

The Friedrich Ebert Stiftung commissioned DFI to write a paper on how to integrate inequality reduction into IMF/World Bank debt sustainability. The paper presents a detailed, practical and feasible approach. It establishes the case for including inequality reduction in DSAs, then shows how to 1) identify eligible countries; 2) estimate spending needs and their inequality impacts; and 3) calculate multiplier effects on growth and tax revenues. The paper also identifies areas where more work is needed, especially in analyzing the impact of non-fiscal policies on inequality reduction, so they can be incorporated into forecasts. It shows that the BWIs can easily include an anti-inequality module in current reviews of the Low-Income Countries Debt Sustainability Framework (LIC-DSF), and in the Staff Guidance Note and tools for the Sovereign Risk and Debt Sustainability Framework (SRDSF), similar to their existing climate modules. The paper argues that these reviews should emphasize the high positive multipliers SDG spending can have on growth and, if concessionally funded, SDG 10 can be reached without compromising debt sustainability.