GLOBAL CITIZEN

Financing for Development – Input by Global Citizen

Special Drawing Rights (SDRs):

The $650B issuance of Special Drawing Rights (SDRs) by the IMF in 2021 was a historic move. As most SDRs go to wealthy nations, the G20 commitment to reallocate at least $100B to poorer countries. This was one of the biggest commitments by the G20 in the last few years and it hasn't been met yet. While $108B have been pledged to be reallocated, most of these pledges haven't been transferred to the IMF funds ($40BB in March 2024), the PRGT and the RST, yet, let alone reached countries (around $10B). Another issue not yet addressed is that **the IMF doesn't have the capacity to rechannel 100B$ in SDRs**, at best its capacity stands at $60B.

At the same time, SDRs remain a formidable way of increasing the pool of funding available for the green energy transition and the pandemic preparedness and potentially also other issues such as the fight against hunger. If more channels to use the SDRs can be unlocked, **much more than $100B could be redirected to countries in need**. Many countries haven't yet pledged to reallocate SDRs despite their capacity to do so, or have only pledged a little amount, short of the 50% Spain committed to do.

It is important to continue to make progress on the SDRs - to show that the Global North walks the talk, but also to fully unlock their potential. Hundreds of SDRs are still untapped while we lack billions and trillions to fund the green transition and the fight against poverty and hunger.

The FfD4 process could make a difference in:

- Spearheading **new ways of using SDRs and maximizing their impact**: this could be done through an Independent Expert Group commissioned as part of the FfD4 process. Please see a proposal for draft Terms of Reference in the annex; we can also provide more input on potential experts and how to support such a group.
- Ensuring that the **new mechanism of the African Development Bank (AfDB)** can start working, paving the way for other MDBs to set up similar mechanisms. Back in May, the IMF board approved the use of SDRs for hybrid capital by the board. This now paves for the way for 5 countries to make commitments in SDRs (Japan for instance) and others to back up the mechanism through callable guarantees (the Liquidity Support Agreements, so far France has already committed to this). The mechanism could be up and running by Sevilla which would be a historic move.

Debt:

While debt is a core issue of the discussions on global financial reform, progress has been slow over the last few years. Sevilla could deliver concrete progress through the expansion of debt pause clauses (natural disaster resilience clauses, NDRC) which would help to prevent future debt crises while providing immediate support for countries facing a major external shock such as a natural disaster.

Debt pause clauses are a great means to quickly free funding in case of an external shock. In 2020, it first needed a G20 decision to agree on the DSSI (debt service suspension initiative) to help poorer countries address the immediate impacts of COVID. Such an initiative would become obsolete if debt clauses (which are NPV neutral) are generalized. So far, only the UK, France, the US, the World Bank, the Inter American Bank (IAB), the AfDB, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) have announced implementing those clauses and only for natural disasters and for a limited set of countries (SIDS). Other MDBs but also major bilateral creditors like the German KfW haven't joined yet. While initial progress was made on this issue in Paris at the Financing Summit in June, no process has been put in place to make further progress. At best, these clauses should be generalized across creditors and become a real tool in the fight against the debt crisis and in increasing the resilience of poor and vulnerable countries in the face of climate change.

As part of the FfD4 process, the international community could agree to include these clauses by default in any new loan agreements:

- This should include all relevant bilateral development banks and development finance institutions, credit export agencies, and all MDBs, but also include a call on private creditors.
- These pause clauses should apply to external shocks such as natural disasters (tropical storms, earthquakes), endemics and famines. In order to define the triggers in a way that is reassuring for capital markets, a second condition could apply: the external shock (objectively measured) and an estimated impact of at least 10% on GDP.
- They should be offered free of cost or at a very low rate (.5%) to all LICs and SIDS.
- They should apply to new loans and existing ones, following the World Bank example.

Fossil fuel subsidies:

Since 2009, the G20 has committed to phasing out inefficient fossil fuel subsidies; in 2016, the G7 gave itself 2025 as a deadline. Yet subsidies are far from being phased out. In 2022, total subsidies for oil, gas and coal reached $1.529T, which is almost double what the world spends on education and significantly higher compared to subsidies back in 2010.

Action on this is possible: in 2014, Indonesia introduced major reforms, removing subsidies to gasoline. The fuel subsidy amount went from 1.81% to 0.31% of GDP in 2015. The reforms positively provided much needed fiscal space for social assistance programmes for the poor and for infrastructure development. Canada has published a methodology for phasing out inefficient fossil fuel subsidies as well as an implementation plan, which has the merit of existing, though it contains too many loopholes. Ahead of COP28 in 2023, the European Parliament called for an end to all direct and indirect fossil fuel subsidies at national, EU and global levels 'as soon as possible and by 2025 at the latest'. The Netherlands launched an initiative at COP28 to join forces with other countries and phase out fossil fuel subsidies.

As part of the FfD4 process, the international community should ensure that fossil fuel phase out plans are included in national plans in line with the Paris Agreement (including as countries update their Nationally Determined Contributions (NDCs) due in 2025). Governments should strategically align saved public expenditure toward global goods on climate action and development. Full price reform could raise revenues of $4.4T, 3.6% of global GDP, in 2030.

Levies:

In addition to other financing flows, levies or taxes on sectors or individuals which pollute over average (and/ or benefit from globalization while being undertaxed) should start playing an increasingly important role. Such so-called solidarity levies will be the only means in the short and medium term to massively increase grant financing to the poorest countries (over debt-based financing) to help them fight extreme poverty and climate change. They are also an imperative in the fight against climate change and for more tax justice.

The FfD4 outcome document should clearly state the need to develop a set of solidarity taxes to be approved globally and whose proceeds should be used entirely to fund global public goods and development at home and abroad. While the objective should be for every country to adopt and implement such levies, progress shouldn't be function of a global agreement. At the FfD4 summit, a number of countries, a coalition of the willing, should agree to move ahead in implementing at least one levy, ideally in the framework of the Global Solidarity Levies Task Force (GSLTF).. This can be a new levy or a top up to an existing levy, depending on the specific situation of each country. Implementation and collection of the tax revenue would happen at national level but an international agreement should define how the proceeds should be allocated and tracked in a transparent way. The FfD4 levy coalition should grow in numbers by COP30 and target 2026 for implementation of the levy/ levies.

The most promising levies in terms of revenue collection and feasibility at this stage include levies on: financial transactions; air traffic (kerosene, tickets or airports); maritime transport; fossil fuels extraction; billionaires/ ultra rich individuals.

Official Development Assistance:

ODA levels in major donor countries are not only decreasing dramatically due to fiscal austerity, in-donor refugee costs (IDRC) which amounted to USD 29.3 billion in 2022 (14.4% of DAC member countries' total ODA), are taking up an increasingly high share of ODA budgets and exacerbating the situation of the failing international aid architecture. For this reason, the Pact for the Future decided to "scale up and fulfill our respective official development assistance commitments, including [...] the goal of 0.7 per cent of gross national income for official development assistance and 0.15 to 0.20 per cent of gross national income for official development assistance to least developed countries."

FfD4 provides a crucial opportunity to call on governments to live up to that decision and put action behind words, which have been reiterated in the Addis Ababa Action Agenda almost 10 years ago, stating that "the fulfillment of all ODA commitments remains crucial". Also the FfD4 process could clarify IDRC as an exceptional item in ODA reporting, which were never envisaged to be a major component of ODA and should ideally be excluded from ODA reporting.

Transparency and tracking of climate finance, of specific targets for climate adaptation

Clarity, transparency, and accountability of climate finance are key, especially considering the lessons learned from the lack of clearly agreed metrics in the $100B target for international climate finance. Both contributors and recipients must play a crucial role in tracking commitments and disbursements on climate finance to ensure global targets - particularly on climate adaptation - are met.

This presents an opportunity for FfD4 to ensure contributors have their contributions more effectively recognised. Improved data quality would also facilitate the involvement of the private sector and other organizations to support the achievement of the Paris goals.

As part of FfD, parties should agree on regular transparency reports submitted to the OECD, starting from 2025, regarding the support provided, mobilized, needed and received and for the OECD to report disaggregated amounts. With regards to reporting climate finance via MDBs, it is important to ensure finance does not contribute to financing fossil fuel projects, directly or indirectly.

Expert Panel to Maximise the Use of SDRs for development and climate

The G20 and other advanced countries have made commendable progress against their collective commitment to recycle $100 billion SDRs. So far, at least [$87 billion] has been pledged, in the absence of an authorization from the US Congress. The IMF has been the only SDRs prescribed holder to have benefited from SDR reallocation efforts; however it has almost reached its fundraising targets, set at about $60 billion SDRs (for both the PRGT and the RST). To date, there is no formal commitment to rechannel the additional $40 billion which has been committed. In order to fully realize the G20 commitment, other rechanneling options will have to be unlocked.

As SDRs prescribed holders, Multilateral Development Banks (MDBs) appear to be the most fruitful channel for immediate recycling, with the added advantage that SDRs used in hybrid capital arrangements can leverage even further lending. The African Development Bank (AfDB) and Inter-American Development Bank's (IDB) hybrid capital proposal has been vetted by IMF staff, and has been judged to preserve the important reserve asset characteristic of SDRs. This proposal paves the way for similar proposals from other MDBs, multiplying the impact of SDRs which otherwise remain idle.

However, European Central Bank regulations restrict eurozone member countries from lending reserve assets, including SDRs, to any institution other than the IMF. Other countries have cited complex technical hurdles which prevent them from rechanneling through other means. We have reached a stalemate.

While the immediate need is to mobilize the SDRs pledged under the G20 commitment, there is unlocked potential in the large pool of SDRs on advanced country balance sheets. They represent a largely dormant asset that could be used in a financially responsible way to leverage financial support for the transition to a sustainable economy. But to actualize the G20 pledge and unlock the power of SDRs, more options are needed. We need countries to work together to devise technical solutions which meet the political ambition.

We propose that the FfD4 summit announces a new Expert Panel to Maximise the Impact of SDRs, which would agree solutions to unblock additional rechanneling options by 2026.

Terms of reference for Working Group:

- Mandated by FfD4
- Supported by IMF and BIS
- Composed of independent experts, researchers and academics on SDRs, development and climate finance and capital markets as well as representatives from research departments and advisory teams to central banks and treasuries

Three areas of Work

- ➔ **Lift constraints on currently proposed recycling mechanisms** through MDBs (specifically, the hybrid capital model and the SDR bond)
  What are the main constraints and how to address them?
    - Financial constraints on the donor side
    - Technical constraints on the central bank donor side
    - Financial/legal constraints on the MDB side
    - Remaining constraints from the IMF side
    - Political constraints, including both legislative and governmental policy
    - Analyze inflationary risks linked to SDRs

- ➔ **New proposals to recycle SDRs**
  Are there other ways to recycle SDRs?
    - As liquidity lines for MDBs
    - Through other prescribed holders such as IFAD to make progress in the fight against food insecurity
    - Sustainable Future Bonds (Marques and Gallagher)
    - Bilateral or regional recycling
    - To support debt relief

- ➔ **Reserve management**
  Are there other ways to mobilize global reserves to the benefit of vulnerable developing countries?
    - ◆ Extending swap lines
    - ◆ Rethinking IMF emergency lines
    - ◆ Rethinking central bank purchases of MDB bonds
    - ◆ using reserves towards green or social bonds or as guarantees
    - ◆ Reform of SDR to make it a global "currency"