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CLIMATE OBSTRUCTION THROUGH RATINGS: A RESEARCH AGENDA

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SUMMARY



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Abstract

This article develops a research agenda on the role of credit rating agencies (CRAs) in climate obstruction. While recent scholarship has examined how a variety of actors may delay or obstruct climate action, the role of global financial actors remains underexplored. Building on International Political Economy scholarship on private market authority and sovereign debt, the article argues that the “Big Three” CRAs (S&P Global, Moody’s, and Fitch Ratings) constitute important yet overlooked agents of climate obstruction. Through a qualitative and interpretive analysis of sovereign rating methodologies, the article identifies a set of direct and indirect channels through which CRAs constrain ambitious climate action, particularly in developing countries. These include the short-term incorporation of climate risks into sovereign assessments, the disciplining of green transition governance through market-liberal policy prescriptions, incentives for the continuation of carbon-intensive sectors, an embedded austerity bias, constraints on debt-relief instruments such as debt-for-nature swaps, and political interventions during electoral processes. The article argues that, although CRAs are not normatively committed to climate obstruction, their practices reinforce the dominant market-liberal paradigm of green finance and narrow the policy space for a just green transition. It concludes by outlining avenues for future empirical research on global financial infrastructures and the climate crisis.

Introduction

As the climate goals enshrined in the Paris Agreement and the United Nations Sustainable Development Goals (SDGs) have become increasingly out of reach (UNEP, 2025), academic literature and international forums have devoted growing attention to explaining why this is the case. In the context of an escalating climate emergency (IPCC, 2023), concern has focused on actors that engage in “intentional actions and efforts to slow or block policies on climate change that are commensurate with the current scientific consensus of what is necessary to avoid dangerous human-caused interference with the climate system” (Roberts et al., 2025, p. 2). This is what the literature has come to define as *climate obstruction*. Identifying the actors, mechanisms, and institutional channels through which climate obstruction operates is therefore urgent, as it is key to understanding why climate policies remain insufficient and to devising strategies to confront the forces that delay, weaken, or block them.

The academic research agenda on climate obstruction has been structured around the actions of a wide range of actors and processes. Recent studies have addressed climate obstruction promoted by fossil fuel industries (Dembicki et al., 2025; Schneider et al., 2025), utilities (Schneider et al., 2025), agribusiness (Lauber et al., 2025), media, social media, and public relations firms (Aronczyk et al., 2025), and the political far right (Plehwe et al., 2025). The literature has also adopted different units of analysis, with studies focusing on subnational entities (Bromley-Trujillo et al., 2025) and on the Global South (Faruque et al., 2026). In-depth case studies on Brazil (Milani et al., 2025) and Argentina (Christel et al., 2025) shed light on the social and political mechanisms underlying climate obstruction. However, despite these relevant contributions, there remains an important dimension of this process that operates on a systemic scale and often remains less visible. This is the climate obstruction promoted by actors in global finance.

There is a consolidated literature in International Political Economy (IPE) on the constraints

imposed by financial markets on the autonomy of national governments, often in favour of investors' interests (Strange, 1996; Helleiner, 1994; Mosley, 2003; Campello, 2015). This power derives, to a large extent, from the free mobility of capital established under financial globalisation, a context in which private market authorities have become prominent actors in the global allocation of capital (Petry, 2021; Nölke, 2024). In this setting, they frequently disseminate the norms, practices, and institutions deemed necessary for countries to integrate into global capital markets and for governments to gain the confidence of investors (Sinclair, 2005; Paudyn, 2014; Machado, 2025a). Against this backdrop, this article proposes to focus on credit rating agencies (CRAs) as representative actors of global finance in the process of climate obstruction.

CRAs assess the creditworthiness of financial assets traded in capital markets by issuing ratings. Among the various ratings they produce, *sovereign ratings*, which assess the creditworthiness of countries, are particularly consequential for understanding the role of CRAs in the climate and environmental crisis. In a seminal study, Barta (2026) identified the short-term horizon of CRA assessments as essential for understanding the obstacles they impose on the green transition. This article builds on that contribution but goes further. It argues that CRAs promote climate obstruction through a variety of channels related to their approaches and methodological principles for sovereign rating. The research focuses on the “Big Three”, S&P Global, Moody's, and Fitch Ratings, which have historically constituted an oligopoly in the rating industry. By examining their role, the article also seeks to open a broader research agenda on other actors operating within the global financial infrastructure, including other index providers, and their implications for the climate crisis.

The article develops this argument through a research agenda approach grounded in qualitative and interpretive analysis. It combines insights from the IPE literature on CRAs, global finance, and green finance with a close reading of sovereign rating methodologies of the Big Three. These materials are used in an illustrative manner to identify and conceptualize

the channels through which CRAs may contribute to climate obstruction. The analysis focuses on sovereign ratings and pays particular attention to developing countries, where the constraining effects of ratings tend to be more pronounced due to greater exposure to capital flows and more limited policy space (Paula et al., 2026). By mapping both direct and indirect mechanisms, the article seeks to systematize existing insights and propose a framework that can guide future empirical research on the role of global financial actors in the climate crisis.

The article is structured in four sections, in addition to this introduction. Section 2 provides an overview of green finance, seeking to understand the limitations imposed by its dominant paradigm on a just green transition. Section 3 presents CRAs as an object of study, situating them within the global financial order. Section 4 relates CRAs to the climate crisis by identifying the various channels through which they promote climate obstruction, thereby outlining a research agenda on the topic. Section 5 concludes the article.

Climate Obstruction through (Green) Finance

Understanding how actors in global finance promote climate obstruction requires a closer examination of what is commonly referred to as *green finance*. Article 2(c) of the Paris Agreement establishes the imperative of “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development” (UNFCCC, 2015, p. 3). This has translated into a range of initiatives by financial market actors seeking to demonstrate their alignment with the climate policies and goals, a process that can be broadly defined as green finance. In the case of CRAs, for instance, they have become signatories to the United Nations Principles for Responsible Investment, signalling their commitment to this agenda.

Over the past decade, green finance has consolidated itself as a relatively bounded ecosystem within the broader landscape of global finance (Sharma

& Babic, 2025). This ecosystem encompasses a wide range of actors, including central banks, finance ministries, public, private, and multilateral banks, and asset managers, as well as the financial instruments they deploy (Babic, 2024; Berrou et al., 2019). Expanding this ecosystem, both in terms of the number of actors involved and the volume of financial resources mobilized, has become a near consensus in the literature and in the discourse of international institutions. This reflects the widespread diagnosis that the green transition will require investment on the order of trillions of dollars annually to address both climate mitigation and adaptation (Feijó et al., 2023; IPCC, 2023).

However, while the surface level discourse of unlocking green finance appears well established, only a handful of scholars have so far analysed and questioned the deeper dynamics of this process (Babic et al., 2025; Clapp & Helleiner, 2025; Downey & Blyth, 2025). This emerging debate stems from the recognition that the actions of actors within the green finance ecosystem follow a discernible logic that marginalizes competing approaches and has proven insufficient to achieve the climate goals enshrined in the Paris Agreement and the SDGs (Dziwok & Jäger, 2021). As a result, green finance is increasingly understood as a politically and ideologically contested field (Webber & Bryant, 2026), shaped by a dominant paradigm aligned with the market liberal principles that underpin global finance and inspired by what has been described as the Wall Street Consensus (Gabor, 2021).

Within this dominant paradigm, a set of core mechanisms has emerged. De-risking strategies seek to attract private investment by transferring or mitigating risks through public guarantees and policy support. Blended finance and public private partnerships (PPPs) are used to combine public and private resources in order to leverage larger volumes of capital (Gabor & Braun, 2025) [1]. At the same time, Environmental, Social, and Governance (ESG) frameworks and climate related financial disclosure practices have been developed to incorporate climate risks into the decision-making processes of financial actors (Fichtner et al., 2023) [2]. Together, these mechanisms underpin a model of green transition that is led by private finance and oriented

towards the creation of investable assets, a process often described as *green financialization* (Gabor, 2021).

A growing body of literature has critically examined this *market liberal paradigm*. One central critique is that it places disproportionate burdens on states, particularly in developing countries, which are required to assume risks in order to attract private capital. This dynamic can strain public finances and reinforce existing inequalities in the global distribution of financial resources (Dafermos, 2025). Moreover, concerns about greenwashing have been widely raised, as financial actors label activities as sustainable without substantive environmental impact (Fichtner et al. 2023). At the same time, empirical evidence suggests that green finance flows remain heavily concentrated in the Global North, while the Global South faces persistent shortages of funding, in part due to higher perceived risks (Babic, 2024).

In parallel, other segments of the financial system, including shadow banking, continue to channel significant resources into high emission activities, which remain highly profitable (Schairer et al., 2025). This contributes to the buildup of systemic climate related risks, sometimes referred to as green swans, whose impacts are likely to fall disproportionately on poorer countries (Bolton et al., 2020). Taken together, these dynamics suggest that the dominant paradigm of green finance penalizes precisely those countries that are least responsible for the climate crisis and most in need of financial resources to address it, thereby conflicting with principles of *climate justice* (Dafermos, 2025). In the absence of such justice, political backlash against climate policies has already begun to emerge, putting at risk the progress achieved thus far in addressing the climate emergency (Patterson, 2023).

In response, a reform-oriented strand of the literature has advanced proposals for a just green transition grounded in a stronger role for the state. This agenda emphasizes the need for governments to develop the institutional capacity to redirect investment towards decarbonization, to discipline markets through taxation and environmental regulation, and to implement public policies capable of addressing

the social costs of the ecological transition (Newell, 2025; Mazzucato & Kattel, 2026; Larsen & Jackson, 2025). These costs include job losses, the decline of high emission sectors, and the expansion of green industries. Such a strengthening of state capacities is particularly necessary in developing countries, where capital markets are typically shallower and less capable of mobilizing long term financing (Feijó et al., 2023).

However, the pursuit of a just green transition encounters significant obstacles within the current architecture of the international financial system. In a context of financialization and free capital mobility, attempts by governments to strengthen state intervention or to implement policies that diverge from investor preferences may trigger capital flight, deteriorating access to international capital markets, and broader macroeconomic instability (Paula et al., 2026; Machado, 2025a). As a result, the market liberal paradigm of green finance effectively defines the boundaries of what is considered feasible within the existing global financial order. Yet, in light of its limitations and contradictions in addressing the climate crisis, the promotion and dominance of this paradigm can itself be interpreted as a form of climate obstruction. That is one key dimension of the argument developed in this paper.

This does not imply the absence of alternatives. The experience of China, often described as a form of “Big Green State”, illustrates that it is possible to develop institutional arrangements in which the state plays a more directive and effective role in pursuing climate goals, although the replicability of this model remains contested [3] (Gabor & Braun, 2025). At the same time, there is growing concern in the literature about the sustainability of continuous economic growth in the context of planetary limits, which has given rise to debates around the need for de-growth, particularly in advanced economies. Such proposals suggest that reducing consumption and emissions in the Global North could create space for developing countries to pursue green growth and achieve a more equitable transition (Regan et al., 2026; Dziwok and Jäger, 2021).

In any case, alternatives to the market-liberal paradigm are likely to encounter resistance from actors

within global finance, who have been empowered by the structures of financial globalization. In particular, private market authorities operate by disseminating and reinforcing the ideological and institutional principles that underpin the existing financial order, thereby enforcing market-liberal approaches to green finance. CRAs are a clear example of such actors. Operating often discreetly within the global financial infrastructure, they play a significant role in shaping the financial conditions under which states may pursue climate and environmental policies. The following sections therefore turn to an examination of what these actors are and how they relate to the climate crisis, potentially contributing to the obstruction of a just green transition.

Rating Agencies in the Global Financial Order

The Big Three CRAs are century-old US based private companies that emerged from the internal dynamics of American capital markets in the early twentieth century (White, 2013). The product they provide is information. Given the informational asymmetry between investors and borrowers in capital markets, the ratings issued by CRAs, expressed as alphanumeric grades, convey assessments of the probability of default of debt instruments issued by a wide range of actors, including governments in the case of sovereign bonds. As such, ratings serve as a key source of information guiding investors’ decision making.

Across different global financial orders, the importance of sovereign ratings within the business model of CRAs has fluctuated (Machado, 2025b). [4] However, in the context of financial globalization, sovereign ratings have become particularly influential. As the issuance of sovereign debt in international capital markets has become a central mechanism through which governments manage their balance of payments and pursue economic policy objectives, the role of CRAs in evaluating sovereign creditworthiness has gained prominence (Sinclair, 2005).

Sovereign ratings directly affect the borrowing conditions of a country in international debt markets,

influencing both the interest rates demanded by creditors and the maturity (i.e., the length of time until a debt instrument must be repaid) of debt instruments (Ywata, 2012). In this way, they contribute to defining the policy space available to governments for implementing a wide range of policies, including climate policies. Moreover, sovereign ratings act as a ceiling for other ratings assigned to domestic borrowers, including private firms and sub sovereign entities. As a result, rating upgrades and downgrades tend to propagate throughout the national economy, affecting a broad range of economic actors (Machado, 2025a). For example, after Brazil lost its investment-grade rating in 2015, S&P downgraded dozens of Brazilian corporations and infrastructure entities (including Petrobras and Eletrobras) following the sovereign downgrade, illustrating how changes in sovereign creditworthiness can propagate throughout the national economy (S&P, 2015).

This effect becomes particularly pronounced when there is a shift between what is conventionally referred to as investment grade and speculative grade. Ratings within the former category signal high creditworthiness, while those in the latter indicate a higher probability of default. Transitions between these categories often trigger significant capital inflows or outflows, as many institutional investors are restricted by regulation or internal mandates to holding only investment grade assets. This regulatory entrenchment further amplifies the influence of CRAs in shaping global financial flows (Kruck, 2016).

The methodologies used by S&P Global, Moody's, and Fitch to assess sovereign creditworthiness are broadly similar and tend to converge in their overall assessments (Fitch, 2025; Moody's, 2026; S&P, 2024a). They combine quantitative indicators with qualitative judgments. Typically, the process begins with a model-based evaluation of key economic and fiscal variables, followed by qualitative adjustments, and culminates in a final decision taken by a rating committee composed of credit analysts. Although CRAs publish their methodologies, rating decisions, rationales, outlooks, and the principal factors underlying rating actions, the decision-making process is only partially transparent. The composition of rating committees, individual votes,

possible disagreements among committee members, and the deliberations through which quantitative results and qualitative judgments are weighed are generally not disclosed. Whenever a rating action is taken, however, the CRA publishes a report explaining its rationale, as well as a rating outlook indicating the likelihood of future upgrades, downgrades, or stability. In addition, CRAs regularly issue reports and commentaries on political and economic developments in rated countries, interpreting these developments through the lens of sovereign creditworthiness.

Given their central role in the architecture of financial globalization, CRAs have been the subject of extensive analysis in the IPE literature, particularly with regard to the challenges they pose to government autonomy and democratic governance (Barta & Johnston, 2023; Machado, 2025a). Theoretical contributions argue that CRAs act as agents of the global financial order by disseminating norms, practices, and institutional frameworks aligned with the interests of financial markets, often characterized as neoliberal (Paudyn, 2014). These norms are embedded in the metrics and criteria used in sovereign rating methodologies, thereby shaping the institutional configurations of states integrated into global capital markets (Sinclair, 2005).

Empirical studies have explored the implications of these dynamics. In their interactions with national governments, CRAs have been shown to express clear policy preferences, with differentiated effects across advanced and developing economies (Barta & Johnston, 2023; Machado, 2025a). In the latter, which are generally more vulnerable to shifts in investor sentiment, case studies suggest that CRAs systematically favour fiscal austerity and market oriented economic reforms. These policy prescriptions are frequently presented as necessary conditions for achieving higher ratings and improved creditworthiness. However, their economic outcomes remain contested, and CRAs have been criticized for contributing to pro cyclical dynamics that can exacerbate economic downturns (Paudyn, 2014).

CRAs have also been associated with major rating failures that contributed to systemic financial crises, including the Asian financial crisis of 1997 and,

most notably, the global financial crisis of 2008. The latter led to intense scrutiny from regulators such as the Securities and Exchange Commission and the European Securities and Markets Authority (Guttmann, 2016; Sinclair, 2021). Since then, the activities of CRAs have been subject to increased regulatory oversight. For instance, during the Covid 19 pandemic, the chair of the European Securities and Markets Authority publicly expressed concern regarding rating actions and signalled closer monitoring of the agencies (Reuters, 2020). At the same time, in a context of rising public debt, developing countries have increasingly criticized the Big Three for biases that constrain their policy space (Unctad, 2025a). This has led to initiatives aimed at democratizing the rating industry and reducing the dominance of these agencies within the international financial system (e.g., APRM, 2025).

It is against this backdrop that the interaction between CRAs and the climate crisis should be examined. At a time when the dominant paradigm of green finance appears insufficient to achieve climate goals, the historical role of the Big Three suggests that any attempt to transform prevailing norms, practices, and institutions within the global financial order must take into account the constraints they impose on governments' actions. This is particularly relevant given the growing integration of CRAs into the green finance ecosystem, as the following section will demonstrate.

Credit Rating Agencies and the Climate Crisis

Having established the role and controversies surrounding CRAs in the global financial order, this section examines how they interact with the climate crisis, with a particular focus on their approach to sovereign ratings. The central argument here is that the Big Three promote climate obstruction through a set of means. To account for this, this section introduces a research agenda structured around the identification of direct and indirect channels through which CRAs hinder or constrain the pursuit of climate goals, even when such outcomes are not the result of deliberate intent.

Without aiming to exhaust all possible mechanisms, this section maps a set of illustrative channels that demonstrate how climate obstruction may be advanced through the practices of CRAs. Direct channels refer to those embedded in the methodologies, assessments, and discursive outputs of CRAs that explicitly relate to climate issues. Indirect channels refer to broader features of their approach to sovereign creditworthiness that, while not explicitly climate oriented, produce effects that are detrimental to a just green transition.

Taken together, these mechanisms contribute to reinforcing the ongoing process of green financialization under a market-liberal paradigm, generating outcomes that are at odds with the requirements of a just green transition. The subsections that follow outline the main characteristics of these channels and indicate avenues for further empirical research.

Climate Risks:

One direct channel through which CRAs promote climate obstruction is the increasing incorporation of climate risks into their sovereign rating methodologies. Physical, liability, and transition risks have been widely recognized as potential sources of financial instability (Carney, 2015). As central coordination actors in capital markets, CRAs have moved to integrate these risks into their assessments in order to preserve their epistemic authority in the eyes of investors, who constitute their primary audience (Barta, 2026).

This incorporation, however, is shaped by a particular understanding of financial materiality. Climate risks are considered relevant insofar as they are expected to affect a country's capacity to service its debt within the limited-time horizon that matters for investors. In practice, this implies a focus on relatively short to medium term impacts on fiscal balances, economic growth, external accounts, and overall macroeconomic stability. As a result, long term and systemic consequences of the climate crisis tend to be discounted or only partially captured in sovereign rating assessments. As Barta (2026, p. 4) puts it, "rather than helping to 'break the Tragedy of the Horizon', the current strategy of rating agencies puts it on steroids."

Formally, climate risks are situated within the environmental pillar of ESG factors considered in sovereign rating methodologies (S&P, 2024b; Moody's, 2025; Fitch, 2021). Although CRAs have made efforts to clarify how environmental and climate related factors are incorporated into their assessments, significant opacity remains, as ESG considerations do not typically constitute an independent and clearly weighted pillar in rating models. Their influence is instead diffused across different components of the methodology, making it difficult to trace their precise impact on final rating outcomes.

A key problem is that physical and transition risks tend to affect developing countries more severely (Dafermos, 2025; Machado, 2026). These countries are generally more exposed to extreme weather events, more vulnerable to the economic consequences of transition risks such as stranded assets, and more dependent on natural resource-based sectors, including fossil fuel extraction. As a result, the incorporation of climate risks into sovereign ratings often translates into downward pressure on their ratings.

This dynamic has significant implications. Lower ratings increase borrowing costs and restrict access to sovereign debt markets, thereby reducing the policy space available to governments. At the same time, limited fiscal capacity constrains the ability of these countries to invest in climate mitigation and adaptation. In the absence of such investments, exposure to climate risks is likely to intensify, further deteriorating creditworthiness. This creates a self-reinforcing cycle in which climate vulnerability and financial constraints mutually reinforce each other within the *rationale* developed and fostered by CRAs.

From the perspective of climate justice, this outcome is deeply problematic (Dafermos, 2025). The countries that have contributed least to global greenhouse gas emissions are those that tend to be most penalized by the financial consequences of climate risk incorporation. Rather than facilitating the allocation of resources towards areas of greatest need, this mechanism contributes to concentrating capital in more stable and wealthier regions, reinforcing existing global ine-

qualities, and not contributing to solving the planetary emergency related to anthropogenic climate change.

This dynamic also challenges the common assumption that the integration of climate risks into financial assessments necessarily reflects a meaningful alignment of financial markets with sustainability objectives. As argued by Dafermos (2025), such integration often functions primarily as a mechanism of risk management for investors, rather than as a tool to support a just transition. In this sense, the incorporation of climate risks into sovereign ratings may itself constitute a mechanism of climate obstruction by constraining the capacity of vulnerable countries to respond effectively to the climate crisis.

Governance of the Green Transition:

As discussed in Section 3, the publication of reports and press releases is a central component of how CRAs operate. The literature has increasingly emphasized the importance of analysing these documents not only to understand rating actions, but also to capture the constraints they impose on rated countries (Machado, 2025a; Barta & Johnston, 2023). Through their discursive outputs, CRAs explicitly signal the policy paths that may improve sovereign creditworthiness, thereby recommending, shaping, and exerting pressure on government decisions. In the context of the climate crisis, these instruments are used to influence the governance of the green transition by promoting ideas and practices perceived as credit friendly.

These practices are closely aligned with the Wall Street Consensus. CRA reports frequently recommend strategies such as de-risking and public private partnerships (Moody's 2025; S&P, 2025). However, these recommendations often overlook the potential negative implications for sovereign creditworthiness, particularly when such arrangements transfer significant contingent liabilities to the state (Machado, 2026). At the same time, the implicit message is that policies that diverge from this framework are considered risky and potentially harmful to sovereign creditworthiness. Recent cases in which governments pursuing environmental regulation or policies misaligned with investor

interests faced downgrades or negative outlooks illustrate this dynamic (Amazon Watch, 2025; Latindadd, 2023). In this sense, CRAs reflect the broader tensions associated with green financialization in the context of the green transition.

This role suggests a capacity of CRAs to adapt to new policy agendas without altering their core function within the governance of financial globalization. As shown by IPE literature, CRAs shape state behaviour by disseminating norms and practices aligned with financial market interests (Paudyn, 2014; Sinclair, 2005). In the context of the climate crisis, this pattern persists. CRAs incorporate climate considerations into their assessments while maintaining an approach to the green transition that remains aligned with investor expectations.

High Emission Sectors Sustaining Ratings:

The literature shows that the green transition requires not only increased investment in sustainable sectors and technologies, but also the divestment and redirection of financial resources away from high emission activities. However, a defining feature of the dominant green finance paradigm is the persistent profitability of such sectors, which continue to be heavily financed through multiple channels of the global financial system (Shaier et al., 2025). CRAs are part of this broader configuration.

This is partly due to the structure of sovereign rating methodologies, which rely on a short-term assessment of economic and fiscal performance. Indicators such as growth, export revenues, and government income often depend significantly on high emission sectors, particularly in resource dependent economies. As a result, continued investment in these sectors can support the metrics that underpin sovereign creditworthiness. In this context, the logic embedded in ratings not only discourages divestment, but may also create incentives in the opposite direction, encouraging further investment and the expansion of fossil fuel extraction. Policies aimed at accelerating the transition away from these sectors may therefore be perceived as

weakening economic fundamentals and, consequently, as detrimental to sovereign ratings.

Beyond methodology, this dynamic is also reflected in the discursive outputs of CRAs. Reports and press releases frequently link a country's creditworthiness to revenues derived from natural resource exploitation (Machado, 2026). In some cases, climate policies that restrict oil exploration or protect environmentally sensitive areas are framed as negative from a credit perspective, insofar as they reduce potential sources of state revenue. This illustrates the short-term horizon that characterizes financial assessments, in which the immediate contribution of high emission sectors tends to outweigh the longer-term materiality of climate risks.

As a result, CRAs may contribute to sustaining investment patterns that are misaligned with climate goals. By reinforcing incentives for the continuation of carbon intensive activities, they indirectly support trajectories that increase exposure to future financial losses and systemic risks associated with climate change, often described as green swans.

Austerity bias:

An indirect channel through which CRAs promote climate obstruction is the austerity bias embedded in their approaches to sovereign creditworthiness, as reflected both in their methodologies and in their discursive outputs. The underlying rationale is that fiscal consolidation is the primary pathway to improving indicators related to a state's fiscal profile, such as debt levels, deficits, and financing conditions. This perspective tends to overlook alternative approaches emphasized in heterodox economic traditions, including the role of progressive taxation, wealth taxes, and broader strategies for mobilizing public resources.

In this context, by consistently favouring fiscal restraint, CRAs can be understood as operationalizing what Streeck (2014, p. 92) described as "bondholder value", referring to the restructuring of public budgets in ways that prioritize the interests of creditors. As he puts it:

“Much as an increase in shareholder value requires management to hold down the workforce or better still to lock it into common efforts to boost the share price, so does the trust of creditors require that governments persuade or compel their citizens to moderate their claims on the public purse in favour of the ‘financial markets’.”

The implications of this orientation are particularly significant in the context of the green transition. Fiscal austerity is fundamentally at odds with the scale and nature of the state-led investments required to address the climate crisis (Mazzucato & Kattel, 2026; Newell, 2025). First, it constrains the capacity of governments to undertake large scale public investment in infrastructure, decarbonization, and climate adaptation. Second, it limits the ability of states to implement social policies aimed at managing the distributive consequences of the transition, including job losses, the decline of carbon intensive sectors, and the need to support workers and communities affected by structural economic change.

Third, fiscal austerity has been associated with environmentally detrimental outcomes. Recent research suggests a link between austerity measures and increased deforestation, as governments facing fiscal pressures may weaken environmental regulation or reduce the capacity of agencies responsible for environmental protection (Foster et al., 2026). In some cases, austerity can serve as a justification for dismantling environmental institutions, either through budget cuts or through the elimination of regulatory bodies, particularly in contexts where governments are not strongly committed to climate goals – as the experience of Brazil under Bolsonaro has shown (Silva & Fearnside, 2022).

More broadly, the promotion of fiscal austerity contributes to reinforcing the dominant market-liberal paradigm of green finance. If the state is constrained in its ability to directly lead the transition due to fiscal limitations, its role becomes redefined as that of an enabler of private investment. In this framework, governments are expected to create incentives, reduce risks, and provide guarantees in order to attract private

capital, rather than to act as primary drivers of structural transformation.

By linking sovereign creditworthiness to fiscal discipline, CRAs help to institutionalize this configuration. Their assessments contribute to shaping expectations about what constitutes “responsible” economic climate policies, thereby narrowing the range of options available to governments. In doing so, they indirectly support the expansion of the Wall Street Consensus as the dominant framework for addressing the climate crisis. As a result, CRAs’ austerity bias can be understood as a mechanism of climate obstruction. By constraining public investment, limiting social protection, and reinforcing reliance on market-led solutions, it restricts the capacity of states, particularly in developing countries, to pursue the state-led green policies required for a just transition.

Contractual Rights of State Creditors:

The protection of the contractual rights of state creditors lies at the core of credit rating agencies’ approach to sovereign ratings. Any perceived deviation from, or renegotiation of, the terms agreed in public debt contracts is typically classified by CRAs as a default event, with negative consequences such as capital outflows and restricted access to sovereign debt markets. This becomes particularly problematic in a context in which developing countries face unprecedented levels of indebtedness, severely constraining their policy space for the implementation of climate policies (Volz et al., 2021). In principle, this constraint could be mitigated through debt relief measures frequently proposed by international organizations or through innovative financial instruments tailored to the climate crisis. However, the anticipated reaction of CRAs has often led governments to abandon such alternatives.

In justifying the creation of its own rating agency, the African Union, for example, highlights that countries in the region are reluctant to participate in debt relief initiatives, which have been widely discussed since the Covid-19 pandemic exposed the need for greater policy space (UA, 2025, p. 6):

“The majority of governments did not participate in the G20 Debt Service Suspension Initiative and the Common Framework for fear that it would lead to credit rating downgrades. International CRAs downgraded Cameroon, Côte d’Ivoire, Ethiopia, and Senegal precisely because of their participation in the debt service relief programs.”

A similar rationale applies to debt for nature swaps. These arrangements seek to address both climate and debt challenges by exchanging part of a country’s public debt for commitments to invest in environmental protection (Colodenco et al., 2025). When successful, they may provide a basis for more ambitious climate and sustainability initiatives (Uncat, 2025b). However, the reaction of CRAs has already emerged as a barrier to their broader use. In 2023, Ecuador was rated as in default by Moody’s following the implementation of a debt for nature swap (Moody’s, 2023). In other cases, governments have refrained from pursuing similar initiatives due to concerns about negative rating actions, as reported, for example, in the case of Colombia (Bloomberg, 2025).

By maintaining a strict interpretation of creditor rights and reacting negatively to debt restructuring mechanisms, CRAs constrain the use of instruments that could help reconcile debt sustainability with climate action. In doing so, they limit the policy options available to governments in contexts where investment in climate mitigation and adaptation is urgently needed, thereby contributing to the obstruction of a just green transition.

Rating Agencies and Elections:

The most indirect, yet potentially most consequential, channel through which CRAs contribute to climate obstruction relates to their behaviour in electoral contexts. The literature has increasingly examined the presence of partisan bias in the actions of CRAs, approaching it from two complementary perspectives. On the one hand, quantitative studies suggest that rating agencies tend to assign lower ratings to countries governed by left leaning parties, reflecting what has been described as partisan discrimination in both advanced (Barta & Johnston, 2017) and developing

economies (Vaaler et al., 2006). On the other hand, qualitative case studies indicate that CRAs express explicit preferences in their reports and press releases, signalling support for governments or candidates aligned with market-oriented policies and expressing concern regarding those perceived as deviating from such agendas (Machado, 2025a).

This pattern becomes particularly relevant in the context of the climate crisis, as political competition increasingly involves divergent positions on environmental policy. In recent years, segments of the political right have been increasingly shaped by populist forces that question or deny the existence of climate change and actively oppose environmental regulation. Governments such as that of Donald Trump in the United States (Bomberg, 2025), and others in the Global South such as Javier Milei in Argentina (Merke, 2026) and Jair Bolsonaro in Brazil (Milani et al., 2025), illustrate how climate denialism and the dismantling of environmental protections can become central components of political platforms.

In this context, if CRAs systematically favour political actors committed to market liberal agendas in the short term, they may indirectly support forces that undermine climate action. This occurs because the criteria used by CRAs to evaluate economic policy tend to prioritize fiscal discipline, market reforms, and investor confidence, without adequately accounting for the long term economic and environmental costs associated with weak or regressive climate policies.

The Brazilian case provides a particularly illustrative example. During the 2018 presidential election, when Jair Bolsonaro faced Fernando Haddad of the Workers’ Party, Fitch published a report projecting the following scenario in the event of a left-wing victory:

“Financial markets would likely sell off significantly in light of the leftist candidate’s campaign pledges to undo key reforms pursued over the last two years. The real would likely hit historic lows, bond yields would spike and equities would decline sharply. The sudden drop in financial markets and business sentiment would likely push the economy back into recession heading into 2019.”

By contrast, a Bolsonaro victory was framed in markedly more positive terms:

“Brazilian financial markets would likely rally because Bolsonaro has appointed investor-friendly advisors and pledged support for pension reform and privatisations. Market participants also appear to believe that the leftist candidates represent a threat to fiscal stability and growth and would likely show relief on the reduction of uncertainty. With confidence growing, economic activity growth would broadly pick up heading into 2019.”

At that time, Bolsonaro’s position on the climate crisis was already well known. Once in office, his government pursued a predictable agenda of environmental degradation and climate obstruction (Silva & Fearnside, 2022; Milani et al., 2025), combining elements of scientific denialism, alignment with sectors of agribusiness, and fiscal austerity measures advanced by his economic team. At the same time, the economic performance of his administration fell short of the expectations expressed in the Fitch report.

It is important not to attribute direct causal responsibility to CRAs for electoral outcomes or for the policy choices of governments that openly reject climate science. However, it is equally important to recognize that their actions form part of the broader political process. Given their epistemic authority and structural power within global finance, the assessments and expectations they communicate can shape investor sentiment, influence public debate, and contribute to the construction of what is perceived as economically viable or responsible policy.

From a regulatory perspective, this raises important questions regarding the appropriate scope of CRA activity. The extent to which the publication of reports and press releases containing explicit political content should be considered part of their legitimate function remains open to debate, particularly in sensitive contexts such as presidential elections.

For CRAs themselves, the growing materiality of climate risks also raises questions about the long-term consistency of their assessments. By prioritizing

short term alignment with market preferences, they may underestimate the economic consequences of environmental degradation and climate inaction, thereby potentially undermining the very interests of state creditors they seek to protect, as well as the credibility of the ratings they produce.

In this sense, the behaviour of CRAs in electoral contexts represents an indirect but significant channel of climate obstruction. By shaping the political environment in ways that favour certain policy agendas over others, they contribute to narrowing the space for ambitious climate action and to reinforcing pathways that are incompatible with a just green transition.

Final Remarks

This article has argued that CRAs, particularly the Big Three, constitute a relevant yet underexplored set of actors in the study of climate obstruction. By examining their role within the global financial order and the green finance ecosystem, the article has shown that CRAs constrain the policy space for climate action through a range of direct and indirect channels embedded in their methodologies, assessments, and discursive practices.

It is important to stress that promoting a just green transition is not part of the mandate of CRAs. They are private firms whose behaviour is shaped by institutional incentives, regulatory frameworks, and the need to maintain credibility with investors. As noted by Barta (2026), their engagement with the climate crisis is primarily driven by the preservation of their epistemic authority vis à vis financial markets. The incorporation of climate considerations therefore reflects adaptation to changing conditions rather than a normative commitment to sustainability.

Nonetheless, the effects of their actions are not neutral. By privileging short term financial indicators, reinforcing a market liberal paradigm of green finance, and constraining alternative policy approaches,

CRA contribute to shaping a financial environment that is not conducive to a just green transition. These effects are particularly pronounced in developing countries, where the impact of sovereign ratings on borrowing conditions and policy choices is more severe.

By mapping illustrative channels through which CRA may contribute to climate obstruction, the article provides a framework for future research aimed at systematically examining these mechanisms across different contexts. Finally, CRA should be understood as part of a broader set of actors operating within the global financial infrastructure. Alongside them, index providers are becoming increasingly influential in shaping the allocation of capital. Analysing how these actors interact is essential for understanding the relationship between global finance and the climate crisis.

By shedding light on the role of CRA in climate obstruction, this article contributes to debates on the political economy of green finance and the structural constraints facing a just green transition. Recognizing these dynamics is a necessary step toward identifying the institutional changes required to align global finance with the demands of climate mitigation, adaptation, and justice.

Notes

[1] *Blended finance* uses concessional public or philanthropic capital to mobilize additional private investment by improving projects' risk-return profiles, while *PPPs* involve governments and private firms sharing responsibilities, risks, and returns in the provision of infrastructure and public services. Both are de-risking instruments that are central to the Wall Street Consensus.

[2] Climate-related financial disclosure refers to the reporting of firms' and financial institutions' exposure to climate-related risks and opportunities, enabling investors to incorporate such information into investment decisions. ESG assessments translate environmental, social, and governance information (including climate-related disclosures) into standardized metrics or scores that facilitate the evaluation and comparison of investment risks.

[3] It is important to note, however, that China's capacity to pursue such a strategy is closely linked to the preservation of substantial policy autonomy within the global financial system. Unlike most Latin American and many other developing countries, China has maintained extensive state control over its financial system and capital account, making it considerably less vulnerable to the disciplinary pressures exerted by global financial actors, such as CRA.

[4] Following its expansion during the global financial order under the gold standard, the sovereign rating business virtually disappeared under the Bretton Woods system, which imposed extensive restrictions on cross-border capital flows. With the rise of the contemporary era of financial globalization, however, sovereign ratings experienced a strong resurgence (Machado, 2025b).

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