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Statement by
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The world is at a critical moment in its pursuit of the Sustainable Development Goals (SDGs). Over the last year and-a-half, already slow progress towards many SDGs has been set back even further, due to the devastating impact of the COVID-19 pandemic. Over the last year an additional 120 million were pushed into extreme poverty; 100 million children fell below minimum reading proficiency levels; and inequalities worsened in and between many countries.

We are witnessing a sharply diverging world, with some countries recovering, spurred by broad vaccine rollouts, strong stimulus measures and digital acceleration; and others sinking deeper into a cycle of uncertainty, poverty, and hunger, at risk of experiencing a lost decade for sustainable development. With just nine years left to 2030, we must act now as a global community to bridge the divides, unite the world, and accelerate needed transformations.

The immediate focus must remain on the ongoing pandemic, which continues to have both health and economic impacts across the world. Following a sharp contraction of 3.6 per cent in 2020, the United Nations projects the global economy to expand by 5.4 per cent in 2021. While the world economy overall is treading towards a recovery, a vast majority of developing countries will experience economic output below 2019 levels for most of 2021. Equitable access to vaccines is essential to addressing the health and economic impacts of COVID-19. Yet many countries lack the resources to address the immediate crisis and invest in recovery.

Much of the developing world is facing three major fiscal challenges, which were exacerbated by the pandemic, as highlighted by the Secretary-General of the United Nations in his March 2021 Policy Brief on *Liquidity and Debt Solutions to Invest in the SDGs*. First, amid heightened uncertainty and a sharp rise in financing needs, some countries have faced a shortage of short-term liquidity. Second, the pandemic triggered a sharp increase in sovereign debt risks, particularly in the world's most vulnerable countries. Third, many countries not facing debt distress do not have the resources to effectively respond to the crisis and invest in building forward better. As central banks in systemically important economies start to signal future tightening of monetary policies, there could be further risks of short-term capital outflows from developing countries, worsening already mounting debt sustainability and liquidity concerns.

Increasing the developmental impact of SDRs

Since the onset of the pandemic, the international community has taken measures to address its devastating social and economic impact, including the ground-breaking allocation of special drawing rights (SDRs), equivalent to $650 billion. While important, this allocation is unlikely on its own to be sufficient to address developing countries' urgent financing needs.

The international community is considering three types of mechanisms to channel unused SDRs from countries with excess liquidity to countries in need, including middle-income countries, on a voluntary basis. This is a welcome development, and in line with recommendations made by the Secretary-General in March 2021, and should be pursued with urgency. Poor and vulnerable people in developing countries should not be waiting years for the financing to make its way into vaccine purchases or other sustainable development investments.

First, countries in a position to do so should channel some of their unused SDRs through the IMF's Poverty Reduction and Growth Trust expeditiously to provide least developed (LDCs) and other vulnerable countries timely access to additional resources through IMF programmes. Low-income and vulnerable middle-income countries could benefit from the proposed establishment of a new Resilience and Sustainability Trust at the IMF. The initial IMF proposals for this facility suggest the institution would issue long-term loans with a focus on addressing the climate crisis, which is also in line with the Secretary General's recommendations. The facility design should be finalised urgently, given the ongoing crisis, and should ensure broad accessibility to the funds to low- and middle-income countries.

Finally, there are already many prescribed holders of SDRs with development mandates that can be used to channel SDRs. Many of these are development banks which have (or can develop) financial mechanisms that would allow the SDRs to retain their reserve asset characteristics while leveraging new resources. Part of the SDR allocations can also be allocated to a facility to finance vaccines. The international community should move quickly to develop the details of appropriate facilities for SDRs to be channelled to national and regional development banks for a range of crisis response and sustainable development investments. And countries with unused SDRs should re-allocate resources to these new facilities.

While countries in a position to do so should move with speed to channel their excess SDRs, it is important that this tool not crowd out existing resources for development cooperation. ODA providers should scale up and meet their commitments of 0.7 per cent of ODA per gross national income (GNI), and grant finance rather than loans should be prioritized for vulnerable countries.

Preventing debt overhangs from undermining sustainable development

Rising debt levels continue to cause heightened risks and constrain SDG investments in many countries. If left unresolved, these challenges will reduce productive and sustainable investment, negatively impacting employment, livelihoods, and action on climate and other environmental risks. The SDR allocation together with the Debt Service Suspension Initiative (DSSI) and the Common Framework on Debt Treatments Beyond the DSSI (Common Framework) are steps towards addressing liquidity and debt challenges.

However, while some countries can use SDRs to refinance expensive debt, SDRs are themselves a liability – albeit with no maturity date and low interest rates. For countries facing default, SDRs will not replace the need for a debt restructuring.

The DSSI and the Common Framework, while important steps, are not open to all countries that need debt payments suspension and debt relief, including middle-income countries that face acute financing needs. Creditor coordination in the Common Framework has also proven time

consuming, and eligible countries have been reluctant to access the Common Framework for fears of lost market access or ratings downgrades. And while the Common Framework aims to include private creditors on comparable terms, the mechanism to do so is unclear. Indeed, an official restructuring would free up resources to repay hold-out creditors, giving an incentive for private creditors to *avoid* participation.

More actions are needed to manage debt burdens to address urgent fiscal constraints, debt refinancing risks, and a lack of resources for productive and sustainable investment. This includes measures that can be implemented in the near term, including through regional initiatives, as well as longer-term institutional changes.

In the near term, first, Member States can agree on a mechanism for standstills on debt repayments for eligible countries applying to the Common Framework – as countries that currently approach the framework will be obligated to make payments to creditors from the end of the year when the DSSI is wound down, even as negotiations are ongoing. The international community should further explore the use of debt swaps, buybacks, and other instruments to deliver debt relief. Regional initiatives can help in this by standardizing instruments and serving as platforms for informal conversations with and between creditors. They can also be a platform to scale up and further develop state-contingent debt instruments, which build debt moratoria into debt contracts so that programmes like DSSI do not need to be negotiated when crises hit. The public sector (bilateral lenders, and regional and multilateral development banks) should lead the way by designing and facilitating the implementation of state-contingent debt instruments in official debt.

While near-term measures are not a panacea, they can be implemented quickly with the voluntary participation of debtors and creditors. Ultimately bigger structural changes are needed, as called for in the March policy brief of the Secretary-General. In the *2022 Financing for Sustainable Development Report* (FSDR), the Inter-agency Task Force on Financing for Development will explore areas of reform, including to: the sovereign credit ratings architecture so that ratings contribute better to the stability of the international financial system; long-term debt sustainability analyses to systematically incorporate medium- and long-term risks related to the SDGs, including multidimensional vulnerabilities, as well as benefits of SDG-related investment; and examining the remaining institutional gaps that pose challenges to restructurings, including the possibility of a legal mechanism for addressing situations of unsustainable sovereign debt.

Conclusion

I encourage the G24 finance ministers to make use of the United Nations; it is your institution. The United Nations Secretary-General has put forward proposals to strengthen and accelerate multilateral cooperation – particularly around the 2030 Agenda – and make a tangible difference to people's lives. The report on Our Common Agenda sets out how the international community can deliver more, and better, multilateralism to deal with the crises and reverse today's dangerous trends. There is global recognition that we are at a pivotal moment in history. We must decide to change course, heralding a breakthrough to a greener, better, safer, more prosperous future for all.

I hope to see you at the United Nations Headquarters for events such as the ECOSOC Financing for Development Forum in April 2022. 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.