



2022 Financing for Development Forum

Session on Financing the SDGs by increasing fiscal space for an inclusive and sustainable recovery

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25 April, 2022

Addressing systemic asymmetries and dysfunctions within the international financial and economic architecture is the very foundation of Financing for Development, and has never been more urgent for global economic governance as it is today. A convergence of crises including pandemic, war, economic downturn, food insecurity, climate change and gender inequality engulfs our interdependent world. In this current context, where national policy space and fiscal room for development keeps shrinking and debt crises, financial stability risks, food and fuel price inflation, and higher costs of financing in an uncertain global economy keeps accelerating, the principles of distributive justice and equity for developing countries across the South, in relation to the historical and structural drivers of inequality among nations, is more important than ever, particularly for the world's most vulnerable people.

Throughout the pandemic, fiscal space for most developing countries has been shortcoming. In light of the current fuel and food price inflation shock, continuing debt distress and the turn to fiscal consolidation in many countries, liquidity provision, aid and grant-based financing, is an imperative. Despite the fact that the lion's share of the \$650 billion issuance of Special Drawing Rights went to countries that need it least due to inequitable IMF quota allocations, SDRs proved their value as a lifeline to alleviate pandemic crisis effects. At least 99 low- and middle-income countries have used \$104 billion SDRs for much-needed health and economic recovery needs, such as vaccine purchases, health and social protection.

We urge that rich countries fulfill their pledge to rechannel their un-used SDRs in alignment with principles civil society has proposed, such as avoiding the creation of new debt, policy conditionality and that SDRs are additional to aid commitments. (It is a point of concern that the new IMF loan facility designed to rechannel SDRs, the Resilience and Sustainability Trust, does not meet these criteria.) Civil society also calls for a new allocation of \$2.5 trillion SDRs, as is warranted by the continuation of the pandemic and additional economic shocks caused by the war in Ukraine. A more equitable allocation formula for SDRs would ensure that SDRs go to countries that need them most. The FfD forum is well-placed to further develop proposals by UN and IMF staff, as well as member states, for the broader use of SDRs in development and climate finance.



The food and fuel price inflation threatens a fragile pandemic recovery, adding to the 100 million people that fell into poverty since the pandemic and more than 100 countries not on track to vaccinate 70% of their people. While it is triggered by supply chain disruptions, exacerbated by the war. However, the policy response must not be to tighten monetary policy by increasing interest rates, which further squeezes incomes and spending, increases borrowing costs and dampens real economy activity. In the challenging trade-off between fighting record-high inflation and safeguarding the pandemic recovery, central banks must have the policy space to prioritize recovery, while the international environment must scale up grant financing, aid and accommodative trade policies for food security and economic stability.

The systemic issues agenda of the UN underpins international cooperation and peace through equity and historical responsibility. At a moment where economic and social progress is on the verge of slipping backwards across many parts of the world, with an unprecedented toll of poverty and suffering, the FfD forum has the responsibility and mandate to support equitable global economic governance for fiscal space and liquidity, policy space for financial regulations as well as timely relief from devastating inflation shocks for all developing countries.