



MULTILATERAL CREDIT: FILLING THE FINANCING GAP?

Key messages

The Addis Ababa Action Agenda (AAAA) stresses the vital role of international development cooperation in providing international public finance, which complements developing countries' efforts to mobilise public resources domestically. The primary forms of this cooperation are official development assistance (ODA) and official bilateral and multilateral credit.

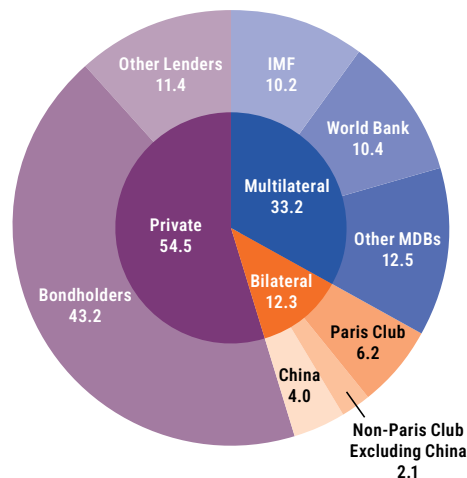
Official multilateral credit remains critical for bridging the development finance gap – now estimated at US\$4 trillion – as, relative to international private finance, it is accessed at lower cost and has longer maturity, and is more stable.

This policy brief addresses the role of official multilateral credit - valued at around US\$800 billion in 2022 - in providing finance for development. In line with calls in the Monterrey Consensus, the Doha Declaration and the AAAA, this brief aims at strengthening the roles of multilateral development banks (MDBs) and the IMF.

Problem statement

In 2022, official multilateral creditors advanced a third of the US\$3.5 trillion in public external debt (Figure 1). Of this, the World Bank and the IMF each accounted for 10 per cent and other MDBs for 13 per cent (33 per cent of the public external debt in aggregate). In 2010, these shares were, respectively, 16 per cent, 7 per cent and 15 per cent (38 per cent of the public external debt). Since MDBs are international financial institutions that finance development-oriented projects with higher risk and lower returns than private lenders would consider, and at more favourable terms, the shrinking of their aggregate share of external public debt of developing countries is of concern.

Figure 1.
Creditor composition of the public external debt of developing countries, 2022 (Per cent of total)



Source: UN Trade and Development elaboration using World Bank International Debt Statistics data.

Note: Public external debt includes long-term public and publicly guaranteed debt and IMF credits.

RELEVANT ACTION AREAS



ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

The full series is available at:
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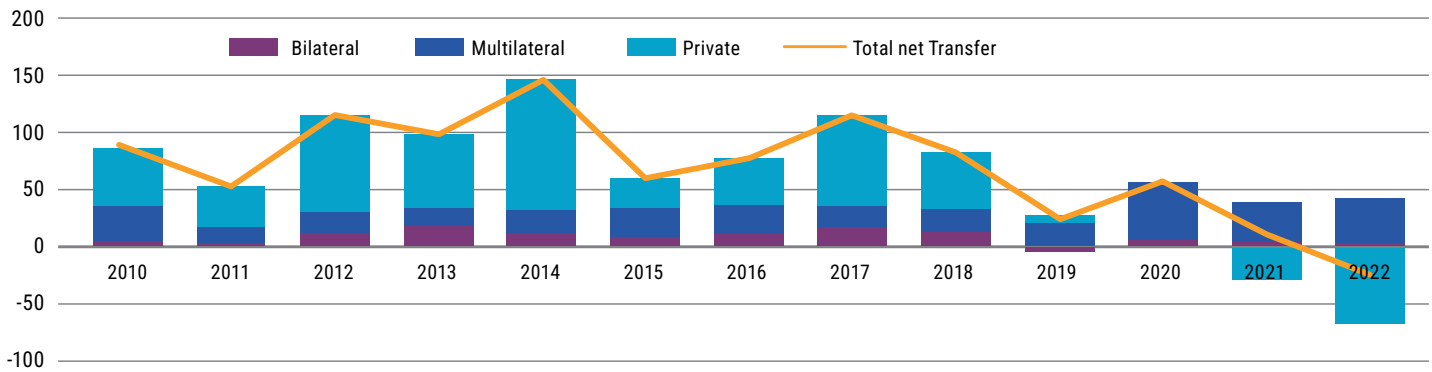
For further information on the topic of this brief, please see:

Chapter IV of UNCTAD Trade and Development Report 2023
https://unctad.org/system/files/official-document/tdr2023ch4_en.pdf

Chapter V of UNCTAD Trade and Development Report 2023
https://unctad.org/system/files/official-document/tdr2023ch5_en.pdf



Figure 2.
Total net transfer on PPG debt by creditor (all developing countries excluding China) (US \$ Billions)

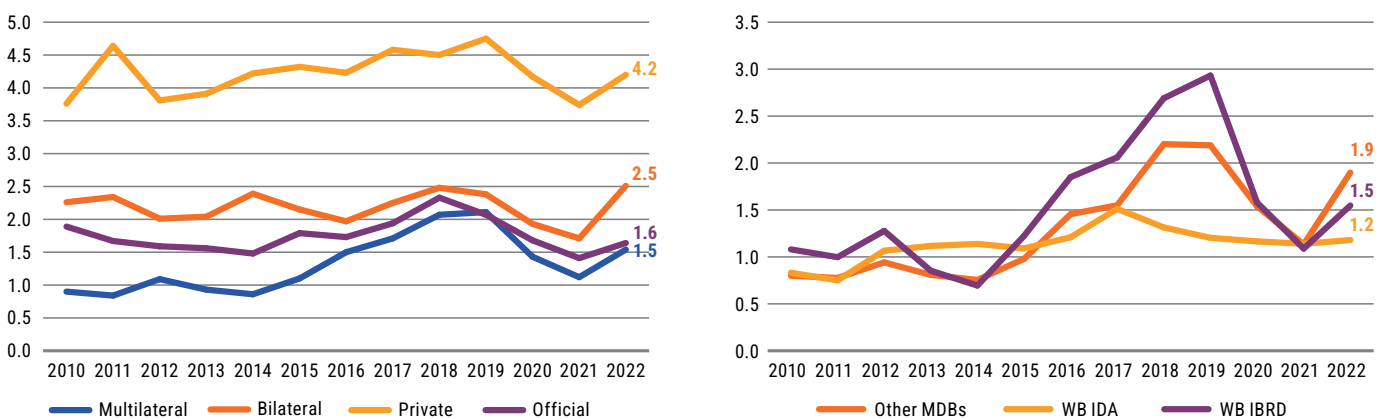


Source: UNCTAD calculations based on World Bank International Debt Statistics (2024)

MDBs play a critical countercyclical role during external shocks. In the COVID-19 crisis, multilateral flows¹ reached US\$51.5 billion, sustaining economic activity in developing countries. However, multilateral non-concessional loans accounted for almost 90 per cent of these flows over 2020-2022 and were insufficient to offset the negative net transfers by private creditors in 2022, leading to a negative net transfer of US\$25 billion (Figure 2).

MDBs average lending rate to developing countries was 1.5 per cent in 2022. While lower than other creditor rates, MDBs' lending rates for non-concessional loans are also aligned with the monetary policy stance in developed countries as they comprise a market-based reference rate. Consequently, they are procyclical and have increased since 2021 when the Fed and other developed country central banks started to raise their policy rates. By contrast, World Bank IDA concessional loans have fixed interest rates (Figure 3).

Figure 3.
Average lending rate on new PPG commitments for developing countries (Per cent per annum)



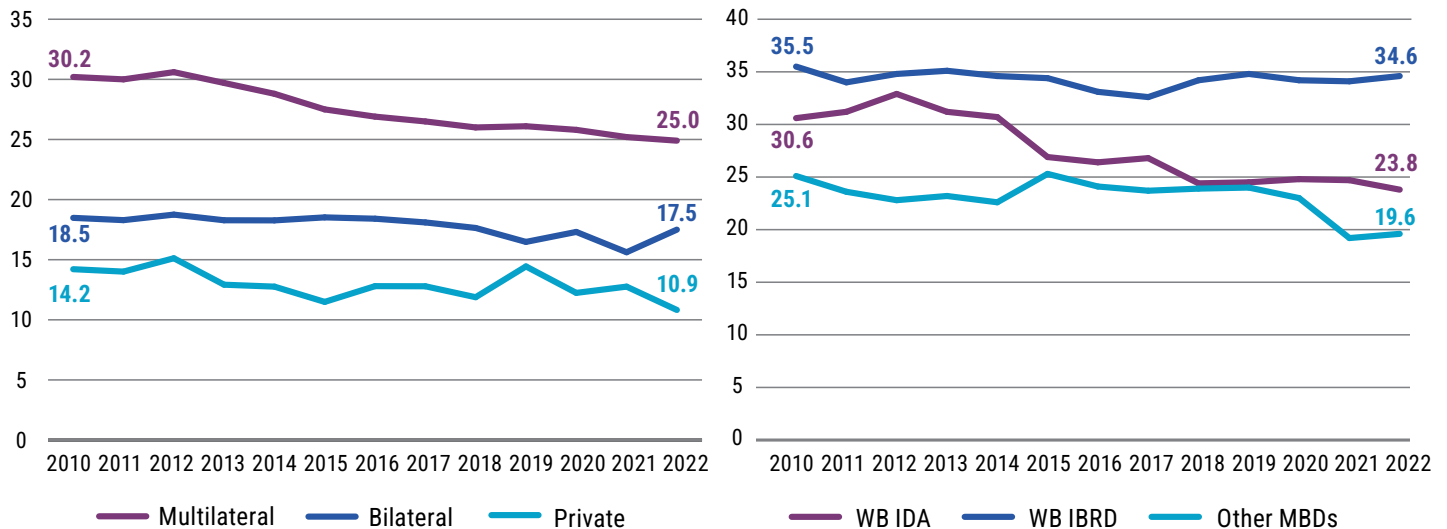
Source: UNCTAD secretariat calculations, based on World Bank International Debt Statistics (2024)

Note: Multilateral interest rate has been calculated as the average of World Bank, ADB, AfDB and IADB. Other MDBs include ADB, AfDB and IADB. For these banks, the breakdown between concessional and non-concessional loans is not available.

1. These flows also included net transfers from regional and sub-regional development banks and the IMF.



Figure 4.
Average maturity on new external debt commitments for developing countries (Years)



Source: UNCTAD secretariat calculations based on World Bank International Debt Statistics (2024).

Note: Average maturity has been calculated as the average of World Bank, ADB, AfDB and IADB. Other MDBs include ADB, AfDB and IADB. For these banks, the breakdown between concessional and non-concessional loans is not available.

MDBs' critical role in filling the climate and development finance gap is also harmed by the application of country income thresholds for concessional loans and grants. Thresholds mask different development realities and vulnerabilities across countries. Consequently, many Small Island Developing States (SIDS) and other climate-vulnerable countries with high or upper-middle-income status are ineligible for concessional finance and grants.

The International Monetary Fund (IMF) is also an important multilateral creditor. Its primary function is to provide external liquidity to countries facing exogenous shocks, assisting them in restoring economic stability and growth. This is critical for sustainable development.

In this countercyclical role, IMF financial support is complementary to development finance, particularly in two cases:

i) Concessional facilities under the Poverty Reduction

and Growth Trust (PRGT) that currently offer interest-free loans and were responsible for 8 per cent of total IMF commitments as of July 2024²;

ii) The Resilience and Stability Trust (RST) that provides affordable and longer-term financing to low-income and vulnerable middle-income countries facing longer-term challenges, funded through rechanneled unused Special Drawing Rights (SDRs). The amounts received by developing countries through the RST by July 2024 was US\$2.8 billion, less than 3 per cent of the total commitments of US\$108.7 billion³. Moreover, RST financing is offered at the SDR interest rate, which is aligned to the monetary policy stance in developed countries.

IMF non-concessional lending facilities under the General Resources Account (GRA) represented 92 per cent of total IMF commitments in July 2024. Countries using this facility pay additional charges and, in some cases, surcharges, in addition to the SDR interest rate.

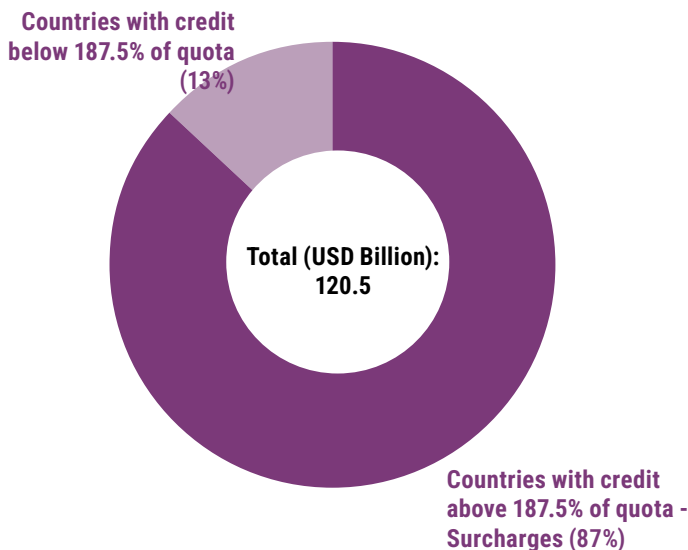
2. IMF, *Weekly Report on Key Financial Statistics*, 30 July 2024.

3. UN Trade and Development secretariat calculations.



Surcharges were established in 1997 to discourage large and prolonged use of IMF resources. However, the current surcharge policy is putting significant pressure on financially distressed countries. Since 2017, the GRA outstanding balance has increased from US\$54 billion to US\$121 billion, with the number of GRA countries rising from 28 to 52 and those subject to surcharges from 8 to 19 (Figure 5). Between 2020 to 2024, these countries owed 87 per cent of the GRA outstanding balance and paid around US\$8 billion in surcharges, which undermines their capacity to restore economic stability and growth.

Figure 5.
IMF General Resources Account lending is concentrated on its largest borrowers (Distribution of GRA lending by quota)



Source: UN GCRG – technical team calculations based on IMF data.
Note: Data as of September 2024.

🌱 Proposed policy changes

The AAAA calls for MDBs to adapt and be fully responsive to the sustainable development agenda. Even though they have increased their net transfers to developing countries during crises, their efforts are still short of what is required.

To address this implementation gap, it is crucial to boost MDBs' lending capacity while safeguarding their robust credit rating and preferred creditor status. The G20 work on the capital adequacy framework (CAF) has unlocked around \$215 billion in lending headroom across reporting MDBs. This could increase to US\$300-400 billion across the major MDBs over the next 10 years. However, shareholder requirements that MDBs maintain AAA credit ratings from three global rating agencies impose unnecessary constraints on their lending and do little to lower funding costs. An analysis of the average lending spreads of countries with A ratings indicates a tiny benefit to AAA ratings relative to other A-category ratings⁴. According to the Independent Review of MDBs' Capital Adequacy Frameworks commissioned by the G20, a more flexible shareholder approach to credit ratings could enable some MDBs to almost double their loans.

MDB's lending capacity could be boosted through shareholders' capitalisation and SDR rechanneling by prescribed MDB holders through using SDRs to acquire hybrid capital instruments. In May 2024, the IMF's Executive Board approved this use of SDRs up to a cumulative limit of around US\$20 billion, which, once implemented, could leverage additional financing for developing countries. MDBs could also scale up catalytic investments in SDG-related projects by providing credit enhancements and guarantees.

New eligibility criteria for determining access to MDB loans (such as the UN Multidimensional Vulnerability Index) could increase developing countries' access to climate and development finance. Reversing the trend of shortening maturities and addressing the procyclicality of non-concessional financing charges are also essential.

The IMF's capacity to complement climate and development finance could be boosted through many channels, such as increasing PRGT resources (including through SDR rechanneling, replenishing the PRGT subsidy account and distributing GRA reserves), accelerating RST disbursements and reviewing the quota formula in the 17th General Review of Quotas. Regarding IMF lending

4. UN Trade and Development, 2025. Credit rating agencies, developing countries and bias. <https://unctad.org/publication/credit-rating-agencies-developing-countries-and-bias>



costs' procyclicality, although the recently announced reform of the surcharges policy is welcome, it is also crucial to reassess the other components of these costs that are procyclical., it is also crucial to reassess the other components of these costs that are also procyclical. Since the AAAA, developing countries' developing and climate finance needs have soared. Scaling up the provision of official multilateral credit is even more critical on the eve of the FfD4 and will require concerted action across a broad front of institutions. This needs to be combined with improving the terms of such credit.