Intergovernmental Group of Experts on Financing for Development Fifth Session

Geneva, 21 to 23 March 2022

Speech by Rebeca Grynspan
UNCTAD Secretary General
21 March 2022 at 11 a.m.

H.E. Mr Abdulla Shahid, President of the United Nations General Assembly

H.E. Ambassador Maimuna Kibenga Tarishi, President of the Trade and Development Board of UNCTAD

H.E. Ambassador Ahmed Ihab Abdelahad Gamaleldin, Chair of Intergovernmental Group of Experts on Financing for Development

H.E. Ambassador Michael Gaffey, Vice chair of the IGE

Dear Vera Songwe, Executive Director of UNECA

Distinguished panelists and delegates,

Your excellencies,

Ladies and gentlemen,

Dear friends:

It is my honor to welcome you today. We have before us a critical session of the Intergovernmental Group of Experts.

The world economy Has not been under this amount of stress for a long time. This is the result of the ongoing COVID-19 pandemic, the terrible war in Ukraine and its effect on the 3 Fs: food fuel and finance, as well as the mounting costs of climate change

Developing countries in particular are feeling the brunt of these non-stop, back-to-back crises. Shock after shock, their debt burdens rise, their poor become more numerous, their fiscal space shrinks, and their sustainable development goals fall increasingly out of reach. In the meantime, millions of people suffer, structural fragilities increase, and gaps that were already too wide, get wider.

In the UNCTAD note we have prepared for this meeting, our teams formulated an important calculation of one of these gaps: the financing for development gap of the 2030 agenda, which UNCTAD has been recording since the launch of the SDGs in 2015.

Before the pandemic, this gap was around 2,5 trillion dollars per year. Now we estimate that for the period between 2020 and 2025 this gap is an astonishing 17,9 trillion dollars. On a yearly basis, this means the financing gap is today about 3,6 trillion dollars – over one trillion dollars per year more than before the COVID-19 pandemic.

Worse still, these numbers are most likely an underestimate, given that they were calculated before the start of the current war in Ukraine, which is set to have deep effects on the global economy.

- Some of these include a tightening of global liquidity conditions, and therefore borrowing costs, due to increasing risk perceptions and capital flight;
- adverse macroeconomic developments, such as rising food, fuel, and fertilizer prices, given the oversized weight of both the Russian Federation and Ukraine in these markets;
- costly and disordered trade adjustments due to highly disrupted global supply chains;
- and an acceleration of rising inflation rates, caused by higher trade costs and commodity prices, leading to stronger than expected monetary tightening around the world.

In our TDR update to be released this week, UNCTAD expects global GDP growth to be a full percentage point lower this year as a result of the war, though many important tail risks loom in the horizon.

Indeed, a few troubling scenarios are possible. Given ongoing supply chain disruptions, a potential ‘commodity scramble’, not dissimilar to the global scramble in vaccines we witnessed during the pandemic, is a possibility; in other words, supply of certain key commodities may be limited, delayed, or unreachable, even at very high prices

Also a cascading credit downgrades and debt defaults in developing countries; debt to GDP ratios in developing countries rose went from 57% to 69% in 2020, and credit spreads have already increased since the beginning of the Ukraine conflict, with bond yields rising an average of 36 basis points.

More troubling still is the potential for civil unrest, given the strong correlation between commodity cycles and political turmoil, or at least citizens dissatisfaction and social malaise will spread.

So this 17.9 trillion dollar gap is most likely an underestimate. That should serve as a warning to us all. Crisis after crisis, the bill developing countries need to foot to achieve the 2030 agenda gets bigger. So we risk going from having “a gap” to achieve the SDGs to having an abyss.

Your excellencies, dear friends:

We are here to think together on ways to stop this gap from becoming an abyss. I have hope. So before I finish, I would like to put forward some ideas on possible policy solutions, that will need collective action to face this era-defining problem.

The only way we can close this gap is by working on both ends. Reducing costs on the one side, while promoting sustainable growth on the other.

On the costs side, this implies many things. First, finding structured solutions to developing countries' debt problems.

At present, the servicing of debt obligations absorbs around 16% of developing countries' export earnings, with this figure reaching 34% in Small Island Developing States. In 2020, in 62 developing countries, the share of government expenditure on debt service was higher than that going to health, and in many cases also education.

To appreciate how unsustainable a burden this is, it is good to remember that the Allied Powers, concluding the Agreement on German external debts in London in 1953, felt that the repayment of external debt obligations by the newly founded Federal Republic of Germany should be capped at 5% of its export earnings to avoid undermining its post-war recovery.

As things stand, the sovereign debt architecture is ill-suited to address the challenges faced by developing countries. The G20 Common Framework can be considered a step towards, but not a substitute, for a permanent and comprehensive debt restructuring mechanism. For this, we need a definition of debt sustainability that incorporates the financing requirements for developing countries and which goes beyond narrow income classifications.

We will need the international financing system to implement emergency measures to help developing countries in the present crisis due to the impact of the Ukraine war as they did when the Covid crisis started.

We need to reconvene the Debt Service Suspension Initiative, discontinued since December, which means that the world's poorest countries will face almost 60 billion dollars in debt-service costs this year, more than twice as much as before the pandemic.

But we also need to restart the DSSI in a way that doesn't just keep kicking the can down the road. Increasing debt maturities, as proposed by ECA, is a good idea in this direction.

With regards to ODA, Troublingly, a weak recovery as well as ongoing geopolitical tensions, the refugee crisis and the increase in military spending will place further pressure on aid budgets around the world.

Special Drawing Rights, are a good cause for hope given the recent 650bn dollar emission. The problem with SDRs, (a problem long known by UNCTAD since the 60s) is the fact that they replicate asymmetries The quota distribution system means that most SDRs go to countries that don't need them.

That's why we need substantial improvements in our SDR recycling mechanisms. In the upcoming Spring Meetings, the IMF's new Resilience and Sustainability Trust will be unveiled, and this might be a good first step in this direction. But we need to do more, especially by including multilateral developments banks. We also need to recycle more than the 60 Billion offered for the RST. According to research by ECLAC, only 15% of the existing SDRs have been used, with developed countries using less than 6% of their SDRs (mostly for recycling initiatives), while developing countries are using upwards of 30% of their SDRs.

And lastly on the cost side, we need to build resilience. COVID-19 will end up costing developing countries an astonishing 13 trillion dollars (including forgone income). Climate change, which is not a crisis, but a prolonged and progressive succession of crises, will cost multiples of that. We need to build resilience in our infrastructure, in our safety nets, in our governance systems, in our health and education systems, if we are to find a way to adapt ourselves to what is shaping up to be a very uncertain and volatile 21st century.

On the growth side, we need a sustained and structural push towards building productive capacities in developing countries.

For this, we need more long-term strategic investments, which involve both the private sector and local, regional and multilateral development banks. We urgently need to capitalize our development banks, something that astonishingly didn't happen with the pandemic.

But development banks themselves need to be less super-conservative with their capital ratios; it is hard to explain why commercial banks, that incur much larger risks, also allow themselves much higher leverage.

According to calculations by ECLAC, the multilateral development banks have a capital ratio of between 2 and 6 to every 10 dollars lent, whereas commercial banks have ratios of 1 and half or even 1 to every 10 dollars lent. Development banks are fundamental to leverage resources needed for structural growth, and they cannot be timid about this. Developing countries need urgently financing that is long term, at reasonable interest rates and payment conditions that will allow for the investment push and transformational change that the SDGs require.

Another big issue on the income front is governments capacity to raise resources through taxation. Here, fighting illicit financial flows and establishing an effective mechanism for global tax governance will be fundamental.

UNCTAD has a new mandate on illicit financial flows, stemming from UNCTAD15, so this is an opportunity to advance on this issue collectively.

And finally we need a more stable, transparent and rules based global economy, where trade remains an engine for prosperity for all. High transport costs, opaque global inventories data and growing trade restrictions make crises more difficult to manage and sustainable development more difficult to reach.

Your excellencies, ladies and gentlemen, dear friends:

Much hinges on this Intergovernmental Group of Experts session. I look forward to the panels and keynote presentations we have ahead of us, and have high hopes for this meeting's results.

Let me finish by asking you to feel empowered by the recognition that there is much we can do to help in these testing times.

Let's do it.

Thank you.