10 REDUCED INEQUALITIES

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The 17 Rooms initiative is co–hosted by the Center for Sustainable Development at The Brookings Institution and The Rockefeller Foundation. Within in the 2022 global flagship process, each Room, one per SDG, was asked to identify actionable priorities that can be advanced by the end of 2023 to improve some component of 2030 outcomes for its respective Goal. Room 10, a working group for Sustainable Development Goal 10 on Reduced Inequalities, focused on "cracking" the politics of development finance to fight inequality. This document

An alternative action agenda for financing the fight against inequality

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I. Overview

A myriad of crises (COVID-19, debt, climate, inflation, food) is creating a catastrophic financing emergency for all Sustainable Development Goals (SDGs), including goal 10—reduced inequalities within and between countries. Embedded inequalities in the global financial architecture are compounding these challenges and making it virtually impossible to raise and spend the resources required to fight inequality and get the SDGs back on track.

Low- and middle-income countries (LMICs) lack voice and decisionmaking power in the key institutions (i.e., the International Monetary Fund [IMF], World Bank, Organisation for Economic Co-operation and Development [OECD], and G-7/G-20) that govern debt, multilateral lending, international tax rules, and special drawing right (SDR) issuances, among other critical economic policies. Meanwhile, because these financial mechanisms are multilateral in impact as well, they involve debate and approval from shareholder capitals, allowing key multilateral financial solutions to be held hostage by domestic politics in the richest economies with the most say. In an alarming lack of solidarity, what should be commonsense policy decisions have been met with severe domestic political resistance in key G-7 countries, leaving many LMICs teetering on financial crisis. These countries have subsequently faced impossible choices about whether to fund health, education, food security, or climate adaptation, and often have taken on high interest, short-term loans from private lenders to keep their economies afloat.

Given these thorny politics and power imbalances, from June to September 2022, as part of the 17 Rooms initiative, Room 10 brought together a small group of experts from around the globe, to brainstorm an **action agenda on financing the fight against inequality** in the context of such thorny politics and inequalities. The group concluded an **action agenda that LMICs and civil society would be able to drive irrespective of *domestic* political support from G-7 or G-20 countries.** It is important to note that much of the group's analysis for change still rests with the IMF, where G-7/G-20 governments remain disproportionately powerful, but the types of policies being discussed here are not ones that would require *internal* political bargaining within those countries.

This action agenda proposes a set of interventions that Room 10 believes are being largely neglected by current development finance stakeholders and public debates in favor of short-term, stop-gap measures—such as one-off SDR issuances or increased multilateral development bank lending—that do little to alter structural sources of economic inequality or address major power imbalances in global economic governance. There are recent efforts like the Bridgetown Agenda and the G-20 Capital Adequacy Review that offer important recommendations on how to boost emergency liquidity and increase multilateral investment in climate and the SDGs for struggling countries. However, these initiatives, as currently articulated, would not alter—and, in fact, could increase—LMIC's dependency on global economic institutions that continue to make decisions and go about their business in deeply problematic ways. While short-term influxes of cash and access to new sources of global credit can help treat the most acute symptoms of the financing for development crisis, this action agenda offers a set of politically feasible ideas on how to begin treating the underlying disease at the same time.

We have identified two key areas—**debt and austerity**—where we believe that concerted action can have exponential knock-on effects to free up resources to fight inequality within countries while also simultaneously addressing structural economic inequality between countries. Much of this agenda focuses on the role of the IMF, which continues to play an outsized role in helping to inform debt restructurings and bailouts, bring stakeholders to the table, conduct debt sustainability analyses, and set the terms for IMF country programs. There is certainly debate on the role the IMF *ought* to have in economies and in so-called "macro-critical" areas like climate and gender. But given that, as things stand, IMF programs, when attached to debt restructuring, typically dictate the fundamental tenets of countries' economic policies—from how much they can spend and where, to how much they need to save and specific areas where they need cut, to the pace at which they make these reforms—the IMF has an unrivaled influence on the fight against inequality in LMICs.

With calls afoot for an overhaul of the Bretton Woods institutions to more effectively and inclusively address modern challenges like climate change and the provision of global public goods, the moment is ripe for the IMF to lead in real time with a set of reforms that speak to its core competencies and better meet the needs of struggling countries. IMF decisions and reforms do not take place in a vacuum, and G-7/G-20 government actors are indeed shaping decisions disproportionately. But the actions Room 10 has brainstormed do not demand the same kind of internal political bargaining within member countries that has vexed other financing mechanisms to date such as increased aid or new SDR issuances.

The two categories discussed in depth, debt and austerity, do not create *new* sources of finance, but rather hopefully advance the notion of more fiscal flexibility and allow more breathing room and the advancement of political power in negotiations. At the same time, the group recognizes the importance of advancing *new* finance generation and proposes two options: progressive global taxation and a reformed SDR mechanism—where substantial momentum must be built in the coming months to create a truly reformed and long-term financing architecture for the fight against inequality going forward.

While not all of these recommendations need to be advanced, and some require additional thinking, our hope is that LMICs, civil society, funders, and international financial institutions will take inspiration from this "menu" of potential actions to inspire their own strategies and organizing on SDG 10 and the fight against inequality in the months and years ahead.

II. Debt

As interest rates rise and the world faces the threat of a new global recession, approximately 60 percent of low income countries and about 25 percent of emerging markets are currently in or at risk of debt distress, according to the IMF. The makeup of creditors for LMICs has changed dramatically over the past two decades—beyond the Paris Club, China and private bondholders have become significant emerging market lenders. This makes coordination of debt restructurings far more complex than in the past. The G-20 Common Framework was initially set up to support countries in debt distress to bring together this diverse array of creditors and negotiate a fairer burden sharing agreement among them. Unfortunately, the Common Framework has failed to deliver meaningful debt relief thus far, with G-7 countries blaming China for obstructing negotiations, while private creditors continue to remain off the hook. This is despite the fact that African governments currently owe three times more to Western private lenders than to China, and pay twice the amount of interest to them. In the absence of a more inclusive, effective, and truly multilateral debt restructuring mechanism, many countries are forgoing the Common Framework and attempting to organize their own debt restructuring processes in close partnership with the IMF.

Below is a list of specific actions that focus largely on what the IMF can do in the near term (with shareholder blessings) to meaningfully reduce the debt burden of low- and middle-income countries and create more fiscal space to tackle inequality. We also include several steps that LMIC governments and global civil society can take to drive action in these areas without relying on support from the IMF, World Bank, or high-income countries in the near term. Many of these measures have the added benefit of also addressing gross inequities in global economic governance, which continue to place disproportionate burden and hardship on lower-income countries while excluding them from decisionmaking on global decisions that dramatically affect their economies and societies.

IMF

1. **Create a debt-to-GDP (gross domestic product) ratio carve-out for spending on the SDGs and particularly areas related to inequality that are crucial to fulfilling domestic human rights obligations (social spending as well as climate)**

   IMF programs typically contain a range of fiscal consolidation requirements, which often demand cuts to specific areas of spending (e.g., fuel subsidies, public wage bills, etc.). These efforts are aimed at reducing a country's debt-GDP ratio below a standard 60 percent ratio, which is well below the rate of many high-income countries (e.g., the U.S. was 137 percent in 2021) and has long been critiqued as an arbitrary constraint. We propose that the IMF introduce a "carve-out" for all SDG-related spending, which would exempt all public investment in SDG goals from counting toward its debt-to-GDP calculation. This would enable countries to invest in mitigating current or future financial risk—for example, spending on climate resilience or pandemic preparedness—and therefore advance the IMF's mission of promoting financial stability and resilience. The IMF could require that all financing sources for this "exempt" SDG spending be long-term and low-interest to qualify for the carve out. The EU's management of COVID-19 economic shocks offers one recent precedent: In 2020, the EU decided to temporarily suspend the Maastricht treaty convergence criteria obliging member states to keep public debt below 60 percent of GDP. This gave EU countries the fiscal flexibility required to respond with massive rescue plans that helped stabilize their economies.

2. **Eliminate IMF surcharges**

   Civil society has helped draw attention around and challenge IMF surcharges, which are a little-known and extremely costly condition of large IMF loans to debt distressed countries. The issue was picked up in the Bridgetown Agenda's recent call for a suspension of IMF surcharges. Borrowing countries with large loan packages that do not pay them back quickly are hit with extra surcharges—on top of standard interest payments and fees—that have become the IMF's largest source of revenue. Indeed, the IMF estimates that borrowing countries will pay at least $4 billion in additional surcharges from the start of the pandemic in 2020 through the end of 2022. By 2027, these surcharges are expected to reach around two-thirds of the IMF's lending income. To be clear, the IMF is charging the most economically distressed countries an additional penalty fee for their rescue packages, and these fees are fast becoming the IMF's primary source of revenue for its core expenses.

This is a glaring conflict of interest for an institution tasked with promoting fiscal stability to structurally rely on countries' economic crises to stay afloat. It is also a form of payday lending abuse that enables wealthier IMF shareholders to shirk responsibility for covering the institution's recurrent expenses and exemplifies the kind of inequitable burden sharing and dysfunctional global economic governance within the international financial institutions more broadly that is in urgent need of reform. These surcharges should not be suspended, they should be eliminated, and higher-income country shareholders should be asked to make up the difference in funding.

3. **Create a new category of IMF vulnerability based on various risks starting with climate**

Many middle-income countries do not qualify for concessionary finance from the IMF's Poverty Reduction and Growth Trust (PRGT) based on per capita GDP, but are intensely vulnerable to climate disasters, have high debt burdens, and lack access to the concessionary loan financing and grants required to manage the scale of mitigation and adaptation/loss and damage needs. Creating a new category of IMF vulnerability based on climate risk would allow both low- *and* middle-income countries to access larger, longer-term tranches of funding to prioritize pressing climate risks. Ideally it would be structured to provide long-term zero-interest loans and grants that, unlike the new Resilience and Sustainability Trust (RST), do not require the typical conditionalities around fiscal consolidation that accompany IMF programs and undermine capacity to invest in urgent climate needs.

Creating this category would also acknowledge the inequity of many countries not responsible for large-scale carbon emissions suffering the most climate driven economic damage and provide them with debt-free finance from (some of) the worst offenders to navigate its fallout. The PRGT has already made exceptions for some small island nations to remain eligible for concessionary finance despite having graduated from the World Bank's IDA classification due to climate vulnerability. This would codify that approach for a broader group of emerging market countries and also offer the option of grant financing in addition to zero-interest loans.

4. **Demonstrate support for debt for climate and health/SDG swaps at grand scale**

V20 Finance Ministers have called for "a major debt restructuring initiative for countries overburdened by debt—a sort of grand-scale climate-debt swap where the debts and debt servicing of developing countries are reduced on the basis of their own plans to achieve climate resilience and prosperity." This has already successfully occurred in Belize, which could provide a model for undertaking these swaps at a greater scale. Discussions in health/Pandemic Preparedness and Response (PPR) realm are also flagging debt-for-health swaps as a means to finance urgent needs around pandemic preparedness and response and health systems strengthening. There are also increasing efforts afoot to issue sustainability-linked bonds (for example in Chile and Uruguay) that offer new sources of public financing while ensuring commitments to SDG-related targets. While it is not without its risks—for example this could lead to a new form of undesired conditionality and power imbalances—these kinds of swaps and sustainability-linked debt instruments could help restructure and eliminate existing debt based on locally driven climate and health commitments that also contribute to global public goods like adaptation and PPR.

While the IMF's engagement is not required, nor necessarily desired, to undertake debt swaps for commitments to finance SDG-related efforts, its signaling of support could certainly help grease the wheels and bring private creditors in particular to the table. This is especially true if it encourages creditors to agree to make SDG-funding commitments senior to debt servicing commitments in all restructuring agreements. Given the number of countries in or on the verge of debt distress and simultaneously falling behind on core SDG goals, having a proactive IMF-blessed process and approach for pursuing these kinds of swaps would enable them to scale much more quickly. The IMF announced its support for scaling up debt-for-nature and debt-for-climate swaps at the COP27 Conference in Egypt, and could do something similar across a range of other SDGs that are essential to fighting inequality (e.g., gender, education, health).

Low- and middle-income countries

5. **Standardize multi-year debt suspension clauses for catastrophic external shocks (such as extreme climate events, natural disasters, and pandemics) in key global venues, such as New York and London**

   Given countries' massive vulnerability to external climate and health shocks, countries should follow the lead of Barbados and introduce mandatory debt suspension trigger clauses in all of their government bonds. These clauses can help provide substantial additional liquidity in the aftermath of a disaster or pandemic, by automatically suspending debt payments for a set period (e.g., two years) without negatively affecting the country's credit rating. Such a mechanism can cover both public and private lenders and should be in addition to other forms of immediate non-debt emergency resources available to low- and middle-income countries. Given that most private creditors fall within the jurisdiction of the UK and the State of New York in the United States, it would be useful to establish one of those places as a venue for standardization of such contracts to speed their uptake in the market.

6. **Coordinate LMIC debt default**

   Short of getting the debt relief and access to SDG and especially climate finance that they need, low- and middle-income countries should consider creating a cartel of debtors, whereby a group of countries collectively agree to stop servicing debt owed to public and private creditors until these creditors come to the table and agree to a set of terms that enable essential domestic spending.

   This cartel would act in juxtaposition to what are de facto creditor cartels such as the Paris Club, the IMF with its "seal of approval" for other creditors, the Loan Market Association's model contracts, the collective action clauses in bond contracts, and the private-equity-led creditor groups when default events occur.

   This is very much in line with the V20's recent threat at the annual World Bank and IMF meetings to halt payment on half a trillion dollars in debt if lenders do not reform the global financial architecture to meet their climate finance needs.

   In the past it has proven very difficult to create a cartel of this sort, for example with a group of Latin American countries in the 1980s. At that point, the nature of each country's debt and creditor landscape was quite different, thus making comparability and collective action quite challenging. Such efforts were even explicitly targeted by U.S. espionage, for example with the Cartagena group. Circumstances are arguably different now for certain groupings of countries at least, such as the V20, which all share a common experience of devastating and recurrent climate-driven economic shocks, along with major indebtedness and a set of unfulfilled climate finance promises from the global community.

In terms of what participating countries may ask in return for resuming debt service payments, ideas include: making spending on climate and SDG needs senior to all debt service payments, eliminating IMF surcharges, and ensuring a minimum percentage haircut in restructuring for private creditors (including those who have been heavily invested in and profiting from fossil fuels in recent decades). In an ideal world, countries would also demand the creation of a new, more inclusively governed global debt authority to manage restructurings on a fairer footing. A coordinated debt payment suspension effort of this sort would also have the added and non-trivial benefit of drawing out more obscure private creditors from the shadows that have been difficult to uncover to date and make it easier to spot and pressure private creditors in general.

Civil society

7. Hold private creditors to account

As noted, private creditors—along with Chinese banks—make up the bulk of LMIC sovereign debt. Yet China continues to receive the bulk of G-7 attacks for thwarting debt restructuring processes in fora like the Common Framework, while these private bondholders remain largely under the public radar and immune from targeted criticism. Civil society—with support from the donor community—is well placed to draw greater attention to the private investors that are holding up debt restructuring efforts. Such efforts can also highlight the predatory lending practices and extortion that helped put LMICs in their current, highly vulnerable state and calling out specific investors and funds for these unethical payday lending practices and refusal to help restructure debt in specific countries.

Such an effort could also make the link between large investment funds that have profited significantly from investment in the oil and gas sectors and are now continuing to profit off of LMICs trying to manage the financial fallout from the climate crisis. Civil society campaigners could also explore whether this kind of “climate destruction/climate debt” profiteering should be considered a form of odious debt that deserves cancellation outright.

III. Austerity

In the decade following the global financial crisis 2008-9, countries across the world experienced a wave of economic austerity as governments sought to reduce public expenditures through drastic cuts to social security, education, health, and more. Not only did such measures have a tremendously negative impact on poverty and inequality (including economic and gender inequality), but it also meant that the world was wholly unprepared to face the COVID-19 pandemic when it struck. According to a 2020 Oxfam report, going into COVID-19, only one in six countries were spending enough on health, and only a third of the global workforce had adequate social protection.

While for a fleeting moment in 2020, the trend of austerity seemed to be waning, with advice from the likes of IMF being to "spend as much as you can, and then spend a little bit more," this respite passed quickly for LMICs. A recent analysis by Ortiz and Cummins (2022) finds that 143 countries—including 94 developing nations—are implementing policy measures that undermine the capacity of governments to provide education, healthcare, social protection and other public services, and that in effect, 85 percent of the world's population will live in countries implementing fiscal austerity measures by 2023.

The same study found that the most common austerity or fiscal consolidation measures being implemented or considered include scaling down social protection programs; cutting or capping the public sector wage bill (which impacts teachers and healthcare workers); eliminating subsidies; increasing regressive taxation (such as value-added taxes, VAT), privatization of public services, and other reforms such as pension and labor flexibilization.

The IMF is playing a major role in advancing and fueling this trend, with 87 percent of its recent loan programs conditioning such austerity measures. To give one example, Kenya and the IMF agreed to a $2.3 billion loan program in 2021, which included a three-year public sector pay freeze and increased taxes on cooking gas and food. These types of measures—particularly regressive taxes that most impact the poorest—can severely risk worsening an already devastating situation for large parts of the population. We also know that women are disproportionately impacted, as they are often the shock absorbers of cuts to vital public services, including through their unpaid care work.

The road to austerity has been painted as an inevitable one, where governments' budgets are choked, there is limited financing available, and hence there is no alternative but austerity. The reality is that there are plenty of alternatives if the IMF and LMICs prioritize human rights and the fight against inequality as a core guiding principle of all financing negotiations.

Below is a list of specific actions that stakeholders can support in the near term to meaningfully safeguard against austerity and inequality in LMICs and create more fiscal flexibility in LMICS. Like debt, many of these measures have the added benefit of also addressing gross inequities in global economic governance.

The first action, focused on the IMF, can be accomplished immediately via direct policy changes (with shareholder blessings) and does not require domestic regulatory approval or multilateral negotiation from key political actors. The second action requires political leadership and coordination among LMICs. Actions #3 and #4 can be driven by independent civil society (and journalists) with donor support.

IMF

1. **Systematize ex-ante social/distributional impact assessments across IMF operations as a requirement for loan approvals**

   While there is precedent for the IMF to conduct occasional distributional impact assessments, it has not been systematized, and is not currently part of the standard due diligence that the IMF does for policies included in its surveillance work and advice, or its loan programs. These assessments are critical for the IMF, governments, and all stakeholders to understand the potential risks or benefits associated with policies and how they could impact different segments of the population differently. These assessments should be published in a timely way and should analyze and disclose the predicted impacts of policies on all social groups, women, children, older persons, as well as by income group, including lower- and middle-income, not just the poorest.

2. **Advance a new policy commitment at the IMF to safeguard against austerity and inequality**

   The IMF can fulfill its mandate without resorting to austerity-based policies. There are alternatives that can ensure continued macroeconomic stability but that also do not impact negatively on poverty and inequality. As such, the IMF should approve a policy which requires every operation to demonstrate:

   - ❖ A do-no-harm approach and a commitment to including inequality, gender, climate, and governance as macro-critical areas that IMF staff are explicitly tasked with advancing.
   - ❖ Build fiscal space through progressive taxation as a first option for revenue-based approaches and explore systematically in all countries options to introduce or alter tax rates on corporate profits, financial activities, wealth, property, natural resources, digital services, or ending ‘special economic zones’ and other tax exemptions or breaks to corporations.

- ❖ Ensure no cuts with negative social or human rights impacts, including eleven measures recommended by Ortiz and Cummins in *End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25* (1) narrowly targeting and rationalizing social protection, (2) sweeping cuts or caps to the public sector wage bill, (3) eliminating socially relevant subsidies such as food, agriculture, household support, (4) privatizing public services/reform of state-owned enterprises (SOEs); (5) pension reforms; (6) labor flexibilization reforms; (7) reducing employers' social security contributions ("tax wedge'); (8) containing health expenditures; (9) increasing consumption taxes, such as sales and value-added taxes; (10) public-private partnerships (PPPs) in public services; (11) fees/tariffs for public services
- ❖ Reduce the rigidity of fiscal and inflation targets, and institute flexibility clauses as was done for some programs during the pandemic (e.g., Jordan). *(Note that this also links to the rethinking of the debt-to-GDP metrics discussed above.)*
- ❖ Ensure stakeholder consultation directly and indirectly, such that policy options for countries are truly based on informed and transparent national social dialogue with representative trade unions, employer federations, and civil society organizations.
- ❖ Ensure there are corrective mechanisms in place by creating a feedback mechanism built into the six-month loan review period and commit to course correction when IMF policy conditionality is resulting in negative social and human rights impacts.

Low- and middle-income countries

3. Challenge the norm of austerity and conditionality in IMF programs

LMICs ought to be challenging the speed and types of policies the IMF is conditioning in its loan programs. It is inevitable that there is a problematic power imbalance in the relationship between the IMF and governments during loan negotiations. Governments are already typically in a moment of severe economic crisis if they are coming to the IMF with few alternative external financing options. But LMICs can and ought to push back as was demonstrated with the recent tough loan negotiation between the IMF and Argentina. Governments can actively insist on more flexible fiscal and inflation targets, and on the alternative policy choices to build fiscal space progressively. It would also help to have stronger coordination and backing among LMIC board members on policy issues as well as loan negotiations. Finally, having more transparency in negotiations generally would also help to shift power and give governments more negotiating power to push back especially against rigid fiscal consolidation.

More generally, LMICs should also be pushing back against conditionality which has become such a default way of doing business at the IMF. The Fund's support during the first year of the pandemic through emergency lending with little to no conditionality provided a lifeline to countries in need, while still providing capacity development and demonstrated that such an approach is feasible. The Fund should consider a more prominent role for capacity development, in line with Independent Evaluation Organization's recent evaluation, which recommended the IMF enhance its support to help countries build their technical capacities and expertise for more sustainable reforms. This would be vastly preferable to saddling countries with excessive conditionalities that are often perceived as coercive and overriding local governance and democratic processes.

Civil society

4. (Re)new and mainstream evidence and analysis challenging austerity

There is a great deal of evidence out there on austerity's negative impacts, but it would be important for civil society and academics to identify gaps in recent evidence and targeted communication. Funders should also consider how they can support this work. Some ideas for new or updated work could include the development of research and analysis that:

- Challenges the benefit, relevance, and risks of strict fiscal and inflation targets
- Investigates the extent to which spending floors work and to what extent the IMF is protecting or advancing social spending, including through requesting a formal IMF internal evaluation of these policies and their distributional impact
- Further debunks the link between austerity, inequality and growth, as well as the myth that LMIC governments have overinflated public sector wage rolls, including relative to wealthier countries
- Creates a toolkit targeting IMF staff and governments on the negative social impacts of austerity and alternative policies to enable countries to achieve the Sustainable Development Goals and other international commitments. The toolkit could present the negative social impacts of (1) targeting and rationalizing social protection, (2) cutting or capping the public sector wage bill, (3) eliminating socially relevant subsidies such as food, agriculture, household support, (4) privatizing public services/reform of SOEs; (5) pension reforms; (6) labor flexibilization reforms; (7) reducing employers' social security contributions ("tax wedge'); (8) containing health expenditures; (9) increasing consumption taxes, such as sales and value-added taxes; (10) PPPs in public services; (11) fees/tariffs for public services [*End Austerity: A Global Report on Budget Cuts and Harmful Social*

Reforms in 2022-25]. It could further recommend investments to achieve the Sustainable Development Goals and other international commitments, such as investments for universal social protection, health and education and other quality public services, sustainable agriculture and energy, climate adaptation in the Global South to help build political will.

- This toolkit could also look at how IMF operations can better support women as they are disproportionately affected by austerity or fiscal consolidation policies.

While these are ideas for areas of work civil society could produce, the IMF and governments themselves should also be investing in doing this type of analysis.

5. **Raise popular awareness and challenging of global and national-level austerity trends and their impacts**

Funders especially ought to be providing support to civil society-led initiatives, groups, networks, and coalitions working at both global and national levels to challenge austerity and its impacts, as well as the narratives, dogmas and supposed "evidence" it is based on. The recently launched #EndAusterity campaign is an example of a new initiative gaining momentum. There are also organizations across the world working on budget and tax advocacy at subnational, national, regional and global levels.

This work should not just be relegated to civil society. Socializing and influencing messaging on austerity also needs policy influencers, including foundations, academics, U.N. bodies, and progressive governments to name a few examples. Moreover, the media has a key role to play in raising awareness around and highlighting research, human stories, and news that demonstrate the links between austerity and inequality, financing, gender justice, climate action, SDGs, pandemic preparedness, economic recovery, etc. to name a few examples. It would be useful to prompt and support investigative and economic journalists to cover austerity stories, and to push for more transparency and informed coverage around terms of IMF loan negotiations.

IV. Important complementary steps in the coming 12-18 months

While Room 10 has agreed to focus on austerity and debt, we recognize how crucial it is to advance new financing to increase overall resources to tackle inequality as well in the near term, including through bilateral and multilateral aid. Two specific ways in which Room 10 members believe that strong impact could be made in the coming 12-18 months is through building greater momentum and evidence to advance progressive taxation and special drawing rights, recognizing that these would indeed require domestic political bargaining in G-7/G-20 countries in the way our international financial system is currently designed.

1. **Progressive taxation**

   We could envision progress toward a new era of taxing wealth for sustained financing of global public goods and sustainable development. This is a targeted form of wealth redistribution which addresses gross income inequality and Global North/South wealth disparities, while also providing urgently needed resources to tackle inequality within low- and middle-income countries. This effort requires a new means of systematically uncovering hidden wealth through a global asset registry—as well as through more equitable and effective taxation of multinational enterprises, particularly those profiting from crises and widespread loopholes in the global tax system. A revamped OECD global tax deal, which redistributes taxing rights in a more equitable and efficient way, is a crucial first step, as well as a potential global financial markets tax (e.g., the Saez-Zucman proposal for a wealth tax on corporate stocks, or a Financial Transactions Tax). An automatic tax on some portion of corporate wealth for global public goods and the SDGs is arguably the most politically practical and sustainable approach to financing the fight against inequality, if it can make it through the initial gauntlet of G-7/G-20 politics.

2. **Special drawing rights**

   It was noted earlier that a one-time SDR issuance would do little to alter structural sources of economic inequality or address major power imbalances in global economic governance. At the same time, SDRs have proven to be one of the most important emergency sources of debt-free financing for LMICs during the COVID-19 pandemic and subsequent inflation and food security crises. Due to the inequality in the distribution of SDRs, which follow the IMF's quota system, of the $650 billion issuance, only $21 billion went to low income countries. While the U.S. received $113 billion, Malawi received just $189 million. As such, it remains crucial to maximize the reallocation of SDRs from wealthier countries to LMICs in specific ways that do not add further debt or new forms of conditionality. The currently available mechanisms via the IMF's PRGT and RST do not meet those criteria, so it is also essential to ensure a fairer mechanism that does not increase debt and conditionality. Given the benefit to LMICs, it would also be important to agree on a new and significant SDR issuance, but avoid replicating inequalities in distribution once again. This could be accomplished with targeted redistribution agreed in advance.

In the longer term, there should be additional analysis and advocacy around how SDRs can be used in times of global crisis as well as in the general international financial architecture. For example, this could be something along the lines of Prime Minister Mia Mottley's proposal for a perpetual SDR issuance to support climate finance and the SDGs over the next five years. Reforming the IMF's quota system and distribution of SDRs would be essential components to make this possible. It is also important that the IMF ensures its guidance consistently counts SDRs (in their direct issuance form) as wealth transfer, rather than as debt.