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ABSTRACT

This commentary piece seeks to engender the critiques of sovereign credit ratings. The focus on the role of credit ratings agencies in deepening debt crises tends to fade once the immediacy of crisis is over. This piece argues that sovereign credit ratings should be viewed as part of the international financial architecture that continues to impose a restrictive view of acceptable economic outcomes and measures of success. Such outcomes and measures not only exclude actual progress in household well-being or social protection indicators but also help normalize policy directions that tend to be detrimental to such progress. The contribution reviews the recent critiques of credit rating methodologies and discusses ways in which a feminist economics lens of household well-being and cost of social reproduction should be integrated into these to build a more sustained momentum for change. The piece then reviews some of the critical points any reform measures should address.

KEYWORDS

Debt, fiscal space, credit rating, CRA, Global South

JEL Codes: F02, B54

SOVEREIGN CREDIT RATINGS

In this commentary, we argue that a critical evaluation of sovereign credit rating methodologies and the handful of private credit ratings agencies (CRA) that dominate the ratings space must be a part of the feminist discourse on debt justice. Credit rating methodologies have long tended to adopt a restrictive view of acceptable economic outcomes. Focusing primarily on a narrow range of monetary aggregates to measure and

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rate economic success, the ratings industry's practices elevate fiscal policy directions that are often detrimental to actual progress in household well-being or social protection indicators. In doing so, they influence and reinforce the policy prescriptions emerging from the multilateral organizations that have long been the focus of feminist critiques. While the role of sovereign credit ratings in aggravating economic crises has periodically come into focus during times of acute economic distress, the attention tends to fade once the immediacy of a crisis is over. Linking these episodic critiques to the larger feminist concerns about debt justice can help build momentum for calls to reform this key systemic problem in the global financial institutional structure. Here we also review some of the critical points any reform measures should address.

During the COVID-19 pandemic, there was renewed focus on the role of credit rating agencies in obstructing access to credit markets for countries in the Global South at a time when access to deficit financing was critical for addressing the health and economic fallout from the pandemic. In fact, ratings downgrade announcements directly referenced the urgently needed expansion in healthcare spending as the cause of the negative action, as in the case of Morocco (Jones 2020). Of particular concern was also the disparate trends in ratings between developed versus developing economies. A majority (over 95 percent) of the downgrades targeted low income and developing economies even as borrowing and spending to counter the pandemic impact was much greater in developed economies (Griffith-Jones and Kraemer 2021). The downgrades increased borrowing costs, exacerbating debt repayment burdens, and contributed to the looming debt crisis for the Global South in the post-pandemic era. Even temporary efforts to ease debt payment burdens, like the G20s Debt Service Suspension Initiative (DSSI) were obscured when Ethiopia was placed under a review for ratings downgrade merely for seeking to participate in DSSI, causing a deterrent to participation by other countries.

Taking note of this pandemic era crisis with credit ratings, a report of the United Nations Independent Expert on Foreign Debt and Human Rights called for urgent reforms to address many structural problems in the credit ratings industry (Li 2021). In the immediate aftermath of the pandemic, a major concern of the report was the procyclicality of ratings, which triggers a "self-fulfilling prophecy of debt crises" since downgrades during a crisis only increase borrowing costs and debt burdens further. This, in turn, reduces countries' fiscal space, particularly for investing in social protection sectors like food, health, or education at a time when it is most needed for recovery and longer-term development goals. This critique of procyclicality is not a new one. For example, Giovanni Ferri, L. G. Liu, and Joseph. E. Stiglitz (1999) showed that downgrades during the Asian financial crisis in the later 1990s worsened the crisis, reducing fiscal space and making it harder for countries to recover from it.

Yet even in the midst of renewed calls for reforms, there is little indication that systemic changes in the ratings methodology are forthcoming. Ratings agencies have continued to use language that is detrimental to social investments. For example, a 2022 Latin America outlook commentary by the ratings agency Fitch (Fitch Ratings 2022a) noted that the positives for the outlook are the "withdrawal of generous pandemic benefits and containment of recurrent expenditure" whereas the negative or worrisome aspects are the post-pandemic "strong pressure for social support of a more lasting nature" noting that such pressure could "reduce urgency for further efforts" to reduce fiscal spending. They further note that "Brazil's decision to alter its spending cap to accommodate new social spending is an example" of concern.

One potential reason ratings agencies have been buffered from change is the notion that credit ratings are merely intended to provide potential private creditors with objective and technical information about the relative risk of default of countries and as such do not engage directly in policy prescriptions. Feminist economists have long provided a framework for critiquing such claims of technical objectivity. Radhika Balakrishnan, James Heintz, and Diane Elson (2016) refer to the concept of TINTA or "There is no Technocratic Answer" to underscore the point that technical concepts and choices in economics are inseparable from social and political processes and power dynamics. Similarly, Busi Sibeko (2022) notes that focusing on abstract aggregate measures allows economic policy actors to make claims to be "gender-neutral, objective, and rational" but when we examine the impact of these measures, we see that they stem from a particular distributive choice in the economic system and work to uphold the same. In the case of credit ratings, for example, the choice of the indicators that go into creating the technical ratings methodologies directly reflects such critiques.

Sovereign credit ratings are typically based on a score derived from indicators within the broad categories of macroeconomic performance or economic strength, fiscal outlook, monetary outlook, and governance and institutional strength. Each of these categories is scored based on a narrow range of aggregate monetary indicators. The indicators for macroeconomic performance and economic outlook, for example, are gross domestic product (GDP) per capita and average GDP growth rates typically over a ten-year time frame in both Moody's and Fitch sovereign ratings methodology (Moody's Investor Services 2019). Fitch also includes the share of a country's GDP in world GDP (Fitch Ratings 2022b). Fiscal outlook is measured primarily by ratios of government debt to GDP, government spending to revenue, and interest payment to GDP/revenues. Viewed from the lens of feminist economic critiques, these indicators reflect a particular sociopolitical and distributional choice. A higher GDP growth rate is automatically associated with a better economic outlook score. No distinction is made between growth that might have come with increased inequality or depletion of natural resources, and therefore unsustainable. Fitch's inclusion of percentage of world GDP also automatically underprivileges developing economies, no matter their actual performance or level of human development. Similarly lower debt to GDP ratio and declining fiscal expenditures result in better fiscal outlook scores irrespective of the kinds of spending. No exception is made for beneficial categories of social protection spending on health or education, for example.

Fiscal discipline in the short-term, therefore, is singularly prioritized with no room for fiscal space that might further long-term development goals. Implicit in this choice of indicators is the assumption that current and future economic growth is independent of the social reproduction costs of investing in a healthy and educated citizenry. There is a long-standing body of work in feminist economics that points to the distributive bias inherent in this separation between economic success and investment in social reproduction (Elson 1992, 2014; Fresnillo Salan 2020; Ghosh 2021). Women tend to bear a disproportionate burden of the undervaluing of social investments since they are both more dependent on them and also called to fill in for the declines in care services associated with this devaluing through expanded unpaid and informal sector labor. As Jayati Ghosh (2021) explains, women's unpaid social reproduction work is directly impacted and expanded when indiscriminate fiscal austerity diminishes public infrastructure and services like childcare, piped water, fuel, and transportation. At the same time, austerity also results in an employment and livelihood crisis for women since expanded care duties leave them with limited time for paid work and available paid work in sectors where women tend to work like healthcare and other public sector employment, also diminishes. This ultimately renders the undervaluing of care work and social services unsustainable and incompatible with long-term economic growth.

The numerical scores from the macroeconomics outlook and fiscal outlook indicators are routinely augmented by a qualitative overlay, which is usually a judgment of the ratings analysts about the strength and stability of governance and institutions in the country. A key issue with these qualitative overlays is the lack of transparency in contrast to the numerical indicator scores. However, the available information suggests that judgment about the policy environment is based on factors such as fiscal policy effectiveness, ability to carry through fiscal policy targets, and strength and stability of political institutions. Just like in the quantitative indicators, there is no indication that the qualitative overlays account for positive investments or outcomes in actual human development, which could contribute to higher growth and therefore better repayment capacity in the longer term. The UN independent expert report similarly notes (Li

2021) the absence of environmental sustainability indicators in the credit rating frameworks.

In her feminist critique of the policy determinants of multilateral agencies like the IMF, Bhumika Muchchala (2012) argues that macroeconomic frameworks that focus purely on fiscal discipline are also making a choice not to allow fiscal space for social protection investments. Moreover, by choosing a limited short-sighted vision of repaying or financing the deficit they fail to recognize the foregone growth and poverty reduction that could have come from greater investments in social protection. Similarly, credit rating methodologies are reinforcing macroeconomic frameworks that prioritize a singular approach to repaying deficit financing in the short run while diminishing alternative pathways to more sustainable growth and development. As more Global South countries are accessing private credit markets with the declines in multilateral funding, a feminist agenda on debt justice should expand beyond a critique of multilateral agencies to challenging the technocratic neutrality claim of ratings agencies. Feminist scholars Kanchana N. Ruwanpura, Bhumika Muchchala, and Smriti Rao (2022) call for the IMF's debt sustainability analysis to incorporate financing needs for sustainable development goals, climate vulnerabilities, and gender equity commitments instead of solely focusing on narrow fiscal discipline measures. Such a call should also extend to the debt sustainability evaluations being conducted by the private rating agencies.

A starting point is to support a sustained push for ratings methodologies to distinguish between types of fiscal spending and prioritize the inclusion of social and environmental progress indicators. A related concern is the imposition of a limiting short-term time horizon. The monetary aggregates used in the rating calculation are at most averaged over a five to ten-year timeline to reflect credit risk through one economic cycle. The choice of this restrictive time horizon and its impact on longer term development investments have been questioned by others (Kraemer 2021; Griffith-Jones and Kraemer 2021). From a feminist perspective, the focus on the business cycle rather than a longer-term human development cycle is a choice that once again reflects the underestimation of the importance of social reproduction for economic success.

Finally, a major feminist concern in the credit rating space should also be the lack of representation and accountability in the system. The ratings industry is dominated by the big three agencies – Fitch, Standard & Poor's, and Moody's. Together they control over 90 percent of the ratings market, creating a highly oligopolistic structure (Li 2021). By their very location, primarily in Global North countries, the big three agencies and their ratings analysts have a representation and concentration of power problem. Being private agencies, they tend to be even more immune to interventions and representations by feminist and other civil society groups than multilateral agencies where there is at least de jure country-level representation even if such representation tends to underprivilege the Global South. Moreover, with no formal global regulatory mechanism, ratings decisions of the private agencies currently are largely unchallenged. Countries have no real recourse to appeal against the lack of transparency or even to ask for clarifications.

To counter the unrepresentative hold of the private rating agencies, there have been increasing calls for alternative regional ratings agencies. Such alternatives have been slow to emerge. It is also the case that emerging alternatives themselves might merely replicate some of the current established patterns and methodologies. This is seen for example in the smaller private credit ratings agencies that have emerged. Currently, there are more than 200 CRA operating around the world; they predominantly rate financial assets issued by corporations in their economies, though they may (as in some European and Asian cases) rate sovereign bonds as well (Marandola 2021). These institutions usually list similar evaluation criteria to what the Big Three CRA use to evaluate creditworthiness, namely the levels of government debt, trade balances, and GDP. These alternative CRA tend to be concentrated in English-speaking and East Asian countries, though there are examples on every continent (Marandola 2021). Regional credit rating agencies' failure to decompose GDP and fiscal expenditure to account for alternative development goals implies that they are likely to generate ratings that are very similar to the Big Three emphasizing the traditional monetary metrics of success and stability (Zheng 2012; Yalta and Yalta 2018; Marandola 2021). There is also some evidence that regional credit rating agencies may have narrower standards than those of the Big Three CRA. In an econometric survey in 2002, Reinhart showed that regional CRA were more likely to downgrade financial instruments in their local economies than the Big Three CRA were (Reinhart 2002).

Additionally, a major block to breaking the oligopolistic structure of the ratings industry with private or regional agencies is the market response to newer regional agencies. Marc Altdörfer et al. (2019) also note that there may be minimal credit market benefits from regional CRA that issue better ratings. In their analysis of ratings of European corporate and sovereign bonds by the Fitch agency, which had a greater European footprint than the other two members of the Big Three CRA, they note that when Fitch's analysis has been more positive about European assets, financial markets have not responded accordingly. Therefore, if private bondholders ignore relatively positive advice from regional CRA in light of more negative reports from Moody's and Standard and Poor's, then this speaks to the need for better regulation and oversight of how CRA operate (Altdörfer et al. 2019; Marandola 2021).

Currently, policymakers in the US and Europe have legal frameworks that attempt to regulate CRA. The European Securities and Markets Authority, for instance, created rules for regulating the operations of CRA within the European Union in 2013 (ESMA 2013). These rules are meant to provide means for policymakers in those economies to criticize reviews by CRA that are deemed inaccurate. However, countries in the Global South do not have recourse to these rules and have had limited mechanisms to regulate or monitor the functioning of CRA based primarily in the Global North. There is also no global forum for challenging the narrow monetary metrics being used by CRA.

To address this vacuum, in 2003, the New Partnership for Africa's Development Heads of State and Government Implementation Committee created the African Peer Review Mechanism (APRM). The agency is tasked with the ability to analyze and audit political, economic, and corporate governance within the African Union (AU); it also assesses states on their commitments to socioeconomic development (APRM website: https://au.int/en/aprm; January 2024). While not a credit rating agency per se, this agency coordinates with governments within the AU to prepare them in advance of credit rating evaluations from international organizations. It also publishes evaluations of reports by these agencies, including those by the Big Three agencies, ex-post; these critiques are intended to provide more accurate assessments of economic performance within the AU, and more context for debt levels and other factors that may negatively affect ratings issued by major CRA (APRM 2021).

In 2021, the APRM published a report on a Framework for how it would guide policymaking and credit rating governance within the AU. In the document describing this Framework, the APRM argued that this Framework would center African leadership and analysis in the assessment of the creditworthiness of sovereigns within the AU, in the pursuit of lower borrowing costs for member states (APRM 2021). The agency also posited that the Framework would center sustainable development and prioritize gender equity in the review of data within the AU that would inform reports on creditworthiness. However, the APRM declined to include specific details on what criteria would underpin its analyses.

In 2023, the APRM published a report describing a plan to create an explicit African Credit Rating Agency. However, the report lacked concrete detail about the proposed agency; instead, it described how the APRM would continue to audit reviews of AU member states' creditworthiness, how it would prepare member states before CRA reviews, and why member states should provide more data about domestic economic conditions in order to increase the accuracy of ratings.

The APRM's approach of auditing CRA reviews is an important task with the potential to counter the unregulated power of the Big Three. It can potentially increase the accuracy of reporting on economic conditions and data transparency and act as a reparative for inaccurate ratings by major CRA (Yalta and Yalta 2018). Its stated commitment to including gender equity as part of an evaluation framework is also encouraging. While it is not clear how the AU's proposed CRA will better enshrine feminist development goals, particularly considering the lack of clear language of what criteria it will use to evaluate economic fundamentals within the AU, its stated mission to provide more information about the content and context of fiscal expenditure speaks to its potential to better embed feminist development goals in this institution.

However, the possible outcomes of creating a regional credit rating agency for the African Union may be ambiguous, especially given that private investors tend to ignore newer agencies' reports. Similarly, whether the CRA will heed APRMs audits and critiques in the absence of more coordinated global efforts and pressure is also doubtful. A global regulatory mechanism for CRA is one of the recommendations of the UN independent expert report on credit ratings (Li 2021). More broadly, Global South activists and feminist economists (Musindarwezo 2018; Vijaya and Rangaprasad 2023) have advocated for a multilateral global legal forum to address debt restructuring and the systematic imbalances in the financial architecture. Reforms to the sovereign credit rating framework should be an integral part of such a mechanism.

To summarize, the current sovereign ratings mechanism is a vital space for feminist economics advocacy along three lines: the role of CRA in reinforcing narrow measures of economic success and policy prescriptions that diminish long-term human development goals, the oligopolistic structure of the private ratings industry, and finally, the lack of space for Global South representation in the monitoring of the current CRA practices. Feminist discussions of debt crisis and reforms to the global financial architecture will remain incomplete without addressing this key influence on the borrowing costs for short-term and long-term developmental goals.

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