Statement by UNCTAD to the G24 Ministers and Governors Meeting at the IMF-WB Annual Meetings 2024

Esteemed Ministers, Governors, and distinguished delegates,

When UN Trade and Development addressed you a year ago, we spoke of a growing consensus of the need to reform the global financial architecture and of the imperative to turn this nascent agreement into actionable measures. This consensus is most recently reflected in The Pact for the Future, which recognizes that the multilateral system and its institutions must be "effective and capable, prepared for the future, just, democratic, equitable and representative of today's world, inclusive, interconnected, and financially stable". Signatories to The Pact also reaffirmed their commitment to the full implementation of the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the Paris Agreement and in Action 4, commit to closing the annual financing gap – currently estimated at US$4 trillion – by providing and mobilizing sustainable, affordable, accessible, transparent and predictable finance from all sources to developing countries for this purpose.

By the end of 2023, developing countries had accumulated long-term external debts of around US$8 trillion, which were split almost equally between public and publicly-guaranteed (or PPG) debt and private non-guaranteed (or PNG) debt. Since governments bear ultimate responsibility for the investments required to achieve the SDGs and meet climate commitments, closing the financing gap implies a near doubling of developing countries' external PPG debt going forward. To date, multilateral lenders had provided US$1.3 trillion of this debt, bilateral lenders around US$500 billion and private lenders the remaining US$2.2 trillion, so a proportionate scaling up would imply that each of these would need to double.

However, it is not enough to simply scale up the quantum of development finance available. It also needs to be affordable and accessible. Currently, for most developing countries it is neither. In 2023, over 90 per cent of these countries were paying more than the 5 per cent of export earnings limit contained in the 1953 London Agreement – which aimed to ensure Germany's post WW2 recovery. The median rate paid by developing countries was 16 per cent – more than 3 times the London Agreement limit – and 40 countries were paying away more than 20 per cent of their export earnings to service their external debts.

Between 2017 and 2023, the average cost of servicing the external debts of developing countries increased by almost 12 per cent a year, more than double the rate of increase in their export and remittance earnings. As a result, two thirds of developing countries experienced a deterioration in their external debt sustainability over this period. In Sub-Saharan Africa, 38 of 44 countries experienced worsening external debt sustainability. While this does not mean that all these countries are in imminent danger of defaulting on their external debt, the number of countries at risk of doing so would increase significantly if current trends persist. However, despite these growing debt pressures, most highly indebted countries are reluctant to default because the available debt work out mechanisms are inefficient and their associated costs are simply too high.

As a result, they do not default on their debt – but they default on their development. 3.3 billion people live in countries that spend more on debt servicing than on either health or education. Of these, over 3 billion live in Middle Income Countries.

Under these circumstances, the only way that developing countries could sustainably double their PPG debt would be if a significantly larger proportion of it was highly concessional. Multilateral and bilateral lending will not only need to increase at a much faster rate than private lending, but it will also need to be provided at a significantly lower average cost than is currently the case. The global trade order will also need to be more conducive to inclusive and sustainable export growth if debt sustainability is to be assured.

So, faced with these objectives and obstacles, what actionable, pragmatic and impactful changes does UN Trade and Development propose?

For a start, the boards and leadership of the Bretton Woods and other multilateral institutions - such as the Bank for International Settlements and IOSCO - need to be more inclusive of developing country interests and skills. The leadership of these organisations should be drawn from the best available candidates from all countries as a matter of principle.

Secondly, the IMF, the World Bank and other multilateral development banks must lead the way in closing the financing gap and in rapidly and sustainably expanding concessional lending. This should include a bigger role for regular, development-related disbursements of Special Drawing Rights, which could be channeled to MDBs and used to capitalize expanded IDA lending. MDBs also need to review their lending practices and optimize their balance sheets in line with the G20 Capital Adequacy Framework proposals, to meet the target set by the UN SDG Stimulus package of 500 billion dollars in total MDB annual lending; according to G20 calculations, what is currently on offer as a result of the MDB Evolution Roadmap is less than 40 billion per year, less than 10% of the target. Other practices that serve to unnecessarily raise the cost of finance to developing countries – such as the surcharges levied on the IMF's non-concessional lending facilities under the General Resources Account – also need to be eliminated fully, not just partially.

Thirdly, the IMF needs to lead the way in developing a more effective global financial safety net that can provide quick and automatic access to relatively low-cost liquidity in times of crisis. This would reduce the need for developing countries to maintain unnecessarily high levels of low-yielding reserves, (which account for 80 % of the Global safety Net) and – in the process - help to reduce the scale of net resource transfers from developing countries to developed ones.

Fourthly, while the G20 Common Framework is a welcome initiative and improves upon past mechanisms by involving non-Paris Club G20 members in official bilateral creditors' negotiations, it still has flaws. These include the burden on debtor countries to seek similar debt relief from private creditors to that received from official creditors and focusing on debt relief through extending maturities and reducing interest rates rather than debt cancellation. An enhanced Common Framework should include an automatic debt service standstill during negotiations; extended eligibility to middle-income countries; greater clarity on comparability of treatment; and tools to incentivise or enforce private creditors' participation. It is also necessary to develop a supportive credit rating approach for countries that choose to engage in debt restructuring, so that the "Credit Rating Impasse" does not discourage debt distressed countries from restructuring their debt. At the same time, work towards a stable and permanent institutional framework to deal with sovereign debt is urgently required.

Your excellencies,

This year marks eight decades since the Bretton Woods Agreement, signed in July 1944. Our international financial architecture is unbalanced not because of some evil design.

It is unbalanced because it is unfinished. On debt, on SDR, on development finance – we must finish the job that our predecessors started in Bretton Woods, and that we are carrying forward today in this G24 meeting. The choice is yours, and the time is now.