

## Rating Methodology

3 July 2026

## Request for Comment: Multilateral Development Organizations

Sovereign and supranational rating methodology

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**CCXAP publishes a Request for Comment (RFC) on the proposed new methodology for Multilateral Development Organizations.**

### Summary

This rating methodology adopted by China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) applies to Multilateral Development Organizations (“MDOs”) globally. They include Multilateral Development Banks (“MDBs”) and Other Multilateral Development Institutions (“OMDIs”). MDOs are typically owned or established by two or more sovereigns, with a public policy mandate. The purpose of forming an MDB is mostly to promote the economic and social development policy goals of member countries, while an OMDI generally has a more specific and narrowed goal, which does not necessarily target economic development.

Financial institutions that are profit seeking are rated under other rating methodologies such as banks, finance Companies or financial guarantors. Commercial banks that are owned by the government are typically rated under our methodology for banks.

This methodology introduces the key determinants for assessing MDOs and explains in detail our approach to assessing each key rating determinant. In this rating methodology, we explain our general approach to the credit risk for MDBs and OMDIs, including the qualitative and quantitative factors that are likely to affect rating outcomes in this sector.

Despite that the rating factors are similar between MDBs and OMDIs, we rate them on a different approach. We consider that the baseline credit assessment is more important than for MDBs, while member support is typically the starting point of our analysis for OMDIs. For MDBs that have been in operation for less than three years, their credit levels are completely dependent on the sovereign credit ratings of member countries, we refer to the rating methodology of OMDIs when assessing this type of MDBs.

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## **Impact on Ratings**

CCXAP does not have any existing rated entities that match the scope of application of the proposed Rating Methodology for Multilateral Development Organizations. The adoption of this methodology is not expected to result in any rating changes.

## **How to Submit Comments**

In this request for comment, CCXAP invites interested market participants to submit written comments on the proposed rating methodology by 3 August 2026 on the Request for Comment page or via email at [info@ccxap.com](mailto:info@ccxap.com). CCXAP will review and take all received comments into account before publishing the methodology.

## Introduction of Rating Methodology

MDOs include MDBs and OMDIs. MDOs are not profit-maximizing entities; instead, their aim is to fulfill their policy goal, for example, enhancing economic development. They typically do not be required to distribute dividends. MDOs are normally tax-exempt and immune from prosecution, transfer and convertibility risk. MDOs are largely protected against interference by the governments of the country in which they are headquartered or operate, and as such their ratings are not constrained by the country ceilings of their country of domicile.

**Multilateral Development Banks:** MDB is a bank established by two or more countries, which aims to further develop the economic and social development policy goals of member countries. MDBs have been created in response to a perceived failure of the market to provide sufficient financing for public products. MDBs are self-operated financial institutions that usually leverage the credit of member countries to carry out financing activities in specific markets. There are two major characteristics of MDBs: (1) only a fraction of an MDB's capital is typically paid in, and the initial cash outlay associated with the creation of an MDB is often relatively small. The committed capital from members represents a contingent claim on the shareholder countries; (2) like commercial banks, MDBs usually obtain funds through debt to carry out lending or investment activities.

**Other Multilateral Development Institutions:** The basic characteristics of OMDIs are like MDBs, for example, the shareholders are composed of two or more countries, which aim to fulfill their policy goal. However, OMDIs are generally mandated to achieve a specific goal, which does not necessarily target economic development. On the other hand, OMDIs usually have little or no capital to support the ongoing operations, and their structures heavily rely on member support, including cash flows, guarantees or taxes from member countries, etc. Thus, OMDIs cannot operate independently from member countries, nor do they could resist external risks. Compared with MDBs, an OMDI's credit profile is typically more closely linked with its sovereign members' creditworthiness. It will have a positive impact on OMDIs' credit status if they can receive financial support from outside the member countries. At present, OMDIs include the European Union, the European Stability Mechanism, the European Financial Stability Fund, and other institutions.

### Exhibit 1: Rating Factors to Rate Multilateral Development Organizations

Rating Factors	Sub-factors
Operating Environment	Operating Environment
Corporate Governance	Governance and Strategic Positioning Risk Management
Capital Strength	Capital Adequacy Leverage
Asset Quality	Loan Quality Concentration of Asset Portfolio
Liquidity	Availability of Liquidity Resources Funding Capability

Source: CCXAP research

It should be specially pointed out that MDBs have constituted the largest share of the rated universe of MDOs. This rating methodology is mainly developed for MDBs. After considering the inherent differences between OMDIs and MDBs, CCXAP adjusted the rating considerations and developed the rating methodology for OMDIs. CCXAP's overall framework for assessing MDOs' Baseline Credit Assessment ("BCA") includes five key factors: operating environment, corporate governance, capital strength, asset quality, and liquidity, as listed in Exhibit 1. In addition to the indicators on the BCA, we also consider other qualitative assessment factors and member support.

Capital strength and asset quality are key considerations for MDBs, while for OMDIs, member support is typically the starting point of our analysis. Liquidity, operating environment and corporate governance are common to both methodologies. We consider the liquidity of OMDIs to be more important. It is mainly because when there is a lack of paid-in capital or member countries' financial support, OMDIs may need market financing. The outlook of OMDIs may also be adjusted as the sovereign rating of member countries changes. In addition, for MDBs that have been in operation for less than three years, the rating methodology and model of OMDIs is applied.

This rating methodology provides a guideline that summarizes the important factors used in assigning ratings, but does not include an exhaustive description of all factors that CCXAP may use in its rating considerations. Thus, the mapped rating may not match the final rating of each rated entity.

## Baseline Credit Assessment

Rating factors and sub-factors are discussed in detail in this section, including the rationale and measurement of these factors and how they will affect the rating.

### 1. Operating Environment

MDOs' core business is usually operating in member countries. Therefore, it is important to evaluate the macroeconomic outlook, risks, and development prospects of the member countries. Good macroeconomic outlook and development prospects would result in a positive impact on assessing the credit rating of MDOs. To conclude, the assessment of the operating environment usually considers macroeconomic outlook, business climate, per capita income, and political risks.

Our views on the operating environment are informed by our sovereign risk outlook for the relevant regions, as well as forecasts for key macroeconomic variables. This factor reflects the macroeconomic outlook of the operation location of MDOs, and MDOs with a better macroeconomic outlook in operation location will be considered for higher credit ratings.

### 2. Corporate Governance

CCXAP evaluates corporate governance by two aspects: (1) governance and strategic positioning; (2) risk management. High governance efficiency and good governance level can reduce operating costs and the likelihood of future crises, as well as improve the speed and quality of recovery when problems arise. Risks faced by MDOs include credit risk, liquidity risk, market risk and operational risk. The purpose of risk management is to control or reduce the risks, which is closely related to the strategic positioning and business development of MDOs. In terms of risk management, we consider factors that include risk preference, risk management framework, integrity of risk management system, methods and processes of risk management, professionalism of risk management, etc.

### **(1) Governance and Strategic Positioning**

CCXAP assesses the governance of the MDOs by considering of shareholder structure and stability, shareholder introduction and exit mechanism, governance structure and its transparency, effectiveness of decision-making mechanism, integrity of governance system, effectiveness of internal control, professionalism of management team. A clear strategic development orientation can lay a solid foundation for the development of MDOs. In terms of strategy development, we mainly consider the organization's functional positioning and its importance, the formulation of development goals and their matching with resources, the formulation and feasibility of operational goals, and the effectiveness of strategy implementation.

### **(2) Risk Management**

In terms of risk management, institutions with low risk tolerance, good risk management framework, high perfection of risk management system, clear risk management methods and procedures, and strong professionalism in risk management will be considered for higher credit ratings.

## **3. Capital Strength**

Due to MDBs' different special strategic development positioning, the business operations of MDBs may face high regional and industry risks. Therefore, MDBs must hold sufficient capital to deal with potential credit losses. CCXAP mainly evaluates the capital strength of MDBs through capital adequacy and leverage. We believe that well-capitalized and low-debt MDBs are more resilient to risks and can grow sustainably. Most of the OMDIs have no capital, therefore the relevant indicators related to "capital strength" are not applicable.

### **(1) Capital Adequacy**

Capital adequacy is a critical indicator of an MDB's capacity to absorb credit or market losses stemming from its operations, and hence its ability to repay debtholders. We use the ratios of usable equity to risk-weighted assets and return on usable equity ratios to measure the capital adequacy of MDBs.

### **(2) Leverage**

The ratio of debt to useable equity is an indicator of how much capital is available to cover the debts. An institution with lower leverage is typically better equipped to cover its debts and thereby protect its credit profile.

## **4. Asset Quality**

Asset quality is critical to the development of MDBs. If asset quality deteriorates, the problem asset ratio rises, signaling potential credit losses that can lead to reduced earnings capacity as well as create higher pressure on the capital buffers that protect debtholders. Loans quality and asset portfolio are the two indicators that CCXAP measures the asset quality of MDBs.

### **(1) Loan Quality**

The ratio of gross non-performing loans (NPLs) to gross loans outstanding is an indicator used for asset performance, which as an indicator reflects the positive impact of the MDBs' preferred creditor status. MDBs with lower non-performing loan ratios will receive higher credit ratings.

### **(2) Concentration of Asset Portfolio**

The concentration of asset portfolio examines the investment portfolio of MDBs, including regional concentration

and industry concentration. Higher concentration means concentration of risk, MDBs are highly likely to incur losses once risks materialize. In contrast, a higher degree of industrial diversification of asset portfolio means relatively dispersed risks, and MDBs are less vulnerable to the impact of a single type of risk. MDBs with low asset portfolio concentration will be assigned higher credit ratings.

## 5. Liquidity

In the event of liquidity risk, MDBs need to use their own resources to defuse the risk before they can get actual support from shareholders. Unlike commercial banks, MDBs generally cannot obtain liquidity support from central banks. Therefore, liquidity is one of the most important indicators to measure the credit risk of MDBs. CCXAP takes two indicators to measure liquidity of MDBs: i.e., availability of liquidity resources and funding capability. Some OMDIs do not have liquid assets, and their funds for debt repayment come from regular support from member countries. In this case, when we assess the liquidity status of OMDIs, we mostly refer to funding capacity, while the ratio of liquid assets to short-term debt is not applicable.

### (1) Availability of Liquidity Resources

CCXAP evaluates the overall liquidity status of MDBs by measuring the ratio of short-term debt to liquid assets. A lower ratio indicates that liquid assets have a strong ability to cover short-term debt.

### (2) Funding Capability

CCXAP uses qualitative indicators to measure the financing capacity of MDOs, mainly through the evaluation of financing channels, diversity of financing market, financing costs, supplementary financing channels, special liquidity guarantee mechanisms and other factors. Firstly, to observe the diversity of financing market, including bank loans and bond financing. Secondly, to observe the diversity of the financing market of MDOs, as higher diversity result on more dispersed their financing risks. On the contrary, financing risk will increase with the increase of financing market concentration. In addition, the central bank's liquidity support, asset-liability management and other liquidity guarantee mechanisms will help reduce the liquidity risk of MDOs.

## Other Considerations

CCXAP may consider other qualitative assessment factors that are not included in the above rating factors, including accounting standards, reporting quality and event risks.

Financial data is a comprehensive reflection of the operation and management of an MDO, and it is also the basis for a MDO's financial risk analysis. To evaluate the financial risk of an MDO, we firstly analyze the quality of financial information. We typically rely on the accuracy of audited financial statements to assign and monitor ratings. However, different institutions may have large differences in the choice of specific accounting policies. If the analysis is based solely on the financial data provided by the institution, it will affect the comparability of financial data of the industry, and then affect the evaluation of financial risk of the rating entity.

We also recognize the possibility that an unexpected event could cause a sudden and sharp decline in a rating entity's fundamental creditworthiness, such as asset sale and litigation.

## Member Support

The expectation of member support is a credit defining characteristic of the MDOs. The strength of member support is essentially driven by (1) their willingness to support the institution; and (2) the ability of members to provide support.

## (1) Willingness to Support

Contractual support is a strong indication of the willingness of an MDO's shareholders to financially support the institution. The most common form of contractual support for MDBs is callable capital, which is a contractual obligation to provide additional capital if the MDB requests it. In most cases, an MDB can only do so to service debt. Therefore, we choose the ratio of total debt to callable capital to measure the willingness of shareholders to support the contract. Explicit member country guarantees or legally binding authorized payments are considered as contractual support for OMDIs by CCXAP.

In addition to contractual support, the measure of willingness to support also needs to consider whether member countries play a dominant role in the institution, the growth of the institution's total equity over the past decade, political ties and reputational risks, the institution's influence on the member country's economy, and the performance of the institution's responsibilities and other factors. CCXAP also considers whether the ability of member countries to provide support to MDOs may be compromised when systemic risks arise. In addition, when a member country is both a shareholder and a borrower, it is extremely unlikely that the member country will provide support to the MDO. We also selected three adjustment factors to consider the willingness to support: the propensity of support and priority of support, member country association, and asset association between member countries and institutions.

## (2) Ability to Support

The ability of members to extend financial assistance when needed may be critical to an institution's ability to advance its objectives or shore up liquidity. Members with strong credit profiles tend to have more leeway to support an institution. CCXAP takes the proportion of capital contribution subscribed by shareholders as the weight, and measures it through the weighted median rating of shareholders.

## Assumptions and Limitations

The final ratings assigned are based on CCXAP's forward-looking opinions, which we assume that any changes of the macro environment are aligned with our expectations, and do not incorporate with any unanticipated changes, such as outbreak of war and destructive natural disaster. In addition, the rating results do not include consideration of contingencies for MDOs. Also, we assume that the data used in the rating is true, legitimate and does not incorporate misleading statements.

The ratings incorporate our expectations of the rated entity's future performance, which are mainly deduced from the historical information via our forward-looking model. Under some circumstances, the expectations would incorporate confidential information. In addition, our expectations would consider the industrial trend, rival analysis, and other considerations. In any case, predication is subject to substantial uncertainty. Therefore, the mapped ratings may not match our final ratings. The ratings may include some qualitative factors. CCXAP would evaluate these factors in an objective and precise approach, but the assessment may be unavoidably affected by subjective view in some cases. Therefore, the weighting of rating considerations could be varied. Specifically, the variation in weighting would happen if the rated entity were in default or approaching to be in default.

Furthermore, the ratings rely on public information and information provided by the rated entity and underwriters. Despite the fact that CCXAP can ensure the integrity, truthiness, and completeness of the data, due to the delay of information, the ratings may not reflect the rated entity's credit risk in some circumstances.

Apart from that, the ratings are decided by our rating committee and could be influenced by their empirical views which may not be incorporated in the rating methodology. As a result, the final ratings could be varied with the mapped rating from the methodology.

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