2021 FfD Forum

Panel IV: Unlocking liquidity to support sustainable development, especially for the most vulnerable countries

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Backdrop to this discussion are the projections that we face divergent recoveries – reflecting a great asymmetry in spending in crisis response and recovery: advanced economies, an average of 16 % GDP, at the other end low-income countries, 2 % of GDP.

I. Reinforce call for allocation of USD 3 trillion in Special Drawing Rights – [refer to letter by 240 organizations worldwide]

Developing countries hardest hit by the crisis, face income and human development losses and it will take them much longer to fully exit its consequences. If you add to this the debt vulnerabilities, they are and will remain in fragile situation in the short to medium term. A normalization of interest rates in advanced economies could put more pressure on high debt burdens

SDRs are necessary to secure the recovery: they will bolster their reserves and stabilize their economies. We appreciate that a new allocation of USD 650 billion in SDRs now enjoys broad support, this allocation should move forward and be implemented as quickly as possible

But it falls short of the level of response needed. An allocation of USD 3 trillion means 1 trillion reaches directly developing countries

II. We welcome the conversation on mechanisms to enable stronger economies to recycle their existing and newly-created SDRs.

It is important that the recycling mechanisms benefit all countries in need. The Development Committee last week noted that pandemic vulnerabilities and risks are arising in many countries, not just low-income. Point raised many years at the UN about the inadequacies of income-based measures. So the recycling should not exclude any country a priori based on income, it should look at vulnerability and need.

The closer that the recycling mechanisms resemble the properties of an SDR allocation, the more efficiently they will contribute to the recovery. Thus, they should have low- or no conditionality, low or no interest – SDR donations will be ideal – and allow for speedy deployment of funds.

Recycling also creates important opportunities to bridge the reserve asset nature of SDRs with fiscal support many countries need. This would be the case if SDRs are deployed through multilateral, regional or subregional development financial institutions to support grants and lending at concessional or below-market rates, thus helping countries scale up their spending in a more direct way while protecting debt sustainability. I encourage, in this regard, exploring the synergies between the potential ways to recycle SDRs and proposals like the Fund to

Alleviate Covid-19 Economics. FACE is one of the few concrete proposals on the table to increase countries fiscal space while doing so on sensible financial terms, so we would like to see more movement on it.