**Statement by UNCTAD to the 102nd Meeting of G24 Ministers and Governors**

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Credit fosters economic development when it finances investment supported by present and future income flows, rather than pre-existing saving, that leads to higher productivity and, in turn, increases revenues from which the debt could be repaid. But there is a more cautionary side to debt that poses a persistent challenge to policymakers, particularly in developing countries.

Using deposits (and other short-term loans) to create longer-term loans has been a standard practice of banks for centuries. But even when existing assets, such as land or houses, can be mobilized as collateral to back borrowing to finance investment, maturity transformation is inherently risky.

The entire system is founded on trust: that borrowers will honour their commitment to make good on future payments; that banks will honour their liabilities; and that the state will provide secure assets for banks to hold, monitor bank behaviour and discipline them if there is a breach of trust, providing liquidity through the lender-of-last-resort facility in the event of unforeseen difficulties.

Managing debt thus involves a focus on banks as creators of credit, but also on a set of robust institutional practices that can help build trust between lenders and borrowers and can employ regulatory firewalls and disciplines that keep the system in check. In their absence, credit creation can drag the economy through damaging episodes of boom and bust and can embolden irresponsible or predatory behaviour of one kind or another.

Critically, policies to generate sustainable and equitable growth by managing debt require a state with the fiscal capacity to issue and service its own debt, which can borrow directly from the central banks at varying maturities and can manage, to some degree, the inflow and outflow of capital. This further requires that the state’s tax base expands with the productive opportunities being financed by credit and direct government expenditure. But the more open the economy and the more limited the domestic wealth base, the greater the constraint on government finances.

Financial deregulation has undermined the trust on which a healthy system of credit depends and it has done so by allowing an unchecked process of private credit creation. Since the 1980s, global debt has risen more than 13-fold from $16 trillion in 1980 to a staggering $213 trillion in 2017, dominated by private debt, which rose from $12 trillion to $145 trillion.

Rather than promoting productive and inclusive growth, private credit creation has been heavily concentrated in speculative activities, channelled through “shadow banking” practices and leading to deeper income inequalities. While this rise of "shadow banking" is sometimes lionized as an indication of the value of financial innovation, in practice these products have proved to be a source of heightened instability. In particular, when the purpose of credit is to purchase financial assets that in turn are used as collateral for further borrowing to purchase more financial assets, the greater concern is about financial instability, fuelled by speculative excess and the pursuit of assets of diminishing quality, followed by the inevitable defaults by borrowers and falling asset prices.

While these trends have raised alarm bells across international organizations, including UNCTAD, many proponents of the 2030 Agenda have nevertheless turned to private finance to fund the public goods and investment needed to deliver the SDGs. Simply put, without deep-seated reforms to the financial system, this will not do the job; the real question is how better to make debt work for development and its possible role in a Global Green New Deal.

Credit creation works when it is accompanied by long-run relationships between the lender and the borrower, giving the former inside knowledge of what the latter is doing with the money and encouraging a degree of patience with the management of their debts but also allowing them to exert strategic pressure through their repayment. This is particularly the case when credit creation is used to support the kind of robust domestic profit–investment nexus that has been part of a successful structural transformation over time. By providing advance means of payment, thus purchasing power, the provision of credit backed by claims on future incomes frees current capital accumulation from the shackles of past saving and becomes a central vehicle to unlock future growth potential.

For credit to play this developmental role requires governance and regulatory structures of domestic and international credit creation that put the long-term requirements of structural transformation at the centre of their operations. This, in turn, necessitates that policymakers have the space to build appropriate public institutions to guide domestic credit creation towards productive investment, as well as sustained efforts by the international community to recover public control of the management of international credit and to redirect public finance towards development-friendly goals.

The current international agenda for the financing of development, instead, subordinates developmental policy to timely debt servicing and the minimization of future repayment risk. This agenda seeks to enhance the ability of developing countries to attract private wealth through "financial innovation" that safeguards investor (and creditor) risk by diversifying and insuring such risk. While measures to improve the quality of developing country debt data and debt transparency are generally welcome and long overdue, the focus of the development finance agenda on complex – and mostly non-transparent – new financial instruments and on securitized finance, does not bode well for its ability to deliver reliable financing at the required scale to where it is most needed.

This is a greater concern as the 2030 Agenda entails unprecedented investment requirements, particularly in developing countries. UNCTAD estimates, for a sample of 31 developing countries, that meeting the basic SDG-related investment requirements to address poverty, nutrition, health and education goals, would result in an increase of public debt-to-GDP ratios from around 47 per cent at present to no less than 185 per cent, on average, if current expenditure and financing patterns prevail. Alternatively, to achieve these SDGs without an increase in existing debt-to-GDP ratios by 2030, developing countries would have to grow at an average annual rate of 11.9 per cent per year. Clearly, neither scenario is remotely realistic.

UNCTAD estimates that improved domestic resource mobilization could raise between one fifth and one half of this SDG financing gap while stabilizing debt-to-GDP ratios at current levels (depending on country-specific circumstances). “Leveraged” international private finance is not anywhere near on track to provide the trillions needed to close the remaining gap. Substantially scaling up public international development finance, including through development assistance and debt relief, should therefore be an urgent priority, if a massive new developing country debt crisis is to be avoided and the 2030 Agenda achieved on time.

Such steep demands on the mobilization of international public finance will require the international monetary and financial system to open up more policy space for developing countries to develop and manage their own banking and financial sectors in the interest of structural transformation. At the international level, progress can be made by leveraging old instruments to facilitate increased liquidity provision and international funding for climate change mitigation and combating the wider environmental crisis, in developing countries. Region-specific “debt-for-nature” swaps are already gaining traction, and a step further could be to extend these regional initiatives to the creation of Special Environmental Drawing Rights at the international level. While there seems little political appetite at present to use or expand these facilities for short-term crisis management, there is a growing consensus on the need to manage international credit creation in the interest of combating an unfolding environmental crisis that affects us all.

Furthermore, and in the absence of a political consensus to rein in global financial rentierism in the interest of development, developing countries can and should leverage the power of credit creation (and debt financing) at the regional (including South–South) levels. This, too, is not a new proposal, as Southern regional payment systems and clearing unions have a fairly long history of facilitating public credit creation and liquidity provision for late development.

Regional payment systems that use some form of internal clearing mechanism can make a difference in a number of ways: they can simply lower the costs of intraregional trade by allowing for settlement of corresponding financial transactions in domestic currency. More ambitiously, such arrangements can prop up national self-insurance against exogenous financial shocks through pooled reserve-swaps and by providing temporary liquidity relief within clearance periods and extending credit lines beyond these, for final settlement in domestic currency rather than the United States dollar. Finally, full-blown regional clearing unions can leverage the power of home-grown credit creation to systematically coordinate regional adjustment between deficit and surplus regional economies, thereby shielding entire developing regions from volatile short-term international capital flows. How and when regional credit creation can provide an effective buffer for developing countries against their exposure to private credit creation in speculative international financial markets largely depends on current regional trading patterns and the political will to shape these in future.

Last, though not least, debt restructuring and relief need a revived hearing in light of the demands of the 2030 Agenda. Remarkably, given that the current state of highly complex and fragmented debtor–creditor relations has already generated rising debt and financial distress across developing countries, discussions of their management have been confined to debt reprofiling and renegotiation. Practicable ways forward are now needed to facilitate equitable and efficient sovereign debt restructurings that could, in future, also pave the way to an international regulatory framework to govern sovereign debt restructurings.