UNITED NATIONS NATIONS UNIES

Statement by
MR. LI JUNHUA
UNDER-SECRETARY-GENERAL FOR ECONOMIC AND SOCIAL AFFAIRS
TO THE MINISTERIAL MEETING OF THE GROUP OF 24
Washington DC, 11 October 2022

Our world is in peril, with geopolitical divides, weakening trust in institutions, and the growing threat of widespread debt and possible financial crises. The devastating effects of the COVID-19 pandemic have been exacerbated by the impact of the conflict in Ukraine, including on food and energy prices.

The world economy is on a slippery slope, amid deteriorating growth prospects, persistent inflation, diminishing monetary policy support, and elevated financial and geopolitical uncertainties. The global economy is projected to grow between 2.5 and 2.8 per cent in 2022, with most forward-looking indicators suggesting a further slowdown in 2023. At almost the half-way point for implementation of the 2030 Agenda, we are faced by the need to urgently rescue the Sustainable Development Goals (SDGs).

The divergences in the prospects of people have become even more acute. One in five countries is experiencing fiscal and financial stress. The 2022 *Financing for Sustainable Development Report* emphasized that a 'great finance divide' sharply curtails the ability of developing countries to affordably raise sufficient resources for crisis response and long-term investment. Sovereign debt has been building up over the last decade, but the abrupt changes in global economic conditions have markedly increased the risk of debt crises in developing countries. Unaddressed, there will be deepening hardship, widening inequality, possible political upheaval, and a delayed shift to a low-carbon world.

In this highly challenging environment, collective action by the international community is needed to ensure that adequate, low-cost financing reaches the most vulnerable countries. The United Nations Secretary-General has called for an SDG Stimulus Plan to massively boost investment in sustainable development for developing countries. The plan includes 4 elements: increased lending by development banks, debt relief, an expansion of liquidity, and strengthening of specialized funds. Implementation of this plan, which should be led by the G-20 countries, will involve the entire international community. The G-24 has a strong role to play, by working with partners to deliver on the ideas in this plan at the Washington-based institutions and beyond.

Strengthening public development banks to deliver more resources

The international community must better leverage the system of multilateral development banks (MDBs) and other public development banks to significantly expand new lending for investment in sustainable development. The annual *Financing for Sustainable Development Report* has repeatedly called for an increase in long-term lending from development banks. It also emphasizes the potential gains from the MDBs, with their larger resources, partnering with national development banks, with their nuanced knowledge of conditions in their countries.

The SDG Stimulus Plan includes a proposal that MDBs receive additional paid-in capital annually to leverage much greater volumes of resources for on-lending to developing countries. Also needed will be more aggressive financial stances from the MDBs to allow them to do more with a given quantity of paid-in capital. The resources provided to developing countries must be invested well, with strong alignment of public lending with national sustainable development priorities and country-led integrated national financing frameworks (INFFs). This lending should be accompanied by an improved understanding of long-term debt sustainability. MDBs should not exacerbate debt crisis and increased lending should not substitute for the increased provision of grants for purposes where these are more suitable.

Addressing the risk of widespread debt crisis

There is an urgent need to address growing debt risks and vulnerabilities. Public debt has reached critical levels in many developing countries. As of August 2022, more than half of the world's poorest countries were either at high risk or already in debt distress, and one in four middle-income countries at high risk of fiscal crisis. Given the increase in interest rates, without additional action, protracted debt crises in a wide swathe of developing countries could put achievement of the SDGs out of reach.

The current international architecture is not well set up to resolve such crises fairly, effectively and in a timely fashion. The Common Framework for Debt Treatment, while a laudable step forward, has not delivered for those countries that have requested relief. It also excludes many vulnerable and highly indebted middle-income countries. And it does not have a viable mechanism to bring in commercial creditors, with private creditors currently incentivized to holdout against a restructuring. Some countries may benefit from working with their official creditors on debt for investment swaps or other innovative mechanism. Other countries with unsustainable debt will need restructurings and debt write-offs to enable a fresh start. The international community should explore mechanisms for incentivising private creditors to participate in debt restructurings.

The United Nations has started a series of round table discussions to consider such reforms. These discussions will address ways to more quickly and efficiently implement debt for investment swaps for countries that need additional fiscal space for investment. They will also explore ideas for mechanisms that can be quickly implemented in times of crises, including incentives for private participation in debt re-negotiations as well as increased penalties, such as legislative instruments in key jurisdictions or at the international level.

Enhancing liquidity in times of crisis

The global financial safety net remains patchy in coverage with insufficient depth for many developing countries. The lack of access to the safety net for many countries implies a higher probability that a liquidity crisis turns into a solvency crisis.

The unprecedented issuance of special drawing rights (SDRs) in 2021 played an important role in enabling developing countries to avoid crisis and invest in pandemic recovery. However, because

SDRs are allocated based on IMF quota, 45 least developed countries (LDCs) and low-income countries collectively received only 2.4% of the allocations. The G20's October 2021 agreement for a global ambition of rechannelling $100 billion of SDRs to countries in need, including through a new IMF Resilience and Sustainability Trust (RST), has been slow. Despite $73 billion in rechannelling pledges, almost no new resources have actually reached developing countries more than one year later. Countries need to follow-through on their pledges and should consider channelling as much as possible to rapid disbursing instruments with concessional terms and minimal conditionalities, and should consider channelling them to MDBs.

In the medium-term, crisis prevention is a critical investment. Policymakers should have the full policy toolkit – including monetary, exchange rate, macroprudential, capital flow management, and other policies – at their disposal to address capital flow volatility. In addition, a larger total resource envelope can help dampen speculation. The ongoing sixteenth general review of IMF quotas offers an opportunity to recapitalize the IMF and expand its lending capacity to prepare for future challenges, while strengthening the voice and representation of developing countries. SDRs could better help address systemic risks if new issuance by the IMF were made automatic in times of crises. This would avoid protracted political negotiations during crises, but would require a retooling of the underlying agreements for the creation of SDRs.

Conclusion

This is my first opportunity to address the G24 finance ministers as the United Nations Under-Secretary-General for Economic and Social Affairs. I want to assure you of my commitment to your group and urge you to make use of the United Nations; it is your institution. Its inclusive design and the equality of all Member States makes it an ideal venue to develop and strengthen inclusive and networked multilateralism that is the only hope for rescuing the SDGs.

I hope to see you at the United Nations Headquarters for events such as the ECOSOC Financing for Development Forum in April 2023. I look forward to continuing the close working relationship between the United Nations and your countries as we forge the path to a better future.