has held India's CRISIL as a wholly owned subsidiary for years. This is not ordinary geographic expansion. It is the absorption of alternative analytical capacity in markets where alternative perspectives are most needed. Each acquisition reduces the chance that a domestic methodology will mature into an independent global voice.

The post-2008 regulatory regime improved procedure but did not solve this architecture. The International Organization of Securities Commissions revised its Code of Conduct Fundamentals for Credit Rating Agencies in 2015, requiring methodology disclosure, conflict management, and separation of analytical and commercial functions. The European Union's CRA Regulation of 2009 centralised supervision under the European Securities and Markets Authority. In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 reinforced the role of the SEC's Office of Credit Ratings. The Financial Stability Board adopted its Principles for Reducing Reliance on CRA Ratings in 2010 and tracked their implementation through successive peer reviews[17]. Those reforms improved governance. They did not change the fact that three private firms remain embedded in the rules that determine capital costs for sovereigns and for the institutions that finance them.

The consequences become visible during stress. Negative watches, reviews, and outlooks have been linked in the empirical literature to larger increases in borrowing costs for developing countries than for advanced economies[18]. During the COVID period, developed economies suffered a larger output contraction in 2020 than developing economies, but developing countries absorbed more than 95 per cent of sovereign downgrade notches[19,20]. That asymmetry is difficult to reconcile with output contraction alone, and it cannot be explained by the headline growth shock without importing precisely the methodological assumptions that this article later examines, including fiscal headroom, external liquidity, institutional scores, monetary flexibility, and the treatment of currency risk.

Once a downgrade crosses the investment-grade threshold, the rating action can trigger forced selling by funds with mandate

[12] European Securities and Markets Authority, CRA Market Share Calculation 2025, ESMA84-900617762-2652, https://www.esma.europa.eu/sites/default/files/2025-12/ESMA84-900617762-2652_CRA_Market_Share_Calculation_2025.pdf. The market share figure attributable to the three dominant agencies in the European Union is reported in the Calculation as approximately 92 per cent of rating revenues. The earlier 2024 Calculation reported a comparable figure of 90.26 per cent, with S&P at 47.81 per cent, Moody's at 30.59 per cent, and Fitch at 11.86 per cent. See ESMA, CRA Market Share Calculation 2024, table p. 8.

[13] U.S. Securities and Exchange Commission, Office of Credit Ratings, Staff Report on Nationally Recognized Statistical Rating Organizations (April 2026), https://www.sec.gov/files/2025-ocr-staff-report-compliant-4-24-26.pdf.

[14] Sovereign Ratings List, S&P Global Ratings (Sept. 30, 2024), https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/13212613 (137 sovereigns); Deep Dive Africa, Moody's Events (June 25, 2024), https://events.moodys.com/2024-mie22273-deep-dive-africa (approximately 140 sovereigns); Sovereign Data Comparator, Fitch Ratings (Dec. 18, 2024), https://www.fitchratings.com/research/sovereigns/sovereign-data-comparator-december-2024-pdf-18-12-2024 (122 sovereigns). At the end of 2025, approximately 74 per cent of United Nations Member States had been issued sovereign credit ratings; 51 countries did not have ratings from any of the three dominant agencies, including 22 African countries. UN Department of Economic and Social Affairs, Background Paper on the Special Meeting of ECOSOC on Credit Ratings, 23 March 2026.

[15] Basel Committee on Banking Supervision, Basel Framework, Calculation of RWA for Credit Risk, CRE 21 (External credit assessment institutions) and CRE 20 (Standardised approach), https://www.bis.org/basel_framework/chapter/CRE/21.htm. For the European mapping process by which agencies are recognized as External Credit Assessment Institutions and their ratings become usable for bank capital, insurance, and securitization purposes, see European Banking Authority, ECAI Mapping (final report, Nov. 2023), https://www.eba.europa.eu/sites/default/files/2023-11/40ede181-a0be-4cb7-a555-4c866860cb0b/Final%20report%20Amendment%20ITS%20ECAIs%20mapping.pdf.

[16] Moody's Corporation, Moody's Completes Acquisition of GCR Ratings (Oct. 11, 2024), https://ir.moodys.com/news-and-events/news-release-details/2024/Moodys-Completes-Acquisition-of-GCR-Ratings; Moody's, Moody's to Acquire Class & Asociados, Expanding Presence in Peru's Domestic Credit Market (2022), https://ir.moodys.com/press-releases/news-details/2022/Moodys-to-Acquire-Class-Expanding-Presence-in-Perus-Domestic-Credit-Market/default.aspx; S&P Global, 2024 Form 10-K at 17 (CRISIL held as a 100 per cent subsidiary). Moody's announced the acquisition of Egypt's MERIS in 2025.

[17] International Organization of Securities Commissions, Code of Conduct Fundamentals for Credit Rating Agencies (revised 2015). The Code complements regulatory regimes including the EU CRA Regulation (Regulation (EC) No 1060/2009), https://eur-lex.europa.eu/eli/reg/2009/1060/oj/eng, and the U.S. Dodd–Frank Wall Street Reform and Consumer Protection Act (2010). Supervision of CRAs in the European Union has been centralized under ESMA. The Financial Stability Board's Principles for Reducing Reliance on CRA Ratings (2010, with subsequent peer reviews) complement these regimes.

[18] UN Department of Economic and Social Affairs, Background Paper on the Special Meeting of ECOSOC on Credit Ratings 4–6 (23 March 2026). The Background Paper notes that negative warning announcements (reviews, watches, and outlooks) have been linked to increases in borrowing costs, with the increase for developing countries reported at approximately 160 basis points compared with approximately 100 basis points for advanced economies, citing Kiff and others.

[19] Griffith-Jones, S. and Kraemer, M. (2021); UN Department of Economic and Social Affairs (UN DESA) (2022), Policy Brief No. 131, https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/PB_131_final.pdf. The figure of 95 per cent of sovereign downgrade notches absorbed by developing countries during the COVID-19 period contrasts with macroeconomic data showing that developed economies contracted by approximately 4.9 per cent in 2020 while developing economies contracted by approximately 2.4 per cent.

[20] The term 'notch' is commonly used in credit rating publications to refer to a minimal single step increase or decrease of credit rating.

restrictions, higher bank capital charges, loss of collateral eligibility, larger haircuts, and weaker repo access. The cliff effect is not a metaphor. It is the mechanism through which a rating letter becomes a cascade. Ratings therefore do not merely report risk. In a system that embeds them into regulation and mandates, they construct part of the risk they then claim to observe.

The concentration would matter less if ratings remained purely private opinions. They do not. A rating can determine whether an exposure receives a particular risk weight under the standardised approach, whether a security is eligible for a central bank operation, whether an insurer or pension fund can hold it within mandate, whether it qualifies as a high-quality liquid asset for repo and central bank refinancing[21], and whether a bond enters a benchmark. The agencies therefore sit at the junction between private judgement and public rulemaking. That junction is where methodological error becomes development damage.

The consolidation of domestic agencies reinforces the point. A domestic agency may start with local knowledge, different data, and a methodology better adapted to the market it serves. Once acquired by a dominant firm, that local knowledge may remain useful, but the institution no longer provides a genuinely independent global alternative. It becomes part of the same family of methodology, governance, branding, and regulatory recognition that already dominates cross-border capital allocation.

4. Quantifying the damage

The damage analysis treats rating distortion as a counterfactual notch gap. The gap is measured between the observed long-term foreign-currency issuer rating and the rating the same country would receive under the developed-market benchmark model used in the underlying working paper. The estimate is not a forensic tracing exercise that attributes every dollar of market movement to a rating action alone. It asks what annual macro-financial cost follows when a specified notch gap is transmitted through six channels that are known to connect ratings to financing conditions, with each channel scaled to the size of the rating distortion in the country concerned[22].

The reference year is 2022, chosen to reduce exposure to the data revisions that affect more recent IMF and World Bank series, and the model is presented as non-exhaustive. It captures six specified channels and does not claim to trace every macroeconomic effect, every private-sector response, or every mitigating policy action taken by affected governments. The six channels are higher debt-servicing costs on outstanding public debt, higher cost of new borrowing, capital outflow and currency-driven import-cost increases, asset-base depreciation under market turmoil, higher trade-related insurance premiums, and wider fiscal deficits. The model is conservative because it does not capture every channel through which rating distortions affect public finances and private activity. It is also more demanding than the conventional approach because it makes visible the channels that do not appear in the narrow debt-service line, especially asset depreciation and capital-outflow effects.

The original eleven-country African sample showed notch differences ranging from one notch for Mauritius and Morocco to five notches for South Africa. The refreshed twelve-country sample adds Egypt and produces a total estimated annual damage of USD 507.9 billion. Asset depreciation is the largest channel, at USD 263.7 billion. Capital outflow and import-cost effects follow at USD 108.2 billion. Higher debt servicing on outstanding public debt contributes USD 73.9 billion, trade insurance premiums contribute USD 39.6 billion, budget-deficit widening contributes USD 17.6 billion, and the cost of future borrowing contributes USD 5.3 billion. The ranking of channels is as important as the total. It shows that the largest rating damage does not always appear where non-specialists expect to find it.

The assumptions matter because the numbers are large enough to invite attack. Sovereign ratings can therefore operate as procyclical amplifiers rather than neutral measurements of risk. Downgrades increase financing costs precisely when countries experience stress, thereby weakening fiscal space, reducing investment capacity, intensifying exchange-rate pressure, and worsening the macroeconomic indicators that rating methodologies subsequently observe. The mechanism risks becoming self-reinforcing.

For commodity-dependent economies, the procyclical effect can be especially severe because external shocks – including commodity-price volatility, shipping disruptions, fertilizer inflation, and climate-related production losses – can simultaneously weaken sovereign metrics and increase the financing needs of producers and SMEs. Under such conditions, sovereign downgrades may amplify rather than merely reflect economic vulnerability.

[21] Bank for International Settlements, Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools (2013); Daniel Cash, Private Credit Rating Agencies Shape Africa's Access to Debt. Better Oversight Is Needed, The Conversation (Feb. 3, 2026), https://doi.org/10.64628/AAJ.ua6wxagun. The cliff effect operates through institutional investment guidelines that distinguish investment-grade from speculative-grade securities, and through the loss of high-quality liquid asset (HQLA) eligibility under Basel III when an asset is downgraded.

[22] All six channels are scaled to the country's notch distortion. The per-notch coefficients are: (i) debt servicing, 1.5% per notch applied to outstanding public debt; (ii) future borrowing, 0.079% of GDP per notch (derived from a 0.3% of GDP estimate at the sample's GDP-weighted average notch gap of 3.78, reflecting issuance of approximately 5% of GDP and a per-notch surcharge of approximately 160 basis points); (iii) capital outflow and import cost, 1.65% of GDP per notch (derived from a 6.25% of GDP estimate at the average notch gap, comprising capital flight effects and currency-driven import-cost increases on imports of 30–60% of GDP); (iv) asset depreciation, 3.97% of GDP per notch (derived from a 15% of GDP estimate at the average notch gap, reflecting a market-stress decline in an asset base equal to 150% of GDP); (v) insurance premium, 0.59% of GDP per notch (derived from a 2.25% of GDP estimate at the average notch gap, reflecting trade volumes of approximately 1.5x GDP and a per-notch insurance loading); (vi) budget deficit widening, 0.26% of GDP per notch (derived from a 1% of GDP estimate at the average notch gap). The calibration anchor is the GDP-weighted average notch distortion across the twelve-country sample (3.78), so that a country at that notch gap reproduces the original flat-coefficient damage and aggregate magnitude is preserved. Reference year 2022; dataset on file with the authors.

Photo: Dehdadi district, Balkh province, Afghanistan. © FAO/Fahim Rahimi

Debt-service effects are the most familiar channel, but they are not the largest. Capital outflow, currency depreciation, and asset-base loss are more difficult to measure and easier for critics to challenge, yet they are central to the way rating actions operate in stress. A downgrade can change not only the coupon on a bond, but also the behaviour of residents, foreign holders, trade insurers, banks, and portfolio managers. The model therefore follows the chain of transmission rather than stopping at the sovereign yield curve.

The consequences of sovereign mispricing do not end at the level of sovereign spreads, debt sustainability metrics, or institutional portfolio allocations. They cascade through commodity value chains and ultimately reach smallholders, workers, cooperatives, and SMEs operating at the lowest end of global production systems.

In many commodity-dependent developing countries, particularly in agriculture, sovereign ratings shape the cost of trade finance, warehouse financing, crop insurance, fertilizer imports, transport guarantees, and SME lending conditions. When sovereign risk is overstated, the resulting increase in capital costs is transmitted through the chain, often reaching producers who have no participation in sovereign borrowing decisions themselves.

This creates a structural asymmetry in which smallholders absorb the downstream consequences of financial risk perceptions generated far above them in the international financial architecture. The issue is therefore not merely one of sovereign finance, but of what the Common Fund for Commodities has increasingly described as the need to implement the 'Humanizing Value Chains (HVC)[23]' concept – ensuring that global financing systems do not systematically transfer disproportionate adjustment costs onto the most vulnerable participants in trade and production systems.

In this sense, inaccurate sovereign ratings can become part of a wider mechanism through which value extraction, rather than value creation, is embedded into commodity-dependent economies. Sovereign mispricing therefore does not stop at the bond market; it travels through value chains until it reaches the smallholder.

The asset-depreciation channel deserves particular attention. It does not mean that a rating action mechanically destroys every affected asset. It means that a rating shock, when transmitted through confidence, currency, and financing conditions, can reduce the market value of the domestic asset base. In countries with shallow markets and limited foreign-exchange buffers, this channel can be much larger than the direct cost of new borrowing. Ignoring it would make the estimate look safer, but less realistic.

The same logic applies to import costs. If a rating action contributes to capital outflow and currency depreciation, the cost of imported fuel, machinery, medicine, fertiliser, and intermediate goods rises. Those increases then feed public budgets, corporate margins, household welfare, and project economics. A rating action that begins in a committee room can therefore end inside a power tariff, a farm input price, or a delayed infrastructure procurement. That is why the channel approach is necessary.

The twelve-country sample is best read as an evidentiary bridge rather than the final universe. It connects the LLDC estimate that opens the article to the broader methodological sections that follow. The purpose is not to produce a global invoice down to the last dollar. The purpose is to demonstrate that rating distortion has a dollar scale large enough to justify institutional reform, and on that test the evidence easily clears the bar.

The treatment of rating actions as notch differences also has a practical advantage. Investors, regulators, and rating committees think in notches. A one-notch, three-notch, or seven-notch gap is the language in which capital charges, index eligibility, and committee decisions are normally understood. Expressing the counterfactual in that language makes the damage model legible to the people whose decisions the article

[23] The concept of 'Humanizing Value Chains' (HVC), increasingly advanced in recent policy discussions by the Common Fund for Commodities (CFC), emphasizes that value chains should be evaluated not only by efficiency and profitability, but also by their distributive outcomes, resilience, fairness, and developmental impact on smallholders, workers, and SMEs. The approach argues that global trade and financing systems should function in ways that preserve dignity, strengthen local value addition, improve income distribution, and prevent disproportionate adjustment costs from being transferred onto vulnerable producers and commodity-dependent economies. In this sense, HVC extends beyond voluntary certification approaches by addressing the broader structural, financial, and governance conditions through which value is created, allocated, and retained across global production systems. See also the Common Fund for Commodities (CFC), *Humanizing Value Chains* (2024), available at: CFC Humanizing Value Chains Brochure.

seeks to influence. The channel assumptions are now expressed on a per-notch basis for all six channels, so that the dollar damage in each country tracks the size of its rating distortion rather than the size of its economy alone. The per-notch coefficients, the calibration anchor, and the underlying parameter ranges are retained in the notes and the underlying working paper. Nothing would weaken the estimate more than a large number that appears to arrive from nowhere, and nothing would strengthen it more than a large number whose assumptions are visible enough to be attacked and still survive.

Table 1. Assumed rating actions, by country

Country	Rating before	Rating after	Notch difference
Egypt	BBB	B3	7
Ethiopia	B	Caa2	3
Angola	B+	B3	2
Ghana	B	Caa2	3
Gabon	B+	Caa2	4
Kenya	BB-	B2	2
Mali	B-	Caa2	2
Mauritius	BBB	Baa3	1
Mozambique	B-	Caa2	2
South Africa	A-	Ba2	5
Nigeria	B+	B3	2
Morocco	BBB-	Ba1	1

Source: Economic Impact Analysis of Credit Rating Downgrades, working paper. 'Rating before' uses the S&P/Fitch letter scale and 'Rating after' the Moody's scale.

Table 2. Estimated annual damage by channel, twelve-country sample

Channel of damage	Estimated cost, USD billion
Debt servicing cost increase	73.9
Future borrowing cost increase	5.3
Capital outflow and import cost increase	108.2
Asset depreciation	263.7
Insurance premium increase	39.6
Budget deficit widening	17.6
Total	508.3

Source: Refreshed damage dataset accompanying the working paper. Sample comprises Angola, Egypt, Ethiopia, Gabon, Ghana, Kenya, Mali, Mauritius, Morocco, Mozambique, Nigeria, and South Africa. Reference year 2022.

The country-level pattern confirms that rating distortion operates through both scale and intensity, but it is intensity that does most of the work. Egypt absorbs the largest estimated damage, at about USD 221 billion, because a seven-notch downward distortion combines with high public debt and an economy of USD 400 billion. South Africa follows at about USD 136 billion, where a five-notch distortion is applied to a GDP of USD 350 billion. Nigeria, despite an economy comparable to Egypt's, contributes about USD 60 billion because its notch distortion is smaller. The contrast between Egypt and Nigeria is the clearest demonstration that the damage in this model is not driven by economic scale alone. Smaller economies such as Gabon, Mali, Mauritius, and Mozambique show lower dollar totals, but their damage relative to GDP remains in the same band as the larger economies, because every channel scales with the notch gap rather than with size.

The USD 507.9 billion figure is specific to the twelve-country sample and should not be presented as a global total. It can be read alongside two external estimates. UNDP has estimated that subjective elements in rating methodologies cost African sovereigns[24] about USD 74.5 billion in additional borrowing costs and forgone lending. Earlier UNCTAD-related work reported losses above USD 70 billion in debt service, above USD 100 billion in capital outflow and currency depreciation, above USD 260 billion in asset devaluation, above USD 35 billion in risk-management costs, and above USD 17 billion in budget deficits. The figures differ in country coverage and channel design, but the order of magnitude is consistent. Rating distortion is not a marginal friction. It is a drain on fiscal capacity and private investment of the same scale as the development assistance that flows in the opposite direction.

The macro damage also reaches project finance and SME finance. A country rating that overstates risk raises the threshold return required for infrastructure, agricultural value chains, and small-business financing. The IFC estimates annual unmet financing needs for formal MSMEs in emerging markets at about USD 5.7 trillion. Rating distortions are not the only cause of that gap, but they are a binding constraint because they convert available impact-investor liquidity into a higher hurdle rate, a tighter mandate, or no allocation at all. Agricultural commodity value chains are precisely the kind of high-impact segment where country-risk screens can block otherwise viable private capital, because investors see the sovereign rating before they see the cash-flow structure, the collateral, the insurance, the offtake arrangements, or the development impact of the underlying SMEs and producer-linked enterprises. The CFC-ACT Fund is one example[25] of a vehicle designed precisely to bridge that gap, and the channel diagnosis in this section is what makes the bridge analytically necessary.

[24] United Nations Development Programme, Reducing the Cost of Finance for Africa: The Role of Sovereign Credit Ratings (April 2023), https://www.undp.org/sites/g/files/zskgke326/files/2023-04/Full%20report%20-%20Reducing%20Cost%20Finance%20Africa%20Report%20-%20April%202023.pdf. UNDP estimated that subjective elements in rating methodologies cost African sovereigns approximately USD 74.5 billion in additional borrowing costs and forgone lending. See also UNDP, Credit Ratings Advocacy Brief (Aug. 2024), https://www.undp.org/sites/g/files/zskgke326/files/2024-08/credit_ratings_advocacy_brief_-_undp.pdf.

[25] Common Fund for Commodities and ACT Fund, Concept Note for the FfD4 Side Event, 'Agricultural Commodity Transformation (ACT) Fund: Public-Private Investment for Sustainable Transformation and Development of Agricultural Commodity Sector,' Sevilla, 2 July 2025. International Finance Corporation, MSME Finance Gap Database (March 2025), https://smefinanceforum.org/data-sites/msme-finance-gap (estimating annual unmet financing needs of approximately USD 5.7 trillion for formal micro, small and medium enterprises in emerging markets); World Bank, Capital Markets and SMEs in Emerging Markets and Developing Economies: Can They Go the Distance? (Feb. 2020), https://documents1.worldbank.org/curated/en/270221582271669731/pdf/Capital-Markets-and-SMEs-in-Emerging-Markets-and-Developing-Economies-Can-They-Go-the-Distance.pdf.

5. Why ratings come out the way they do

The explanation is not that individual analysts at the dominant agencies are personally biased. The published methodologies are technically serious, the post-2008 governance reforms are real, and rating committees usually apply the methodologies as written. The problem is structural.

The consequences of these methodological choices extend beyond sovereign borrowing itself. Once sovereign ratings become embedded within prudential regulation, institutional investment mandates, collateral frameworks, and cross-border financing conditions, methodological assumptions begin to influence the allocation of development capital at scale.

In developing economies, particularly those dependent on commodities and agricultural exports, sovereign ratings frequently shape the financing conditions available to SMEs, producer organizations, processors, warehouse operators, exporters, and value-chain intermediaries. Methodological conservatism at sovereign level can therefore suppress productive investment throughout the wider economy, including in sectors that are essential for employment generation, food systems resilience, and local value addition.

The methodology contains choices that can be defensible in isolation but damaging in combination. This section examines those choices in three groups. The first concerns the qualitative overlay, currency conventions, and time horizons. The second concerns the sovereign ceiling rule, which the Sevilla Commitment specifically calls to revise, and the case for replacing it with a disaggregated transmission-channel framework. The third concerns the asymmetric treatment of the issuer of the global reserve currency.

5.1 The qualitative overlay, currency conventions, and time horizons

Major sovereign methodologies share a broadly similar five-pillar structure built around institutional and governance quality[26], economic strength, public finances, external accounts, and monetary flexibility. Quantitative indicators produce anchor scores, but the final rating still depends on qualitative judgement by analysts and committees. The published methodology explains the factors[27]. It does not fully expose the reasoning by which a committee moves an anchor score several notches in a particular case. That discretionary space is where general impressions of country risk become rating notches, and those notches then propagate through the architecture described in the previous section.

Per-capita GDP is the first pressure point. Wealthier economies do usually have deeper shock-absorption capacity, so income is not irrelevant. The problem is weight. A methodology that penalises low per-capita income too heavily can place a USD 2,000 income country growing at 6 per cent[28] below a stagnant USD 20,000 income country, even when default evidence does not justify the gap. UNCTAD and UNDP have both challenged the size of this penalty[29]. The IMF's 2025 working paper on Sub-Saharan Africa[30] found limited evidence of rating-agency bias after controlling for governance scores, but that control is not neutral if governance indicators themselves contain the structural assumptions under review. Even on the paper's own terms, a 50 basis-point premium translates into approximately USD 250 million of extra annual debt service on USD 50 billion of debt. That is not a rounding error for a developing sovereign.

Currency conventions form the second pressure point. Foreign-currency debt is riskier than local-currency debt because a sovereign cannot print the settlement currency. That intuition is sound. It becomes crude when applied as a blanket penalty even where export receipts, reserve adequacy, swap lines, hedging arrangements, pooled reserves, or MDB guarantees materially offset the currency mismatch. A better approach would assess the foreign-currency obligation against verifiable capacity to earn, access, hedge, or insure hard currency. The instrument should not be treated as risky merely because the currency is foreign. The relevant question is whether the borrower has credible and durable access to the currency in which it must pay. A related distortion arises from the use of market exchange rates rather than purchasing power parity for parts of the economic-strength assessment. Exchange rates move with capital flows, commodity cycles, and risk sentiment. The capacity that services debt over time is the real tax base and produc-

[26] UN Department of Economic and Social Affairs, Background Paper on the Special Meeting of ECOSOC on Credit Ratings, Box 1 (23 March 2026). The five building blocks of major-CRA sovereign methodologies are institutional and governance quality, economic growth and resilience, public finances, external accounts, and monetary flexibility. Anchor scores combine quantitative indicators with qualitative assessments, and a credit committee then applies a further qualitative overlay reflecting political and willingness-to-pay considerations.

[27] International Organization of Securities Commissions, Code of Conduct Fundamentals for Credit Rating Agencies (revised 2015). The Code requires public disclosure of methodologies, but, as the Background Paper observes, key elements of the judgement process can appear opaque despite that disclosure.

[28] United Nations Development Programme, Reducing the Cost of Finance for Africa: The Role of Sovereign Credit Ratings (April 2023). UNDP further documents methodological elements that penalize low GDP per capita irrespective of growth momentum, with the consequence that a country at USD 2,000 per capita growing at 6 per cent can be scored below a stagnant economy at USD 20,000.

[29] UN Trade and Development (UNCTAD), Credit Rating Agencies, Developing Countries and Bias, UNCTAD/GDS/2024/3 (2025), https://unctad.org/system/files/official-document/gds2024d3_en.pdf.

[30] International Monetary Fund, Sub-Saharan Africa: Sovereign Credit Ratings and Borrowing Costs, IMF Working Paper No. WP/25/139 (2025). The paper reports limited evidence of rating-agency bias against Sub-Saharan Africa, controlling for governance scores; the methodological caution noted in the present article is that controlling for governance scores that may themselves embed the very biases being tested risks predetermining the finding. Even on the paper's own terms, a 50-basis-point premium translates into approximately USD 250 million in additional annual debt service on USD 50 billion of debt.

Photo: Kalimati Vegetable Market, Kathmandu, Nepal.
© Chris Steele-Perkins/Magnum Photos for FAO

tive capacity of the economy. PPP-based scaling does not erase external risk[31] and does not pretend to solve hard-currency constraints. It prevents internal economic strength from being overstated or understated simply because the exchange rate is temporarily moving under market pressure.

Time horizon is the third pressure point. Ratings often focus on near-term default risk, while many of the inputs that matter for solvency move over decades. Governance, demographic structure, infrastructure quality, climate adaptation, and human capital are not twelve-month variables. A framework tuned too tightly to short-term liquidity will reward reserve buffers and punish development investment, even where the investment strengthens future solvency. The ECOSOC concept note for the 30 March meeting therefore correctly calls for longer-term assessments through model-based scenario analysis, stress testing, and the integration of climate and resilience variables. The better rule is straightforward. The time horizon of the assessment should match the time horizon of the obligation[32], with twelve to eighteen months as the appropriate window for short-term sovereign issuer ratings and longer windows of three, five, and ten years used for sovereign debt instruments of the corresponding tenor. That single adjustment shifts the analytical perspective from the management of liquidity events to the assessment of solvency over the period for which capital is committed, and it is the perspective that the long-term investors named in the Sevilla Commitment require in order to allocate to developing economies at the scale that the SDGs demand.

5.2 The sovereign ceiling and the case for risk disaggregation

The sovereign ceiling deserves separate treatment because the Sevilla Commitment specifically calls for its revision[33]. The classic rule caps a non-sovereign borrower's international obligations[34] at the rating of the relevant sovereign, on the assumption that a sovereign in crisis may restrict transfers, block conversion, or otherwise interfere with the borrower's ability to service foreign-currency debt. The risk is real. The current rule is too blunt[35]. It often treats different entities as if the same sovereign-stress channels were equally active, equally binding, and equally unmitigated.

The public record of above-sovereign exceptions shows how narrow the current pathway is. A review of public rating actions for 2016 to 2026 identified five verified EMDE precedents[36], namely the Akbank diversified-payment-rights securitisation, Coca-Cola İçecek, Coca-Cola FEMSA, Hong Kong SAR, and Sura Asset Management. The enabling mechanisms included offshore structures, international revenue diversification, constitutional autonomy, regulatory ring-fencing, and hard-currency liquidity. Eight further asset classes[37], including banks, typical sub-sovereigns, domestic infrastructure, insurers, leasing and factoring companies, small corporates, and domestic-revenue issuers, produced no verified precedent in the same review. The absence is not proof that the underlying credits cannot survive sovereign stress. It is proof that the current methodology recognises only a narrow set of templates.

[31] On the structural treatment of foreign-currency liabilities and the case for assessing FC risk against verifiable capacity to earn or insure hard currency rather than as an intrinsic property of the instrument, see Why Multilateral Credit Rating Agencies Have Better Odds Than Domestic Ones (working paper, 2025), section on Methodology and the dollar lens. The PPP argument follows the same source.

[32] UN Department of Economic and Social Affairs, Concept Note: Special Meeting of ECOSOC on Credit Ratings, Theme 2 (Lengthening the time horizon of ratings and assessments). UN-Led Global Public Rating Platform working materials (Feb. 2025) propose matching the time horizon of assessments to the time horizon of obligations, with 12 to 18 months for sovereign issuers and longer ranges for sovereign debt instruments.

[33] Compromiso de Sevilla, Outcome of the Fourth International Conference on Financing for Development, A/RES/79/323 (2025), ¶ 55(a). The Sevilla Commitment specifically calls for revisions to the sovereign ceiling rule. See also Remarks by H.E. Ms. Amina J. Mohammed, Deputy Secretary-General of the United Nations, opening of the 2026 ECOSOC Special Meeting on Credit Ratings, ECOSOC Chamber, 30 March 2026 (transcript).

[34] Igor Zelezetskii, Robert Ginsburg, Waide Warner, Perrine Toledano, Ana M. Camelo Vega, and Tom Mitro, Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation (Columbia Center on Sustainable Investment, May 2026), section I.A (Origin and Rationale). The paper traces the origin of the conservative sovereign ceiling policy to the EMDE bond-market reopening of the early 1990s following the Brady Plan and to the agencies' assumptions about the collateral effects of sovereign debt crises, including the likelihood that a sovereign at risk of default would husband foreign-currency reserves by interfering with non-sovereign borrowers' ability to service foreign-currency obligations.

[35] Igor Zelezetskii, Robert Ginsburg, Waide Warner, Perrine Toledano, Ana M. Camelo Vega, and Tom Mitro, Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation (Columbia Center on Sustainable Investment, working paper v5, 29 April 2026), section I.B. Above-sovereign eligibility under S&P methodology is determined through a sovereign stress test that models debt-service capacity under sovereign default, transfer restrictions, and currency inconvertibility simultaneously. Moody's and Fitch apply conceptually similar assessments through their country-ceiling frameworks, although the terminology differs.

[36] Igor Zelezetskii et al., Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation (Columbia Center on Sustainable Investment, May 2026), Annexes I and II. The five verified above-sovereign precedents identified for 2016-2026 are the Akbank T.A.Ş. A.R.T.S. Ltd. diversified-payment-rights securitization, Coca-Cola İçecek A.Ş., Coca-Cola FEMSA (KOF), Hong Kong Special Administrative Region, and Sura Asset Management S.A., with documented uplifts of 4, 2, 2, 1-3, and 3 notches above the relevant sovereign or country ceiling.

[37] Igor Zelezetskii et al., Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation (Columbia Center on Sustainable Investment, May 2026), Annex III. Eight further asset classes were examined for the same period and produced no verified above-sovereign precedent: banking; typical EMDE sub-sovereigns; infrastructure operators; domestic insurers; leasing and factoring companies; small corporates; domestically focused EMDE issuers; and other domestic-revenue categories.

Table 3. Mechanisms enabling above-sovereign ratings in selected precedents

Entity or asset class	Rating and uplift	Mechanism enabling uplift
Akbank ARTS Ltd. DPR programme, future-flow securitisation	Fitch BBB, +4 versus Turkey BB-	Offshore SPV, true sale under foreign law, offshore collections, and over-collateralisation. The rated object is the structure rather than the bank, whose own issuer rating remains constrained.
Coca-Cola İçecek, Turkish-domiciled bottler	S&P BB+, +2 versus Turkey BB-	Geographic revenue diversification, strong standalone profile, offshore hard-currency liquidity, and cash generation outside the home sovereign.
Coca-Cola FEMSA, Latin American bottler	Moody's A2, +2 versus Mexico Baa1	Operations across multiple countries, foreign-law international notes, strong credit metrics, and cash generation outside the home market.
Hong Kong SAR, special administrative region	S&P AA+, +1 to +3 versus China A+ depending on reference point	Constitutional autonomy under the Basic Law, separate monetary system, independent fiscal policy with large reserves, common-law legal framework, and separate trade and customs arrangements.
Sura Asset Management, non-bank financial institution	Fitch BBB, +3 versus Colombia BB	EBITDA generated largely outside Colombia and regulatory ring-fencing of subsidiary pension assets in higher-rated jurisdictions.

Source: Adapted from Annex II of Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation, CCSI working paper v5, 29 April 2026.

The empirical contradiction is sharper than the precedent record alone suggests. During severe sovereign crises in Argentina, Russia, and Indonesia, Moody's data cited in the Sovereign Risk Ceilings paper show four-year default rates of 38.8 per cent for industrial corporates, 16.9 per cent for public utilities, and 5.8 per cent for banks[38]. The corresponding survival rates exceeded 60 per cent, 83 per cent, and 94 per cent. Sovereign stress plainly raises corporate default risk, but it does not do so uniformly. A binary ceiling test can treat an entity with a five to ten per cent conditional default probability in a sovereign-stress scenario much like an entity with a forty to fifty per cent probability. That is not conservatism. It is lost information.

The alternative is risk disaggregation[39]. The framework moves through four steps. The first is a standalone credit assessment of the issuer or project without reference to the ceiling, evaluating intrinsic creditworthiness on the basis of fundamentals, financial structure, and counterparty quality. The second is a transmission-channel mapping, in which each of eight identified channels through which sovereign stress can become payment-relevant is examined for whether it is structurally active for the instrument, what the probability is that it becomes binding under stress, and how credible and enforceable the available mitigants are. The eight channels are regulatory interference, offtaker payment stress, convertibility restrictions on foreign-currency tranches, taxation, contract frustration, banking-system disruption, macroeconomic recession, and direct sovereign default contagion. The third step repositions the sovereign as a contextual factor inside the channel analysis rather than as a hard cap above the entity, with the output being a graduated uplift calibrated to the cumulative decoupling that the channel-by-channel mapping reveals. The fourth retains a conservative bound where channels cannot be observed, where regulatory discretion is opaque, or where mitigants are untested, and applies it selectively rather than universally. The architecture changes the question that the methodology is asking. The current rule asks whether the entity is isolated from the sovereign through a narrow set of structural-finance templates. The proposed framework asks which specific transmission channels connect this entity to sovereign default risk, whether those channels are mitigated by contractual, structural, or institutional protections, and what the residual probability is that sovereign distress would cause this entity to default.

The framework will sometimes support above-sovereign ratings, but it will also sometimes confirm that the sovereign constraint binds. If the offtaker is a weak state utility, if tariff-setting is discretionary, if foreign-currency debt service relies on domestic collections with no convertibility protection, and if the legal framework is untested, the correct answer may still be a tight linkage to the sovereign. The difference is that the conclusion would rest on identified channels, not on a ceiling imposed before the structure is analysed. The same discipline applies to MDB guarantees and political risk insurance. These instruments should not be treated as magic words. A partial guarantee may cover scheduled debt service, a political risk policy may cover specific government actions, and preferred creditor status may affect incentives rather than legal enforceability. Each mitigant must be matched to the channel it actually addresses. A guarantee that reduces transfer risk does not automatically cure offtaker payment stress. A cash reserve that covers six months does not cure a multi-year convertibility blockade. The method must be granular enough to avoid both under-recognition and over-recognition.

[38] Igor Zelezetskii et al., Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation (Columbia Center on Sustainable Investment, May 2026), section I.C. Drawing on Duggar (Moody's, February 2009), the paper reports four-year cumulative default rates during sovereign crises in Argentina (2001-2002), Russia (1998), and Indonesia (1997-1998) of 38.8 per cent for industrial corporates, 16.9 per cent for public utilities, and 5.8 per cent for banks.

[39] Igor Zelezetskii et al., Sovereign Risk Ceilings: Rethinking Methodology Through Risk Disaggregation (Columbia Center on Sustainable Investment, May 2026), section IV.C (A simple alternative framework). The four-step architecture comprises a standalone credit assessment without reference to the sovereign ceiling, transmission-channel mapping across the eight identified channels with assessment of activation, binding probability, and mitigant strength, repositioning the sovereign as a contextual factor inside the channel analysis rather than as a hard ceiling, and retaining a conservative bound only where channels cannot be observed or mitigants are untested.

Risk disaggregation is therefore a tougher test, not a softer one. It requires the analyst to identify the channel, prove its relevance, test its stress activation, evaluate the mitigant, and calibrate the residual linkage. A binary ceiling lets the methodology stop too early. A channel-based approach forces the rating committee to explain its work. If the conclusion is still that the sovereign constraint binds, the conclusion will be stronger because the active channel will have been identified. If the conclusion is that several channels are inactive or mitigated, the rating will be more accurate because the method will have preserved information that the ceiling would have suppressed.

5.3 The dollar exception

The asymmetric treatment of the issuer of the global reserve currency closes the methodological picture, because it shows that the structural features described in the previous two subsections do not operate uniformly across all sovereigns. The current rating mechanism contains a built-in exception for the United States, and the exception is architectural rather than incidental. The agencies' published methodologies treat sovereigns that issue debt in their own currency as inherently more creditworthy on the public-finance and monetary-flexibility pillars, since such sovereigns can in principle service local-currency obligations through their central banks. The argument is reasonable for any sovereign that issues debt in its own currency. The complication is that one particular sovereign issues debt in the global reserve currency, the same currency in which most international trade is invoiced, in which most cross-border lending is denominated, and in which most central bank reserves are held. The reserve-currency status of the dollar itself depends in part on the high credit ratings assigned to the United States, which in turn depend in part on the public-finance and monetary-flexibility advantages that flow from issuing in the reserve currency. The methodology therefore contains a circular element when applied to the United States, in which the agencies become guardians of a self-reinforcing cycle in which acknowledging United States fiscal deterioration could trigger the very instability their assessments are supposed to anticipate.

The discretionary space inside the qualitative overlay is wide even for the economy that is supposed to be the methodological reference point. The 1933 gold-clause abrogation, the 1971 closing of the gold window, and the 1979 Treasury-payment delays[40] would, on the published criteria, look very much like default events if they were to occur in an emerging-market sovereign today. None of them is treated as a United States default in the methodologies as applied. Comparable or lesser infractions by emerging-market sovereigns trigger lasting penalties, including downgrades, watch placements, and the cliff effects discussed earlier. The selective application of the methodology, on this view, is what allows the United States to retain ratings near the top of the scale even as documented governance failures, including the USD 233 to 521 billion in annual losses[41] to fraud and mismanagement reported in Congressional testimony, would severely affect the rating of any African or Latin American sovereign with comparable absolute or relative figures.

The implications of the dollar exception extend beyond the United States itself. Every notch of unwarranted elevation at the top of the scale compresses the space below it. When multilateral development banks price loans, when index providers set inclusion rules, and when bank-capital regulations embed the resulting ratings, the cumulative effect is to transfer billions of dollars from developing economies to developed economies through artificially elevated risk premia at one end and artificially depressed risk premia at the other. The methodological asymmetry is therefore not merely a matter of consistency. It is the channel through which the structural features described in subsections 5.1 and 5.2 reach their full distributional consequence. A multilateral rating institution applying consistent standards regardless of currency issued or systemic position would not produce dramatic immediate movements in the United States rating, since the United States economy remains, on most metrics, one of the most creditworthy in the world. What such an institution would change, however, is the relative position of the developing economies whose ratings have been compressed against an artificially elevated benchmark, and that change in relative position is what the dollar magnitudes recorded in Section 4 ultimately reflect.

The dollar exception should be read as an architectural point, not as a claim that the United States is not creditworthy. The United States remains one of the world's strongest sovereign credits by economic scale, institutional depth, market access, and monetary flexibility. The question is whether the same methodology that grants those strengths their full weight gives equivalent recognition to the different strengths of developing economies. If one sovereign benefits from reserve-currency circularity while others are penalised for not issuing that reserve currency, the scale is not neutral. It is structured around the centre and then applied to everyone else.

The three subsections taken together explain why ratings come out the way they do without requiring any assumption of analyst bias or institutional bad faith. The methodology produces these outcomes because of how it is built. The natural next

[40] On the 1933 gold-clause abrogation, the 1971 closing of the gold window, and the 1979 Treasury payment delays, see Why Multilateral Credit Rating Agencies Have Better Odds Than Domestic Ones (working paper, 2025). Episodes of this kind have not been treated as United States defaults in the published methodologies, while comparable or lesser infractions by emerging-market sovereigns have triggered lasting penalties.

[41] Congressional testimony cited in Why Multilateral Credit Rating Agencies Have Better Odds Than Domestic Ones (working paper, 2025), reporting estimated annual losses of USD 233 to USD 521 billion to fraud and mismanagement in United States federal programmes.

question is institutional. If the methodology is the binding constraint, can the response be to encourage the growth of more domestic rating agencies that would, in time, develop alternative methodologies of their own? The next section explains why, on the structural features of the rating industry described in Section 3, the answer is no, and why the only viable institutional response is multilateral.

6. Why domestic agencies cannot fix this alone

Domestic agencies can improve local capital formation, deepen local-currency markets, and provide information that global agencies do not collect well. Acting alone, they cannot solve the global-scale problem. The rating industry operates through three tiers[42]. At the top sit the Big Three, with global sovereign coverage and regulatory embedding. A second tier includes agencies such as Scope Ratings and DBRS Morningstar[43], which operate internationally but do not yet have the reach or index presence of the dominant firms. The third tier consists of domestic agencies, some independent and some owned or controlled by the dominant groups, including S&P's wholly owned CRISIL in India, Moody's majority stake in ICRA, Moody's full ownership of GCR in Africa and Class & Asociados in Peru, and Moody's announced majority equity stake in Egypt's MERIS. Independent domestic agencies such as Indonesia's PEFINDO, Malaysia's RAM, and Thailand's TRIS[44] serve important local functions but exercise no influence on international capital allocation.

The economics are unforgiving. A domestic agency can rate only as many issuers as exist in its market, and even full domestic market share usually produces revenues that are tiny beside the global agencies. Moody's Corporation reported about USD 5.6 billion in revenue and USD 1.5 billion in net income for 2023[45]. That single firm's profit exceeds the combined revenues of independent domestic agencies globally. The difference shows up in analyst depth, data infrastructure, methodology development, legal capacity, regulatory engagement, and the ability to absorb regional downturns. Domestic agencies also face a revenue-cycle problem that global agencies can diversify away. A crisis in the home country reduces new issuance, weakens existing clients, increases surveillance burdens, and compresses fee income at the same time, while a global agency can absorb the same regional shock through revenue earned in other markets.

The scale problem is worse because national-scale ratings do not travel[46]. The agencies' own definitions state that national-scale ratings rank obligors within a specific country or region and are not directly comparable across jurisdictions. Global-scale ratings compare credit risk across countries and sectors. A Kenyan corporate rated by a domestic national-scale agency cannot be compared directly with a Brazilian corporate by a foreign investor, and the rating cannot easily be used by a regulator in a third country for capital purposes. There is no organic path from national-scale relevance to global-scale authority. The path is blocked by definition.

Recognition closes the loop. A domestic agency seeking international recognition must negotiate with foreign supervisors one by one. The process is bilateral, asymmetric, slow, and expensive in management attention even where formal registration costs are modest. ESMA imposes a registration fee of approximately EUR 40,000[47] and an annual supervisory levy

Photo: Kiryandongo, Alengo Village, Uganda. © FAO/Vincent Tremeau

[42] Why Multilateral Credit Rating Agencies Have Better Odds Than Domestic Ones (working paper, 2025), section on the architecture of assessment; European Securities and Markets Authority, CRA Market Share Calculation 2025, ESMA84-900617762-2652, https://www.esma.europa.eu/sites/default/files/2025-12/ESMA84-900617762-2652_CRA_Market_Share_Calculation_2025.pdf; European Securities and Markets Authority, CRA Market Share Calculation 2024, table p. 8.

[43] Scope Ratings, Sovereign Ratings Coverage (Dec. 5, 2024), https://www.scoperatings.com/. Scope's sovereign coverage stands at approximately forty sovereigns, less than one-third of the coverage of any of the three dominant agencies. On Scope's inclusion in the Eurosystem Credit Assessment Framework, see European Central Bank, Eurosystem Credit Assessment Framework (2025), https://www.ecb.europa.eu/mopo/coll/risk/ecaf/html/index.en.html.

[44] S&P Global, 2024 Form 10-K at 17 (CRISIL held as a 100 per cent subsidiary); Moody's Corporation, Conditional Open Offer to Increase Ownership Stake in ICRA (2014); Moody's Corporation, Moody's Completes Acquisition of GCR Ratings (Oct. 11, 2024); Moody's Corporation, Moody's to Acquire Class & Asociados, Expanding Presence in Peru's Domestic Credit Market (2022); Moody's Corporation, announcement in 2025 of its intention to secure a majority equity stake in Egypt's MERIS. On independent domestic agencies, see Indonesia's PT Pemeringkat Efek Indonesia (PEFINDO), Malaysia's RAM Rating Services Berhad (RAM), and Thailand's TRIS Rating Co.

[45] Moody's Corporation, 2023 Annual Report on Form 10-K, reporting consolidated revenues of approximately USD 5.6 billion and net income of approximately USD 1.5 billion for the year ended 31 December 2023.

[46] S&P Global Ratings, National and Regional Scale Credit Ratings, https://www.spglobal.com/ratings/en/products/nat-l-regional-scale-credit-ratings; Moody's Investors Service, National Scale Rating Methodology (Jan. 2024); Fitch Ratings, National Scale Criteria (June 8, 2020). The agencies' own definitional documents state that national scale ratings rank obligors only within specific countries or regions and are not directly comparable across jurisdictions; global scale ratings (AAA to D) aim to compare credit risk universally across countries and sectors.

[47] On the order of magnitude of capital required to establish a credible rating agency, see Why Multilateral Credit Rating Agencies Have Better Odds Than Domestic Ones [working paper], section on the economics of implementation. Scope Ratings scaled through staged funding, including the 2019 investment by RAG-Stiftung, https://scopegroup.com/media-centre/RAG-Stiftung-invests-in-Scope-Group; ARC Ratings has operated internationally for years under ESMA and FCA oversight without any public record of nine-figure capitalization, https://arcratings.com/about/company-profile/. ESMA's regulatory regime imposes a fixed registration fee of approximately EUR 40,000 and an annual supervisory levy that scales with turnover.

Photo: Kalu, Ethiopia. © FAO/Tamiru Legesse

that scales with turnover, so supervisory cost is not the binding constraint. Staff, datasets, secure systems, committee depth, legal documentation, and time-to-recognition are. Agencies that do reach meaningful scale become attractive acquisition targets, which is exactly what the consolidation pattern shows. Domestic agencies are useful. They are not enough.

This is why simply multiplying domestic agencies will not solve the problem. A new local agency may understand domestic banks, utilities, SMEs, and municipalities better than an offshore committee. It may also help local investors distinguish credit risk more granularly. Those are real gains, but they do not change the fact that a dollar bond, an international project finance facility, a cross-border securitisation, or a benchmarked sovereign exposure is normally judged through a global-scale rating recognised outside the home market.

The acquisition pattern also creates a strategic trap. A domestic agency that remains small does not influence global capital allocation. A domestic agency that grows becomes commercially attractive to a dominant firm. If it is acquired, the domestic market may receive better systems and broader coverage, but the global market loses a possible alternative methodology. The result is a paradox in which success at the domestic level can reduce diversity at the international level. The institutional answer therefore must be built at the scale of the problem. The global scale cannot be reached through a sequence of isolated national agencies hoping to be recognised one by one. It requires an institution whose jurisdictional standing, shareholder structure, data access, committee depth, and regulatory engagement are multilateral from inception.

7. The multilateral alternative

A multilateral rating agency has structural advantages that a domestic agency cannot acquire alone. It can pool resources across countries[48], establish standing in several jurisdictions from the start, attract senior analysts who want cross-country work, resist acquisition by a dominant firm, and use the political weight of participating states to coordinate regulatory recognition. The point is not to replace the Big Three. They will remain important in established markets. The point is to create a legitimate global-scale alternative where current methodology does not serve developing economies well.

Two examples show that the multilateral route is not fantasy. The African Credit Rating Agency, sponsored by the African Union and supported by the African Peer Review Mechanism, was scheduled for operationalisation in 2026, with Mauritius selected as host jurisdiction[49]. Its intended role is to complement existing ratings, expand coverage to governments, corporations, and local authorities currently unrated, and use region-specific data and indicators that recognise growth potential and natural and human-capital endowments rather than penalising low GDP per capita irrespective of growth momentum. Spain's

[48] Why Multilateral Credit Rating Agencies Have Better Odds Than Domestic Ones [working paper], section on the structural advantages of multilateral platforms. The five structural characteristics highlighted in the source are resource pooling across nations, resistance to commercial acquisition, legitimate standing in multiple jurisdictions, ability to attract international talent, and political weight to secure regulatory recognition.

[49] UN Department of Economic and Social Affairs, Background Paper on the Special Meeting of ECOSOC on Credit Ratings (23 March 2026) (AfCRA headquartered in Mauritius and expected to launch in 2026); Ecofin Agency, African Credit Rating Agency to Launch by September 2025 (June 10, 2025), https://www.ecofinagency.com/finance/1006-47186-african-credit-rating-agency-to-launch-by-september-2025. AfCRA is sponsored by the African Union and supported by the African Peer Review Mechanism with the backing of fifty-five African nations.

European Competitiveness Laboratory initiative[50], endorsed by seven European Union Member States including Germany and France, offers a developed-market parallel, with a pan-European approach to SME credit ratings through harmonised standards and shared data. The presence of a multilateral SME-rating initiative inside the European Union confirms that the multilateral approach is not exclusively a Global South response to a Global North system. It is a structural answer to specific market failures that the present architecture has not addressed.

The UN-Led Global Public Rating Platform offers a more comprehensive expression of the multilateral approach. Its intended coverage extends to sovereigns, sub-sovereigns[51], financial institutions, corporates, SMEs, project finance, infrastructure, structured finance, green finance, and Islamic finance, with a methodology designed to provide a more objective treatment of debt burden, the sources of debt collateral, and labour and natural-resource endowments, and to avoid unjustified sovereign ceilings that limit the maximum achievable rating in each jurisdiction. The platform should be treated as a proof of feasibility rather than as a closed blueprint. It shows that the methodological, governance, data, and recognition problems can be specified in operational terms rather than left as slogans. The methodological position aligns with the criticism voiced by the United Nations Secretary-General in June 2023, who observed that credit rating agencies had become deeply biased and had contributed to many recent financial crises rather than helping to avoid them[52].

Governance is the credibility test. A multilateral platform must separate rating from advisory activity, protect analytical committees from shareholders, certify analysts and committee members, disclose methodologies, publish performance statistics, and operate under a conflict-of-interest code that applies equally to states, supranational banks, private investors, and individuals. The platform's design uses a Multilateral Analytical Foundation that holds 100 per cent of the shares[53] of the rating entity at inception, with phased inclusion of supranational banks at later stages and carefully controlled private capital from developing countries permitted on a phased basis. The design choice rests on the observation that strict private dividend policies, in the absence of significant government involvement, have not produced any of the world's dominant agencies on their own, and is consistent with the experience of the largest dominant firms themselves, in which the formative role of public authority and regulation is well documented and in which mature conflict-of-interest policies operate independently of the original ownership structure. State participation is not automatically a conflict. It becomes a conflict only if the state can influence analytical outcomes. The same principle applies to private ownership, which has never prevented conflicts merely by being private.

Commercial viability is not the obstacle usually imagined. Indicative market sizing places the 2022 revenue base in the markets of interest at approximately USD 750 million[54], including income from cross-border issues and excluding the Gulf Cooperation Council and Africa for reasons of data availability at the time of writing. The platform is therefore not dependent on subsidy for its operating viability, and the capital required to launch a credible institution is measured in tens of millions rather than hundreds. Data infrastructure has a working model. The European Data Warehouse has shown[55] under the Eurosystem's asset-backed-securities loan-level initiative that loan-level information can be pooled, standardised, protected by access controls, and made useful through analytics portals. A multilateral rating platform can use a federated architecture in which jurisdictions connect data pools to a common schema without surrendering sensitive raw information, and it can supplement that arrangement with state-backed data-sharing agreements that a single domestic agency could not negotiate. This is not exotic technology. It is disciplined institutional plumbing.

The multilateral case fits the ECOSOC moment[56] because it answers both the political and the technical questions. It responds to the Sevilla mandate, the sovereign-ceiling

[50] Government of Spain, Ministry of Economy, Trade and Enterprise, European Competitiveness Laboratory initiative (2024–2025). The pilot has been endorsed by seven EU Member States, including Germany and France, and explicitly targets SME credit ratings through a shared methodology and data platform.

[51] UN-Led Global Public Rating Platform, working materials (Feb. 2025). The platform's intended coverage palette includes financial organizations (banks and banking groups, leasing companies, insurance companies, microfinance organizations, investment funds), non-financial organizations (large corporations, commodity companies, SMEs), public entities (regional and municipal entities), structured finance (securitization of mortgage, SME, auto, and other loans, and hybrid transactions), project finance and infrastructure, green finance (certification and green ratings), Islamic finance (Sharia-compliant financing and Sukuk securities), and sovereign issuers, with geographic emphasis on the Gulf countries, BRICS+, Europe, and other partner regions.

[52] UN-Led Global Public Rating Platform, working materials (Feb. 2025), section on methodology key differences. The platform argues for more objective treatment of debt burden, sources of debt collateral, and labour and natural-resource endowments, and for the avoidance of unjustified sovereign ceilings that limit the maximum achievable rating for facilities in each jurisdiction. See also remarks of UN Secretary-General António Guterres (June 2023), https://news.un.org/en/story/2023/06/1138007.

[53] UN-Led Global Public Rating Platform, working materials (Feb. 2025), sections on organizational structure, conflict of interest, and ethical standards. The platform is established with state participation through a Multilateral Analytical Foundation that holds 100 per cent of shares, with phased inclusion of supranational banks. Internal policies limiting shareholder influence on the analytical process are framed as not depending on the nature of the shareholder, since the same internationally recognised conflict-of-interest principles apply whether the shareholder is a state, a legal entity, or an individual.

[54] UN-Led Global Public Rating Platform, working materials (Feb. 2025), indicative market size slide. The figure of approximately USD 750 million represents the 2022 revenue base in the markets of interest, including income from cross-border issues, and excludes the Gulf Cooperation Council and Africa due to limited information at the time of writing.

[55] European Data Warehouse (EDW), https://eurodw.eu/; European Central Bank, Eurosystem ABS loan-level initiative launching speech (Feb. 13, 2013), https://www.ecb.europa.eu/press/key/date/2013/html/sp130213.en.html. EDW demonstrates that loan-level information can be pooled, standardised, and analysed under strict access controls. EDVANCE and EDWARD AI portals allow users to run queries and diagnostics without downloading raw tapes, https://www.businesswire.com/news/home/20241007732290/en. A multilateral platform can adopt similar federated arrangements: jurisdictions plug in their own data pools against a common schema and governance standard.

[56] See Remarks by H.E. Ms. Amina J. Mohammed, Deputy Secretary-General of the United Nations, opening of the 2026 ECOSOC Special Meeting on Credit Ratings, ECOSOC Chamber, 30 March 2026 (transcript); Keynote address by Mr. Avinash Persaud, Special Advisor on Climate Change to the President of the Inter-American Development Bank, 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026 (transcript); Statement by the Delegation of Brazil, 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026, transcript at pp. 32-33; Statement by the Third World Network, 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026, transcript at p. 55; Statement by Constituency Children and Youth (FfD), 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026; Closing intervention by the Delegation of China, 2026 ECOSOC Special Meeting on Credit Ratings, 30 March 2026, transcript at p. 76; ECOSOC Background Memo (4 May 2026), internal analytical memorandum on the 30 March 2026 ECOSOC Special Meeting.

issue, the concern over qualitative opacity, the need for longer-horizon assessments, and the demand for reduced mechanical reliance on a three-firm architecture. It also gives regulators and investors something concrete to test. That is the difference between critique and reform.

Analytical independence is the centre of this design. A multilateral agency that becomes a political scoring office would fail immediately. It would not be trusted by investors, regulators, or serious borrowers. The governance structure must therefore make committee independence visible, enforceable, and auditable. Analysts must be protected from shareholder pressure, methodologies must be published, performance must be back-tested, and rating outcomes must be explainable by reference to criteria rather than diplomatic convenience.

The platform must also have discriminatory power. It cannot become an automatic uplift machine for developing economies. Some sovereigns and issuers are weak, some projects are badly structured, and some governments do interfere with private payment streams. A credible multilateral agency must be willing to assign low ratings where the evidence demands them. Its value comes from correcting mispricing, not from reversing the sign of bias. A generous methodology would be useless. A more accurate methodology would be dangerous to the incumbent architecture because it would be harder to dismiss.

A global public platform can also strengthen existing private ratings through comparison. Investors do not need every rating user to switch immediately. They need a credible benchmark that shows where the conventional rating is well supported and where it is out of line with a different but transparent methodology. Over time, the benchmark can discipline spreads, agency explanations, regulatory mappings, and MDB structuring decisions. Competition in ratings does not require theatrical displacement. It requires a second serious answer to the same credit question.

The data problem is sometimes overstated. Developing economies do face data gaps, but those gaps are not solved by keeping the current rating monopoly intact. A multilateral platform can create incentives for better disclosure because countries and issuers would see a direct link between better data and better credit differentiation. The rating process would then reward transparency rather than merely penalising the absence of information. That feedback loop is one of the practical advantages of a public-interest platform.

The UN connection should be framed carefully. The platform does not need the United Nations to micromanage ratings. That would be fatal. It needs the UN system to provide the convening frame, the development finance mandate, the link to Member States, and the legitimacy needed to coordinate capacity-building and recognition discussions. The analytical entity must then operate with professional independence, published criteria, rating committees, surveillance, appeals procedures, and performance reporting. The more boring the governance mechanics look to a regulator, the better.

The platform also creates a way to use domestic agencies without pretending that they can become global agencies alone. Domestic agencies can contribute local data, surveillance capacity, sector knowledge, and national-scale mapping. The multilateral platform can provide the global-scale methodology, committee architecture, quality control, and cross-country comparability. That division of labour preserves local knowledge while solving the recognition and scale problem.

The first products of such a platform should be chosen for credibility rather than drama. Sovereign assessments can anchor the scale, but early pilots in MDB-supported infrastructure, SME securitisation, blended-finance vehicles, and selected financial institutions may provide cleaner evidence because the structures, mitigants, and performance data can be observed more directly. The platform does not need to begin by challenging every sovereign rating at once. It needs to show, in a few well-documented asset classes, that a different methodology can explain risk more accurately. If the first outputs are transparent, technically documented, and validated against portfolio performance, the debate shifts from whether developing countries deserve better ratings to whether the incumbent methodology has explained the observed risk as well as the challenger. That is the debate the reform side should want.

Photo: Wheat farming, Bamyan province, Afghanistan. © FAO/Hashim Azizi

8. Sequencing the reform agenda

The reform should not be placed on one actor. The work distributes naturally across five constituencies, each contributing what only it can contribute. This section walks through the sequencing in the order that the reforms have to occur if the contour now opening is to translate into an institution by the time the second ECOSOC special meeting on credit ratings convenes.

8.1 Member States

Member States carry the foundational obligation, since the recurring high-level dialogue established under paragraph 55(a) of the Sevilla Commitment is theirs to implement[57], and the credibility of any multilateral rating institution depends in the first instance on the participating governments that sponsor it. They must develop national positions on the four topics named in the Sevilla outcome document, namely the call for more transparent and forward-looking methodologies, the request for fairer treatment of debt restructurings, the explicit call for revisions to the sovereign ceiling rule, and the call for reduced reliance on ratings, and on the methodological choices examined in Section 5 of this article, which underlie all four. The development of those positions depends, in turn, on investment in national statistical capacity, which the Background Paper to the 30 March meeting and the Sevilla Commitment language on capacity-building both flag as the binding constraint at the country level. Improved data availability allows national authorities to engage rating agencies on equal footing with respect to the underlying numbers and allows investors to rely on a broader range of information sources beyond the ratings themselves.

The case study on the Republic of Guinea's first sovereign credit rating[58], completed in September 2025, illustrates what becomes possible when the data and the institutional engagement are in place. Member States should also establish national focal points for engagement with rating agencies and investors. The Inter-American Development Bank and the African Development Bank[59] have developed this approach in their regional capacity-building programmes, and a focal-point arrangement, properly resourced, allows the country to maintain professional and ongoing communication with the agencies, to facilitate peer learning across countries and regions, and to feed information from the country into the dialogue established under the Sevilla Commitment.

8.2 Regulators and standard setters

Regulators sit at a structural choke point in the architecture described in Section 3, since the embedding of rating-based decisions in bank capital frameworks, in central bank collateral arrangements, and in insurance and securitisation regimes is the channel through which ratings move from being commercial opinions to becoming components of public regulation. Three areas of regulatory work follow. The first is the standardised approach to bank capital under the Basel framework, where the role of External Credit Assessment Institutions[60] and the corresponding mappings determine which agencies' ratings are usable for capital purposes. A regulator that broadens its ECAI mappings to include credible multilateral platforms, that explores the channel-based approach to the sovereign ceiling proposed in the Sovereign Risk Ceilings paper, and that updates its central bank collateral framework to reflect both, can change the outcome that institutional investors face when allocating to developing-economy issuers without altering the underlying capital regime. The second area is the framework around methodological diversity itself. The Financial Stability Board's Principles for Reducing Reliance on CRA Ratings have been in force since 2010 and have been the subject of successive peer reviews, but their implementation has been uneven across jurisdictions. A renewed commitment to the principles, in the context of the Sevilla mandate, would create a regulatory environment in which methodological diversity is treated as a feature rather than a coordination problem. The third area is the development of supervisory expectations for sustainability- and climate-related risks in credit assessments, which the IMF and World Bank Debt Sustainability Framework have begun to incorporate through the long-term climate-change module currently under development. The case for incorporating economic benefits of climate investment alongside risks, rather than penalising vulnerability without recognising adaptation, follows directly from the time-horizon analysis examined in Section 5.

8.3 Long-term investors

Long-term investors, namely pension funds, insurance companies, and sovereign wealth funds, are the natural beneficiaries of the methodology reforms described in Section 5, because their liabilities have time horizons that match the longer-dated risk and resilience considerations that current rating practices do not capture. The arithmetic gap is stark. Pension funds and insurance companies hold approximately USD 4 trillion in cash and short-duration instruments[61] earning low yields in OECD economies, while landlocked developing countries face a documented annual infrastructure gap of USD 40 to 50 billion. Redirecting

[57] Compromiso de Sevilla, Outcome of the Fourth International Conference on Financing for Development, A/RES/79/323 (2025), ¶ 55(a); UN Department of Economic and Social Affairs, Background Paper on the Special Meeting of ECOSOC on Credit Ratings (23 March 2026), sections on capacities and data for sovereign engagement with market actors.

[58] UN Department of Economic and Social Affairs, Background Paper on the Special Meeting of ECOSOC on Credit Ratings (23 March 2026), Box 2 (case study on capacity building for the Republic of Guinea's first sovereign credit rating, obtained from S&P in September 2025 with a B+ long-term rating and stable outlook).

[59] UN Department of Economic and Social Affairs, Background Paper on the Special Meeting of ECOSOC on Credit Ratings (23 March 2026), recommendations on national focal points and investor-relations teams. The recommendation that finance ministries professionalize their engagement with rating agencies and investors through dedicated investor-relations functions has been developed by the Inter-American Development Bank and the African Development Bank in their respective regional capacity-building programmes.

[60] Bank for International Settlements, Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools (2013); Basel Committee, Standardised Approach for Credit Risk, CRE 20, https://www.bis.org/basel_framework/chapter/CRE/20.htm. On the European Banking Authority ECAI mapping process, see European Banking Authority, ECAI Mapping (final report, Nov. 2023). Financial Stability Board, Principles for Reducing Reliance on CRA Ratings (2010, with subsequent peer reviews).

[61] Bank for International Settlements, Quarterly Review (June 2025), section on insurance and pension fund allocations. Pension funds and insurance companies in OECD economies hold approximately USD 4 trillion in cash and short-duration instruments earning low yields. See also LLDC Awaza Speech (2025), slides 7 and 8, on the OECD pension-fund counter-argument.

only 2 per cent of that idle liquidity would fill the entire infrastructure deficit. The redirection does not happen because the institutional investor's risk-weight and mandate constraints, both of which are anchored in current rating methodologies, treat developing-country exposures as inherently more risky than the underlying fundamentals warrant. Three actions on the long-term-investor side would change this. The first is the active use of longer-horizon credit assessments where they become available, alongside the conventional ratings on which institutional mandates are written. The second is engagement with index providers and benchmark administrators, since the inclusion rules that decide which assets can populate an institutional portfolio are themselves anchored in the conventional rating scale. Index providers such as Bloomberg, FTSE Russell, and J.P. Morgan apply rating-based eligibility tests across their flagship bond benchmarks, and a long-term investor that engages with these providers on the use of multilateral and longer-horizon assessments can begin to reshape the eligibility universe from the demand side. The third action concerns the disclosure that long-term investors themselves provide, since fiduciary obligations now require disclosure of climate-related and other long-horizon risks that the conventional credit rating does not capture. The Awaza analysis offers the most concrete version of the case. European pension funds already earn approximately USD 3 billion per year in excess coupons[62] from existing landlocked-developing-country bonds, while the capital charges that flow from current ratings deter them from allocating more. Evidence-based rating uplifts and a channel-based approach to the sovereign ceiling would lower risk weights from 150 per cent to significantly lower levels, freeing balance-sheet capacity at no fiscal cost.

8.4 Multilateral development banks

Multilateral development banks occupy a position from which they can pilot the use of alternative credit assessments without waiting for regulatory recognition to be completed in every jurisdiction. Three lines of work apply. The first is the use of alternative assessments inside the development bank's own credit decisions, particularly in non-sovereign lending where the sovereign ceiling rule examined in Section 5.2 is most binding. The transmission-channel analysis developed in the Sovereign Risk Ceilings paper applies directly to the loans, guarantees, and equity participations that multilateral development banks make in domestic infrastructure, in financial-institution lending, and in project finance, and the institutions that originate these exposures are best placed to test the channel-based methodology against their own portfolio-level default and recovery experience. The Global Emerging Markets Risk Database has provided the empirical foundation for this work for several years, and the publication of further GEMs data with greater granularity would accelerate the testing. The second line of work is the use of alternative assessments in blended-finance vehicles. The CFC-ACT Fund discussed in Section 4[63] offers a concrete example, since blended-finance vehicles are designed precisely to bridge the gap between development-impact mandates and risk-adjusted-return constraints, and a more accurate assessment of underlying credit quality is the channel through which that bridging becomes commercially viable at scale. The third line is the structuring of MDB-supported issuance to take explicit account of the channel-based approach to the sovereign ceiling, including the use of preferred creditor status, partial credit guarantees, political risk insurance, and other forms of credit substitution to address the specific transmission channels through which sovereign stress would otherwise become payment-relevant. Each mitigant must be matched to the channel it actually addresses, and when the appropriate mitigants are present, the transmission-channel mapping yields ratings several notches above what the binary ceiling test would produce.

8.5 The United Nations system

The United Nations system itself is the actor that ties the four preceding constituencies together. Its first contribution is the hosting of the dialogue mandated under paragraph 55(a). The 30 March 2026 special meeting was the inaugural edition of this dialogue, and the recurring nature of the mandate means that the second edition, by 2027 or 2028[64] depending on the cycle, will provide the next opportunity to assess progress against the Sevilla commitments and to develop further the multilateral rating institution proposal that Brazil placed on the record at the inaugural meeting. The second contribution is capacity-building support for developing countries, both directly through the Economic Commission for Africa, the United Nations Development Programme, and other system entities, and indirectly through coordination with the IMF, the multilateral development banks, and regional organisations such as the African Union. The Background Paper to the 30 March meeting noted that no comprehensive catalogue of capacity-building activities currently exists, and the establishment of such a catalogue, with associated coordination mechanisms, would itself add value across the constituencies described above by

[62] LLDC Awaza Speech (2025), slides 7 and 8. European pension funds are reported to earn approximately USD 3 billion per year in excess coupons from existing LLDC bonds, while capital charges deter further allocations. Evidence-based rating uplifts and a channel-based approach to the sovereign ceiling would lower risk weights and free balance-sheet capacity at no fiscal cost. The same source reports that LLDCs face an annual infrastructure gap of USD 40 to 50 billion, while OECD pension funds hold USD 4 trillion in cash earning little; redirecting just 2 per cent of that idle liquidity would fill the entire gap.

[63] Common Fund for Commodities and ACT Fund, Concept Note for the FfD4 Side Event, 'Agricultural Commodity Transformation (ACT) Fund: Public-Private Investment for Sustainable Transformation and Development of Agricultural Commodity Sector,' Sevilla, 2 July 2025. The Agricultural Commodity Transformation Fund is offered as a concrete example of a blended-finance vehicle in which alternative credit assessments could pilot the use of multilateral rating perspectives.

[64] Compromiso de Sevilla, Outcome of the Fourth International Conference on Financing for Development, A/RES/79/323 (2025), ¶¶ 50-55; UN Department of Economic and Social Affairs, Concept Note: Special Meeting of ECOSOC on Credit Ratings (30 March 2026), Themes 1 to 3.

Photo: Lao PDR. © FAO/Manan Vatsyayana

making sovereign-engagement support, investor-relations training, data-improvement work, and regional programmes visible as one reform ecosystem rather than as disconnected projects. The third contribution is the institutional anchoring of a multilateral rating platform. The UN-Led Global Public Rating Platform discussed in Section 7 has been designed to operate under the auspices of a Multilateral Analytical Foundation in which state participation provides the governance backbone and supranational banks are included on a phased basis. The institutional anchoring that the United Nations system can provide rests on three features, namely a governance frame that is not a single national jurisdiction, a procedural tradition for hosting dialogue between Member States, regulated entities, and civil society, and a normative basis for the methodology choices that protect developing economies from the structural disadvantages described in this article. None of these features is available to a private commercial CRA, and none is available to a single domestic rating agency, however well capitalised. The combination is what the United Nations system, in its institutional capacity, can uniquely contribute.

8.6 Sequencing

The sequencing across these five constituencies is not strict, but the dependencies are real. Member States acting under the Sevilla mandate set the political framing within which the other actors operate. Regulators, working in parallel, can broaden the recognition framework and revisit the rating-based eligibility rules that anchor the architecture in place. Long-term investors, once the regulatory landscape begins to shift, find an expanded universe of allocation possibilities, and their engagement with index providers reshapes the demand side of the market. Multilateral development banks pilot the methodologies that the future multilateral platform will eventually carry. The United Nations system anchors the dialogue, supports the capacity-building, and provides the institutional frame within which the platform itself takes shape. The reform should also avoid rhetorical overreach. No serious user will abandon the Big Three because a conference declared them biased. Users will change behaviour only when an alternative produces comparable or better discriminatory power, clearer methodology, useful surveillance, and credible governance. The practical agenda is therefore method first, platform second, recognition third, and market use fourth. The politics opened the window. Methodology must carry the institution through it.

9. Conclusion and human impact

The central question raised by the post-Sevilla debate is larger than the technical design of sovereign credit ratings alone. It concerns whether the international financial system can continue to rely on methodologies that may systematically overstate risk in countries already facing structural disadvantages linked to geography, commodity dependence, climate exposure, and limited fiscal capacity.

Where sovereign mispricing contributes to higher borrowing costs, reduced investment, weakened productive transformation, and constrained SME financing, the developmental consequences extend well beyond debt markets. They affect the ability of countries to finance infrastructure, strengthen local industries, support agricultural transformation, and improve livelihoods for millions of smallholders and workers embedded within global commodity systems.

In this sense, sovereign credit ratings are no longer merely private analytical opinions operating at the margins of development policy. They have become part of the architecture through which development opportunities, investment flows, and economic resilience are distributed globally.

The article opened with USD 86.7 billion in avoidable costs for landlocked developing countries in 2022, an amount equal to 8.5 per cent of their combined GDP, larger than the annual output of all but two of their members, and roughly three times the official development assistance they received in the same year. The twelve-country damage model in Section 4 then showed approximately USD 508.3 billion in annual damage across a broader African sample, of which asset depreciation alone accounted for about USD 264 billion. Neither figure is a global total, and neither needs to be. Both show the same thing. Current rating practices create a drain on fiscal capacity, asset values, and private investment that is too large to be dismissed as a technical inconvenience.

The cause is not a few careless analysts. It is a methodology embedded in a concentrated architecture. Qualitative overlays, per-capita GDP weighting, currency conventions, short horizons, sovereign ceilings, and the reserve-currency exception combine with regulation, mandates, and index rules to produce real distributional effects. The system is built, and what is built can be rebuilt.

Domestic agencies can help, but they cannot carry the reform alone because national-scale ratings do not travel, recognition is slow, and successful domestic agencies are vulnerable to acquisition. A multilateral rating institution is therefore not a decorative alternative. It is the institutional form that matches the scale of the problem. It can pool resources, support a global scale, protect methodology, coordinate recognition, and give investors a credible benchmark against which private ratings can finally be tested.

The 30 March 2026 ECOSOC meeting opened a rare window. Brazil placed the public multilateral rating agency idea on the intergovernmental record. Civil society and youth constituencies supported reform from official slots. China signalled openness to developing-country agencies going global. The Sevilla Commitment supplied the mandate. The next move belongs to those who can bring a proposal that is technically serious enough for regulators and investors and politically clear enough for Member States.

Landlocked nations have produced Nobel laureates, Olympic champions, and literary giants. Geography did not confine their aspirations[65], and it must not confine their economies. The same principle applies across developing economies. The unwanted billions are not fate. They are the price of inaccurate information. Replacing that information with assessments that are methodologically prepared, institutionally anchored, and politically supported is the work this article has been written to advance.

The case is therefore not anti-agency in the simplistic sense. The existing agencies are sophisticated institutions, and their ratings will remain central to global finance. The case is anti-monopoly in methodology, anti-opacity in judgement, anti-mechanical sovereign ceilings, and anti-development-damage caused by treating one architecture as if it were the natural order of credit. That is a much stronger claim than a complaint about unfairness, and it is the claim the evidence supports.

A multilateral rating agency will not remove risk from developing economies. It should not try. It should identify risk more accurately, price mitigants more explicitly, and show where current ratings have confused geography, income level, currency structure, or sovereign linkage with default probability. That is enough. In a system where notches move billions, accuracy is reform.

Mr. Igor Zelezetskii is a credit ratings specialist with more than two decades of experience across sovereign, public-sector and structured credit analysis. He spent 14 years at Moody's, serving as Vice President in the London and Sydney offices. He later served as CEO of ACRA and chaired the credit ratings working group of the BRICS Business Council. He is a Senior Fellow at the Columbia Center on Sustainable Investment. His current work focuses on credit-rating methodologies, multilateral rating agency development, sovereign risk assessment, and the role of ratings in sustainable investment and development finance.

The Common Fund for Commodities (CFC) is grateful to benefit from Mr. Zelezetskii's extensive expertise in sovereign and development finance, particularly his deep understanding of credit-rating methodologies, risk assessment, and sustainable investment frameworks, which are highly relevant to CFC's efforts to mobilize greater capital for smallholders, SMEs, and commodity-dependent developing countries under its CFC 2.0 vision.

Photo: Mr. Igor Zelezetskii

[65] LLDC Awaza Speech (2025), slide 10. The closing passage of the LLDC Awaza speech, on land-locked nations producing Nobel laureates, Olympic champions, and literary giants, with the line that geography did not confine their aspirations and must not confine their economies, is reused as the closing language of the present article. Permission is granted by the original author.