APMDD
ASIAN PEOPLES' MOVEMENT ON DEBT AND DEVELOPMENT

Inequity and False Hope:

DRAWBACKS OF IMF'S SPECIAL DRAWING RIGHTS

An Explainer

APMDD Debt Justice Program

July 2024

In August 2021, the International Monetary Fund (IMF) approved a new General Special Drawing Rights (SDR) allocation equivalent to US$650 billion, the largest ever in its history, to be distributed to its member countries. The Fund issued the allocation as part of its response to the devastating impact of the COVID-19 pandemic on the global economy. According to IMF Managing Director Kristalina Georgieva, this allocation *"will benefit all members, address the long-term global need for reserves, build confidence, and foster the resilience and stability of the global economy."* She added that it "will particularly help our most vulnerable countries struggling to cope with the impact of the COVID-19 crisis."

For most IMF members, especially low- and middle-income countries, the pandemic came amid falling export earnings due to the slowdown in international trade, soaring public debts reaching unsustainable levels, declining government revenues, and overall deteriorating living conditions. The pandemic undoubtedly *worsened poverty and inequality.* All these presented challenges to Southern governments to provide relief, such as social protection and health services, after years of underinvesting in essential services in line with the Fund's own advice for private sector-led growth.

Various quarters welcome the SDR allocation, saying that it would help fill the huge global *financing gap* without creating new debts and policy conditionalities attached. It was considered one of the *most important* multilateral actions to help developing countries hurdle liquidity problems during the pandemic. Post-COVID 19, the cascading economic and social impacts continue to be felt, leading to renewed calls for the IMF to make new or *annual* allocations.

But are the SDRs the silver bullet to the multiple crises that they are claimed to be? What are SDRS, and will shares by fairly distributed among IMF member countries? How will the SDRs be used? And what are the political implications for the Global South? It is hoped that this explainer can help break down these questions in light of persistent calls for the Fund to use its full "firepower" and further strengthen the demand that the Fund continues to ignore – unconditional cancellation of debts claimed from the Global South.

What are Special Drawing Rights?

SDRs are unique assets created by the IMF which are then distributed to its 190 member-countries with the aim of boosting their overall international reserves. A country's reserves are largely composed of foreign currency, and SDRs, which when received, are added to the total reserves. Maintaining sufficient levels of international reserves is crucial for Southern countries in the current global financial system because unlike the United States, United Kingdom and other rich economies, their local currencies cannot be readily used for international transactions, such as payment for food and fuel imports. International creditors also monitor the level of international reserves, as one of their indicators for a borrowing country's capacity to pay debt service and hence, for making lending decisions.

Only the IMF and its members can hold SDRs. This limits its direct use to transactions of members with the IMF and among themselves, such as payment of obligations. Individuals and private entities cannot hold SDRs but the IMF can authorize organizations as SDR holders, such as central banks and multilateral development banks. As of 2023, only *20 such organizations* were authorized SDR holders.

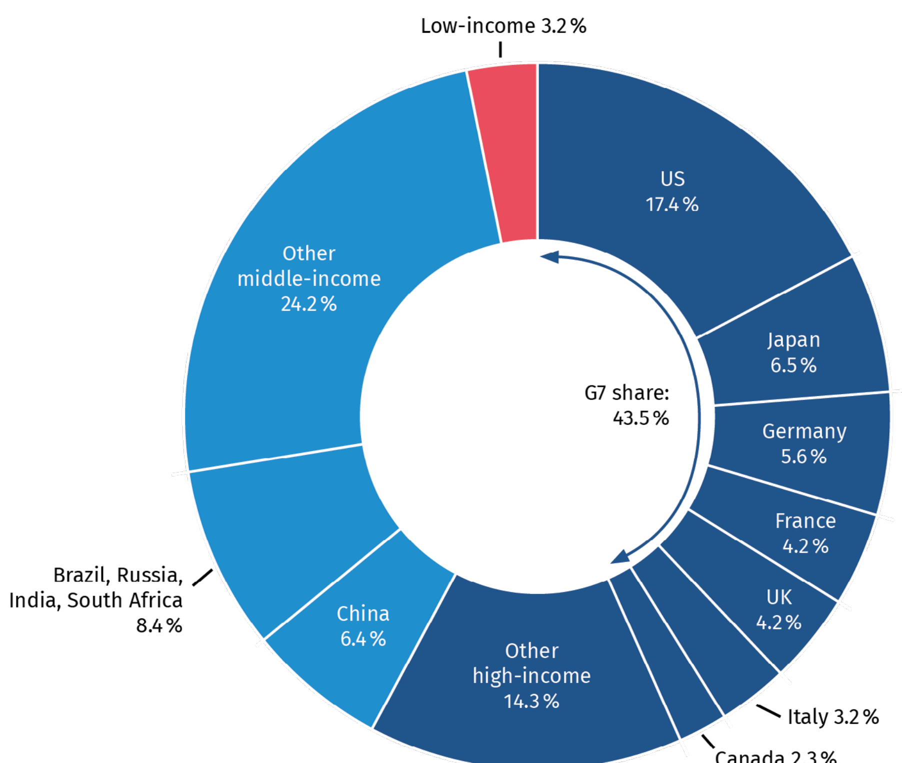
SDRs are not the same as regular currencies. The IMF determines the value of SDRs based on a basket of five major global currencies: the US dollar, Euro, Chinese renminbi, Japanese yen, and British pound. The 2021 SDR allocation for instance amounts to SDR456.5 billion, which, when valued at US dollars, is US$660 billion. Countries can swap their SDRs to regular currencies, such as the US dollar, to make international transactions with international entities that are not authorized SDR holders

New SDR allocations are issued only when the IMF Board of Governors so decides. Prior to 2021, there had only been four SDR allocations made, with the first one approved in 1970. A total of SDR660.7 billion (equivalent to about US$935.7 billion) has been allocated so far, the largest being the 2021 allocation. SDRs are not loans that have to be repaid to the IMF, nor do they require policy conditionality. Only the IMF has the power to create, value, and distribute SDRs.

How is the SDR system failing the Global South?

Inequity in SDR distribution. SDR allocation is highly inequitable, favoring wealthy nations (or the "advanced economy") to the disadvantage of Southern countries who need the financial lifeline the most. This disparity arises from the IMF's *quota system* wherein each member is assigned a quota that reflects its relative position to the world economy. The IMF uses these quotas as the basis for distributing new SDR allocations. In the 2021 allocation, the G7 countries along with other wealthy members received 57% of total allocation. All low-income countries and non-BRICS middle-income countries received less than a third of total allocation. *Fifty-five percent were distributed to members in Europe and North America, 27% in Asia and the Pacific and 5.2% in Africa* even though most of the world's population who are living in *extreme poverty* resides in Africa and Asia.

Graph 1. SDR Allocation by country group



Source: *Ellmers (2021)*

SDRs are not allocated according to needs. There is a stark contrast on how rich countries use SDRs compared to the rest of the IMF members. They tend to retain their SDR allocation because they have sufficient reserves because of their economic dominance. In the case of countries like the US and UK, they do not need to sell SDRs to raise US dollars or UK pound sterling, they could just print their own money. This is not an option for most members. Out of necessity, they convert portions of their SDR allocations for freely usable currencies by selling them to other members who are willing to buy, primarily through the IMF's Voluntary Trading Arrangements mechanism. A recent IMF *report* reveals that between August 2021 to June 2023, SDR26 billion were sold by 64 members, with low income countries (LIC) accounting for one third of the total sales volume. It further noted that LICs and "emerging market" (EM)[1] members "tend to have lower reserves and larger current account deficits than non-converters. EM converters also tend to have lower GDP growth and higher public and external debt levels." It also showed that "small SDR holdings (relative to their cumulative allocation) before the 2021 allocation tended to convert the newly allocated SDRs more than others." Clearly, these countries received disproportionately lower shares of the 2021 SDR allocation than they need.

Another key difference is the more prevalent use of SDRs to finance fiscal needs or government's domestic spending. IMF *SDR tracker* shows that LICs and some EMs have used part or all of their SDRs for fiscal purposes while none of the reporting wealthy countries used it for that same purpose, demonstrating how developing countries are more dependent on SDRs for fiscal support. It also highlights how unnecessary SDRs are for rich country governments to fund their spending.

Table 1. SDR Allocations and Holdings by income group (SDR billions)

	end-July 2021		end-June 2023	
	Allocations	Holdings	Allocations	Holdings
Advanced Economies	123.2	121.0	660.7	401.7
Advanced Markets	73.1	54.1	387.4	219.9
Low Income Countries	7.4	5.1	251.0	12.0

Source: IMF (2023)

Costly SDR conversions. The IMF claims that SDRs are "cost free" because it pays interest on SDR holdings to each member and levies charges on SDR allocations of each member at *the same rate*. It keeps a record of all the SDR allocations made to each member and if one neither sells nor buys SDRs, its SDR allocation and SDR holdings will be the same, and indeed, "cost free." However, countries are penalized when SDR holdings fall below their SDR allocation. This system works against many developing countries which, as described above, resort to selling their SDRs out of necessity which reduces their SDR holdings. They are levied charges for holding less SDRs than what was allocated to them while the countries who buy their SDRs benefit from having excess holdings that earn them interest. As of April 2024, out of 190 members, 60 have SDR holdings equivalent to *less than 50%* of their SDR allocation, and 30 of them hold less than 6%, including Sri Lanka with 2.7%.

[1] A classification used by IMF referring to non-Advance Economy countries but are not LICs

Table 2. SDR Allocations and Holdings of G7 Members
As of April 20, 2024 (In SDRs)

Selected Countries	SDR Allocation	SDR Holdings		
	(Including Aug 2021 allocation)	As of Aug 31, 2021	as of April 30, 2024	% Increase (decrease) from Aug 2021 to Apr 2024
Pakistan	2,935,186,408	2,186,889,844	852,883,099	-61.00%
Sri Lanka	950,213,975	90,807,336	25,568,439	-71.84%
Nepal	218,481,192	152,844,584	135,271,319	-11.50%
United States	114,861,888,878	116,316,036,364	125,575,441,966	7.96%
Japan	41,825,032,947	43,587,115,082	42,680,922,075	-2.08%
Germany	37,587,041,400	37,466,561,929	40,148,955,409	7.16%
France	29,451,960,644	27,497,879,379	27,600,177,046	0.37%
United Kingdom	29,451,960,644	28,725,879,544	31,052,546,621	8.10%
Italy	21,020,028,442	20,177,174,847	21,738,889,992	7.74%
Canada	16,553,992,755	16,914,750,119	16,838,471,229	-0.45%

Source: Computation by the author based on data from the IMF

Use of SDRs — benefitting lenders. SDRs are not loans from the IMF, however some members used their SDRs to pay outstanding debts. *Forty-two* members used SDR1.2 billion to settle payments to the IMF's Poverty Reduction and Growth Trust (PRGT), a fund that caters primarily to LIC members. El Salvador, for one, *converted over $360 million worth of SDRs into dollars in 2022* to buy back sovereign bonds ahead of their 2023 and 2025 maturation dates. Earlier, *Mexico also announced using SDRs to pay its external debts.* Other countries such as Sri Lanka, Ukraine, Pakistan, Bangladesh, Iraq, Tunisia also *reduced their SDRs holdings because of payments to the IMF.*

Members with excess SDRs, mostly held by wealthy countries, are being urged to support other members by channelling their unused SDRs to the PRGT and/or the Resilience and Sustainability Trust (RST). As early as October 2021, the G20, composed of the world's biggest economies, quickly pledged to channel US$100 billion worth of SDRs but after two years, most of these countries are still struggling to deliver even *10% of their pledge.*

But there are more fundamental problems than unfulfilled pledges. The PRGT and RST are lending facilities of the IMF and loans extended entail policy conditionalities which usually consist of austerity of fiscal consolidation, deregulation, privatization and trade liberalization. In the case of *RST*, an IMF program with policy conditionalities will still be required even for middle-income countries who no longer have an ongoing IMF program, As pointed out in a *CEPR report*, "turning a reserve asset that adds nothing to a country's debt, and that has no conditions attached to it, into a loan with conditions attached, the main proposals for rechanneling SDRs have altered the nature of this unique instrument in fundamental ways with a potential net negative impact on countries that receive this form of assistance."

The likelihood of using SDRs for debt service is also high considering that the debt resolution measures hatched by the G7/G20 during the pandemic and still promoted by the IMF have failed in meeting their promises of debt relief. The Debt Service Suspension Initiative that expired in 2021 was *availed of by only 43 of the 73 eligible LICs, resulting in the suspension of only $13 billion in debt service or a mere quarter of the amounts projected by the G20.* As of end-2023, the current Common Framework had not brought about any significant debt relief.

Inequitable governance. When and how much SDR allocations will be made are not technical decisions made by some staff. These are political decisions by the IMF Board of Governors, its highest policy making body, where all members have a representative. A minimum of *85% of voting* shares is required to approve an SDR allocation and other major decisions. Voting shares are not equally divided to all members but distributed in a manner that largely reflects the quota shares. The *US holds the highest voting share which is currently 16.5%,* which means major decisions without this one member's consent. Similar to the quota system, and SDR distribution, the privileged few rich countries have disproportionately larger voting shares than developing countries in Asia, Africa and Latin America and the Caribbean, where most members are and where most of the world's population reside.

Strategic political considerations — reinforcing power inequalities. Through the decision-making power that it wields from its largest shareholders – the world's richest economies constituting the G7 – the IMF and complicit Southern governments have shaped economies and societies along neoliberal lines and market interests, resulting in greater inequality and deprivation for the poor and low-income groups. Concretely, these have been made possible through policy prescriptions and loan conditionalities that include cutting social service budgets, increasing regressive taxes and removing subsidies. Interventions have gone as deep as pressuring legislative changes to embed privatization, financial deregulation and trade liberalization as national framework laws.

A longer view of the IMF on the 80th year of its founding, together with the World Bank, thus presents a history of undermining the development of Global South countries and inflicting more harm than good on people, whole communities and the environment. This history is not past but continues to this day. Many years of civil society campaigning for deep reforms needed, such as addressing grave deficits in transparency and decision-making, have largely been ignored by the IMF and the World Bank. Such intransigence shows where their loyalties and interests really lie, not in poverty eradication as they persistently claim, but in maintaining and sustaining a poverty-creating status quo and the debt dependence of the Global South.

It is thus in the interest of protecting and advancing the rights and interests of Global South peoples to erode the dominant powers of leading financial institutions in the global financial architecture by rejecting narrow, short-term solutions that shift attention away from the systemic and structural nature of the debt problem.

What should be done?

As a non-debt creating source of financing, SDRs are hailed as the answer to problems of liquidity and insolvency and unpayable debts. However, as shown in the previous sections, entrenched inequalities in the IMF system itself already prevent developing countries from enjoying its purported benefits. Moreover, in the face of deepening debt dependence and failed debt relief mechanisms, it turns out that lenders like the IMF end up reaping the benefits due to the use of SDRs for debt repayments.

SDRs offer no solution in a context of sharply unequal economic and political relations where, among others, —

- A handful of wealthy countries control decision-making in the IMF and in other international financial institutions.
- The same wealthy countries lord over the bulk of SDR allocations because SDRs are distributed in proportion to the size of a country's quota share in the IMF.

- Transparency and accountability and other democratic principles are ignored.
- Global South countries do not have a voice and a say in the absence of a multilateral legal framework for sovereign debt resolution.

A systemic and historic problem that continues to impoverish the Global South and keeps it bonded to unsustainable and illegitimate debts requires systemic and transformative solutions. An important step in the direction of eroding the power monopoly of North governments and lending institutions is advancing the global demand for establishing a debt resolution framework under the auspices of the United Nations. Such a framework will work towards democratically discussing public debt-related issues that include the responsibilities of lenders and not only borrowers, the range of harmful loan conditionalities imposed by lenders and just, durable solutions, from suspension to debt cancellation.

At the same time, the urgency of engaging Southern governments on the debt issue is of prime importance. The Global South should not be made to choose between keeping up with debt service payments and fulfilling basic human rights, especially in desperate conditions of peoples at risk from economic difficulties and climate change impacts. While the demand for debt cancellation is pressed upon lenders, Southern governments should also be called upon to explore unilateral measures especially where peoples' needs are at stake. It is incumbent upon debt justice campaigners to forge the political will required to exercise the sovereign right to repudiate and stop paying debt service for unsustainable and illegitimate debts.

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