INTERGOVERNMENTAL GROUP OF TWENTY FOUR
G-24

# 50th ANNIVERSARY OF THE G77

*Speaking remarks on behalf of Dr. Ashraf El-Araby,*
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*on International Monetary Affairs and Development (G-24)*
*Delivered by Karim Wissa, Alternate Executive Director, The World Bank Group*

## Introduction

Thank you for inviting me to this special event commemorating the 50th anniversary of the G77. It is a pleasure for me to speak on behalf of the G-24, of which Egypt is the current Chair.

The G-24 was established in 1971 as a broad-based grouping of developing countries, with the aim of increasing the representation and participation of these countries in the decision-making organs of the international community, particularly the Bretton Woods institutions. The Group's membership extends across three regions – Africa, Latin America and the Caribbean and Asia – and has essentially remained unchanged, with the exception of the replacement of Yugoslavia by South Africa in 1990, and the Special Observer status of China since 1981.

The Group has seen significant evolution since its formation four decades ago. When the G-24 was first established, the focus was primarily on international monetary affairs, given the breakup of the Bretton Woods system. Since then, the mandate has broadened significantly to encapsulate the broader global economic and financial agenda as well as development.

What is also striking is the significant change that has taken place in the weight and role of developing countries in the global economy. When the G-24 was founded, developing

countries constituted one-fifth of the global economy. Today, developing countries account for more than 55% of global GDP on PPP terms and for 70% of global growth.

With these changes, the agenda of the G-24 has broadened and become more complex. There are four key areas of work that are of particular relevance and priority at this time: the global economy, the international financial architecture, financing for development, and reform of the Bretton Woods institutions.

**Global Economy**

Despite recent improvements, the global economy is not yet firmly on a path of strong, sustainable growth. There has been strengthened activity and reduction of downside risks in advanced economies, but this has not yet translated into a greater contribution to global demand and significant fragilities persist. For emerging markets and developing countries, there has been a slowdown in growth, which is not unexpected given their exceptional performance in the years leading up to the crisis and their crucial stimulus role in its aftermath. At the same time, this slowdown is also a reflection of the adverse impact of cumulative uncertainties in the external environment and protracted demand contraction in advanced countries, together with the recent turbulence in financial markets. There has been a lot of focus on fundamentals in developing countries, but we stress that these are generally strong, and developing countries continue to drive the bulk of global growth.

Going forward, our immediate concerns revolve around the potential for disruptive capital flow and exchange rate volatility arising from the normalization of monetary policy in major advanced economies. If these adjustments are too rapid or insufficiently communicated, the impact on developing countries will be highly detrimental. For this reason, we call on advanced economies to be mindful of the possibility of spillovers and spillbacks, and take steps to more clearly communicate and coordinate their policies. The

IFIs also have a crucial role to play in facilitating multilateral dialogue and policy coherence.

Although global growth has improved, the environment ahead poses a number of challenges for developing countries, with tighter financing conditions, growth in advanced economies and some EMEs remaining below pre-crisis levels, more tepid trade and less buoyant commodity prices. We also remain concerned about the unique challenges facing Arab countries in transition.

Against this backdrop, it will be crucial for us, as developing countries, to rely more on ourselves and each other as sources of sustained growth. Achieving growth-maximization objectives will require prioritizing productivity growth and structural transformation, while also addressing the pervasive challenges of poverty, unemployment and inequality. To this end, my own country of Egypt has been pursuing a path of long-term structural, economic and social, policies and programs in order to create a more balanced, reformed and restructured economy while preserving social justice.

**International Financial Architecture**

With regards to the international financial architecture, major weaknesses were exposed during the financial crisis, and its ability to withstand future crises has been greatly undermined. Strengthening this architecture must therefore be of the utmost priority. One of the crucial areas on which global efforts must focus is financial regulation. While the work of the G-20 and the FSB, in collaboration with the IFIs and standard setting bodies, has resulted in significant progress on the design and implementation of regulatory reforms, the implementation and unintended consequences of these reforms can pose particular challenges for developing countries because of the nature of their financial structures and institutional constraints. Moreover, non-G-20 DCs have been at the periphery of important international discussions. Against this backdrop, the G-24 has been

actively engaged on this agenda, aiming to ensure that the broader perspective of developing countries is taken into account.

Another area of more immediate concern is capital flow volatility and the implications of global policy responses. Despite steps taken in the crisis aftermath, the overall international financial architecture continues to leave developing countries too susceptible to the vagaries of private capital flows on the upside and on the exit. Too often, these countries have had to respond to exuberant flows through fiscal and macroprudential measures far beyond those deployed by advanced economies. The lack of access to deep liquidity, however, leaves them in an exceptionally difficult position, unable to counteract a spiral of rising risk premia and contraction that can result in adverse debt dynamics. For this reason, we believe it will be vital to ensure that adequate financial safety nets are available for developing countries, particularly through enhanced and more flexible support from the IFIs.

The pursuit of debt sustainability is also an issue that must remain at the forefront of efforts to reform the financial architecture. In light of the less favorable global economic environment and higher borrowing costs, many countries, including low-income and Caribbean states, face profound debt challenges. There is a crucial need for a sovereign debt workout mechanism, but limited progress has been achieved at the international level. It may therefore be necessary for developing countries to take leadership in facilitating dialogue towards this end.

**Financing for Development**

The third issue I will discuss, financing for development, represents one of the central pillars of the G-24's work program, and is a priority of Egypt during its chairmanship period. In this context, Egypt will be hosting in Alexandria a G24 meeting on 4 and 5 September 2014 to discuss Financing for Development in our three regions. It is clear that

the financing environment of today is very different from that of a decade ago at Monterrey. Substantial progress has been made on domestic resource mobilization and external debt reduction. However, at the same time, private international financing has been volatile. Developing countries have been at the forefront of a steady growth in international trade, but the international community has failed to deliver on the Doha development round. ODA has stagnated following steady increases in the previous decade and has fallen far short of the commitments made. There has been some progress on reform of the Bretton Woods Institution, but much more remains to be done, and results have been mixed on other elements of the systemic agenda, including on the reform of the international financial architecture.

The post-Monterrey global landscape has strategic implications for the development financing agenda. For developing countries, the G-24 has emphasized three key areas in which action is required in order to ensure sufficient financing can be mobilized to meet development goals: public domestic finance, private finance and infrastructure. First, it will be crucial for all developing countries to create a sustainable public resource envelope through domestic resource mobilization and debt sustainability, address revenue challenges and incentives, and improve governance, institutions and accountability. Second, private finance has played a relatively modest role in long-term investment, with many sources having ebbed in the aftermath of the crisis. Increasing the impact and use of private finance will require careful evaluation the prospects and challenges associated with its mobilization, especially in infrastructure and decarbonization, agriculture, extractive industries, social sectors, and services. There is also a need for instruments and approaches to improve intermediation of risks and utilize a wider pool of resources.

Third, it will be necessary to recognize the importance of infrastructure, where the financing needs are perhaps the most enormous, and where the challenges of public and private financing intersect. Addressing the large and growing financing deficits will be

crucial for growth and development, inclusion, urbanization and climate resilience. Yet, the existing financing architecture is not sufficiently capable of meeting this challenge. Given the essential role of development banks at the international, regional and national levels in fulfilling investment needs, public non-concessional finance will need to be reinvigorated, including through new financing mechanisms. At the same time, ODA will remain crucial to a subset of countries, particularly fragile and low-income states.

**Reform of the Bretton Woods Institutions**

Lastly, on the Bretton Woods Institutions, the G-24 has been at the forefront of the push for governance reform over the last decade. We are deeply disappointed that the IMF quota and governance reforms agreed to in 2010 have not yet come into effect due to non-ratification by its major shareholder. This represents a significant impediment to the credibility, legitimacy and effectiveness of the Fund and inhibits the ability to undertake further, necessary reforms and meet forward-looking commitments. For this reason, we feel that all options to sustain voice and governance reforms need to be considered.

We believe that the World Bank has a critical role to play in meeting these longer-term growth and development aspirations of EMDCs. We therefore have great interest in the change initiatives and structural reforms underway in the Bank. It is imperative that these reforms are anchored in the ultimate objective of client ownership, and ensure that the Bank is equipped to meet the financing, technical and advisory needs of clients in a more cost-effective, timely and less bureaucratic manner. We also underscore the need to remain committed to the implementation of the 2010 World Bank Group shareholding reform as well as to the conclusion of the next shareholding review by no later than October 2015, as previously agreed.

**Conclusion**

In conclusion, the G-24, through its work and comparative advantage on these issues, is well-positioned to provide input and support to the work and deliberations of the G-77. There has been a longstanding history of collaboration between the G-24 and G-77, and we continue to welcome participation of all G-77 members in our activities and discussions. We look forward to continued engagement and coordination as we work towards achieving progress on our shared goals, especially as we enter this very important phase of deliberations on the post-2015 development agenda.

Thank you.