

Rechanneling IMF Special Drawing Rights

Some critical remarks on the achievement of the \$100 billion SDR rechanneling goal¹

The largest historic allocation of IMF special drawing rights (SDR) of over \$650 billion in August 2021 was the most important international financial measure taken to respond to the devastating social and economic effects of the COVID-19 pandemic. Its effectiveness was, however, limited by the unequal allocation of SDR along the lines of IMF quota. Thus, rich countries which did not need the additional SDR received the largest share of the allocation, fueling a debate about SDR rechanneling since the allocation. The debate on rechanneling revealed a lack of ambitious political will to overcome technical hurdles and actual rechanneling progressed slowly.

It was foreseeable that officials at the *Summit for a New Global Financing Pact* in Paris would announce that they have reached their target of collecting 100 billion US-dollar for SDR rechanneling. Reaching this target was mentioned by Nadia Calviño (Vice-President, Spain) and Kristalina Georgieva (IMF-Managing Director) at the roundtable on debt and SDR-channeling and will likely be part of some official statement of the summit. Let us consider briefly some critical points with regards to quantity and quality of SDR rechanneling to put the announcement of the achievement of this goal in perspective. The devil, as always, is in the details.

Quantity: How much?

- The fulfillment of the \$100 billion financing goal only refers to *pledges and commitments* that have been made, not to actual contributions and payments!
- In the absence of an official data base for the pledges we must assume that it contains the U.S. pledge for \$21 billion which is stuck in Congress. *ONE Campaign*, who provide the best overview of pledges divided by country, therefore do not include the U.S. pledge in the total.²
- It is questionable whether the contribution by Germany should be counted towards the fulfillment of the target. Germany's \$6.7 billion loan to the IMF's Resilience and Sustainability Trust (RST) is technically constructed in such a way that no cent of it will be rechanneled to countries of the Global South, which was the original purpose after all.³ The IMF does not count Germany's contribution towards its fundraising goal for the RST.⁴ The same goes for the contribution of over \$30 million by Estonia.
- If we look at actual contributions, rather than pledges, not even half of the \$100 bn goal seems to have been fulfilled. At the moment, all SDR-rechanneling has gone to IMF trust funds, the RST and the Poverty Reduction and Growth Trust (PRGT). The IMF reports \$16.1 billion from G20 countries for the 2021 PRGT fundraising round (\$14.5 billion for loans, \$1.62 billion for

¹ Short notes based on a longer briefing on SDR rechanneling that appeared in German language before the summit: <https://www.weed-online.org/themen/11152816.html>

² <https://data.one.org/de/data-dives/sdr/>

³ Germany contributed to the deposit and reserve account but not to the loan account of the RST from which loans are passed on to borrowing countries, IMF (2023): Resilience and Sustainability Trust – 2022 Contribution Agreements with Australia, Canada, China, Germany, Japan and Spain, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/23/Resilience-And-Sustainability-Trust2022-Contribution-Agreements-with-Australia-Canada-China-530087>

⁴ *Ibid.*, p. 1.

interest rate subsidies)⁵ and \$29.9 billion for the RST (not counting the standalone contributions of Germany and Estonia that don't provide resources for passing on loans).⁶

- The question of how much of this money has actually reached countries in the Global South can generally be answered with “not a lot yet”.⁷ Loans are disbursed in tranches over time. Furthermore, in order to maintain the reserve asset status of the SDR, the RST is set up in such a way that only two-thirds of the amount raised by the IMF will ever be passed on as loans.⁸

Quality: What for?

- Under current schemes, SDRs change their character in the rechanneling process: from additional reserves that can be used freely, they become loans with attached conditionality.⁹
- All SDR rechanneling so far went to the IMF. The on-lending of SDRs only became necessary due to the asymmetric distribution of quotas in the IMF, but now in turn strengthens the IMF, thus closing the circle of the unequal international financial architecture.
- CSOs and researchers point to fundamental problems and contradictions in the IMF's approach to climate change.¹⁰ A central point is the contradiction between its short-term focus on fiscal consolidation and the necessity to make long-term investments fostering an ecologically and socially just transformation.
- Countries can only receive loans from the RST if they also have a regular IMF program with upper credit tranche conditionality, which most countries try to avoid due to the political stigma and harsh economic conditions attached to them. The RST is based on the attempt to leverage more private finance. Its reform programs contain the promotion of public-private partnerships that come with great risks for public finances.¹¹
- Countries of the Eurozone are currently prevented from rechanneling SDRs to multilateral development banks (e.g. along the lines of the proposal by the African Development Bank) by the public statements of ECB president Christine Lagarde. Doubts have been raised about her interpretation and there was no formal ruling of the ECB on it so far.¹²

⁵ As of May 12, 2023, G20 countries only (including EU), <https://www.imf.org/en/Topics/low-income-countries>

⁶ As of June 8, 2023, <https://www.imf.org/en/Topics/Resilience-and-Sustainability-Trust>

⁷ Detailed sums are more complicated and technical <https://www.cgdev.org/publication/tracking-recycled-sdrs-more-hunt-bigfoot>

⁸ IMF (2022): Proposal to establish a Resilience and Sustainability Trust, April 2022, p. 42, 87, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/04/15/Proposal-To-Establish-A-Resilience-and-Sustainability-Trust-516692>

⁹ Chiara Mariotti (2022): Special Drawing Rights. Can the IMF's reserve currency become a transformative financial resource? Eurodad, https://www.eurodad.org/sdr_transformative_resource

¹⁰ Luisa Abbott Galvao (2022): 6 steps the IMF should take to stop enabling fossil fuels around the world. Friends of the Earth, Oil Change International, GenderAction, Recourse, Urgewald, https://priceofoil.org/content/uploads/2022/04/IMF_Brief_v3_041822.pdf; Jon Sward; Niranjali Amerasinghe et al. (2021): IMF Surveillance and Climate Change Transition Risks: Reforming IMF policy advice to support a just energy transition, Bretton Woods Project, Action Aid, <https://www.actionaidusa.org/wp-content/uploads/2021/08/IMF-x-climate-FINAL-1.pdf>; Task Force on Climate, Development and the IMF (2023): The International Monetary Fund, Climate Change and Development. A Preliminary Assessment, <https://www.bu.edu/gdp/files/2023/03/TF-Assessment-Report-FIN.pdf>

¹¹ <https://www.brettonwoodsproject.org/2023/04/resilience-and-sustainability-trusts-first-loans-promote-climate-ppps-raising-concerns-they-may-create-fiscal-risks/>

¹² Stephen Paduano (2023): SDR Rechanneling and ECB Rules. Why rechanneling SDRs to Multilateral Development Banks is not *always* and *everywhere* monetary financing, FDL Policy Note 7, <https://findevlab.org/sdr-rechanneling-and-ecb-rules/>

- Whether a wide ranging rechanneling of SDR, for example for the World Bank, is desirable in the current absence of a meaningful and deep reform process¹³ is, however, an additional political question.

Reform of the SDR-Regime

One of the lessons from the sluggish and technical debates on SDR rechanneling should be to focus on broader reforms of the rules of the SDR-regime in the near future. Together with other reforms, SDR can be an important element in the reform of the international financial architecture.

As recently outlined by UN Secretary General António Guterres these reforms would include more regular allocations as well as automatic allocations in times of crisis. Additionally, it would be important to change the current unequal allocation according to quota in a way that is reflective of needs.¹⁴

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Am Sudhaus 2, 12053 Berlin; kontakt@weed-online.org

www.weed-online.org

Author: Verena Kröss

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¹³ <https://www.brettonwoodsproject.org/2023/04/resilience-and-sustainability-trusts-first-loans-promote-climate-ppps-raising-concerns-they-may-create-fiscal-risks/>

¹⁴ UN (2023): Our Common Agenda. Policy Brief 6. Reforms to the International Financial Architecture, <https://www.un.org/sites/un2.un.org/files/our-common-agenda-policy-brief-international-finance-architecture-en.pdf>