SPECIAL DRAWING RIGHTS FOR GENDER EQUALITY

AN INFORMATION SHEET

FEMNET
The African Women's Development and Communication Network

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WHAT ARE SPECIAL DRAWING RIGHTS?

Special Drawing Rights (SDRs) are a supplementary reserve asset created by the International Monetary Fund (IMF) to bolster global liquidity. They serve as a unique financial instrument, representing potential claims on the freely usable currencies of IMF member countries.

SDRs are backed by five currencies: the U.S. Dollar, the Euro, the Yen, the Pound Sterling and the Renminbi as of 2015

Ever since their creation in 1969, a total of SDRs 660.7 billion (equivalent to about US$943 billion) have been allocated. The largest-ever allocation in history was approved in August 2021, in which about SDRs 456 billion the equivalent of US$650 billion were issued to IMF member countries. This allocation was timely to address the long-term global reserve needs to cope with the adverse effects of the Covid-19 pandemic.

What Can SDRs Be Used For?

SDRs are a potential tool for economic recovery thus enabling countries to address immediate economic challenges and support long-term growth. This is often achieved through:

- **Enhancing Liquidity and Monetary Reserves:** SDR allocations boost foreign exchange reserves, providing immediate liquidity that helps stabilize economies, manage balance of payments issues, and support monetary policy. This also includes offering emergency liquidity in times of crisis.
- **Supporting Currency Exchange and International Transactions:** SDRs can be exchanged for freely usable currencies, allowing countries to meet foreign currency needs for imports, debt repayments, and other international transactions, thereby enhancing economic stability and growth.
- **Supporting Debt Management:** Countries can use SDRs to repay existing debt or facilitate debt reduction negotiations. They can do this when they exchange SDRs for usable currency to settle outstanding debt obligations. This allows countries to reduce their debt burden and freeing up resources for public services, infrastructure projects, and other essential investments.

However, it is important to note that the usefulness of SDRs depends on a country's overall level of macro-economic development, current debt sustainability status and its external fiscal position. The most powerful and high-income countries benefit more from SDRs as opposed to low-income countries.

How Are SDRs Allocated?

SDRs allocations are based on a country's IMF quota.
Quotas are the building blocks of the IMF's financial and governance structure.

Beyond using quotas as a determinant towards the allocation of SDRs, they are used to determine the maximum amount of resources that each member is obliged to pay to the IMF; the voting power held be members in IMF decisions, and the maximum amount of loans that members can obtain from the IMF under normal access.

Therefore, the allocation of SDRs is determined by the economic power of a nation. The most advanced economies with more quotas receive the highest allocations of SDRs- and thus hold the highest power in influencing decisions at the IMF.

This explains why in the most recent SDR allocation, G20 countries received 68%, EU countries received 14%, and other countries (outside the EU and G20) received only 14% of the total allocation.

Who are the Members of the G20?

Argentina Australia Brazil Canada China	France Germany India Indonesia Italy	Japan Mexico Russia Saudi Arabia South Africa	South Korea Turkey United Kingdom United States European Union (EU)

Which Countries are in the European Union?

Austria Belgium Bulgaria Croatia Cyprus Czech Republic Denmark	Estonia Finland France Germany Greece Hungary	Ireland Italy Latvia Lithuania Luxembourg Malta Netherlands	Poland Portugal Romania Slovakia Slovenia Spain Sweden

Unfortunately, with the current system, countries are only able to increase their SDRs by increasing their voting power and IMF quota shares.

That is why, there have been calls on the need for re-channelling or recycling SDRs.

Civil Society Organizations Call for Principles for Fair Channeling of Special Drawing Rights

In April 2022, a group of over 200 CSOs issued an open letter to G20 Finance Ministers, Central Bank Governors and the IMF calling for a fair SDR channelling mechanisms that support the needs of less advanced economies.

Read the letter here: https://medium.com/@OxfamIFIs/civil-society-organizations-call-for-principles-for-fair-channeling-of-special-drawing-rights-2f3795cdb14c

What Does It mean To Re-Channel/ Recycle Special Drawing Rights?

Re-channelling SDRs refers to a process of making excess SDRs available to other countries for use. In reference to the latest allocations, re-channelling SDRs would mean that advanced economies- which received more SDRs than they needed would seek ways of making low-income countries benefit from the excess SDRs which they do not need.

Mechanisms For Re-Channelling/Recycling SDRs

The IMF has been leading conversations around the re-channelling of SDRs. While it is important that the mechanisms meant to channel existing and unused SDRs preserve the characteristics that make them special[1], this has not been the case with the proposals fronted so far.

Mechanism One: Poverty Reduction and Growth Trust (PRGT)[2]

The PRGT was the first existing mechanism for channelling SDRs. It was thus considered the as the quickest and easiest means. However, the PRGT diverts SDRs from their original characteristics as it creates debt and has a history with attaching fiscal consolidation as a condition for countries to access the fund. More still, the PRGT is only available to a small group of low-income countries, leaving out middle income and emerging economies which are home to millions of poor people.

1. Special Drawing Rights are special because unlike other global liquidity instruments because they are cost and debt free and come with no conditionality.

2. About the Poverty Reduction and Growth Trust (PRGT): https://www.imf.org/en/Topics/PRGT

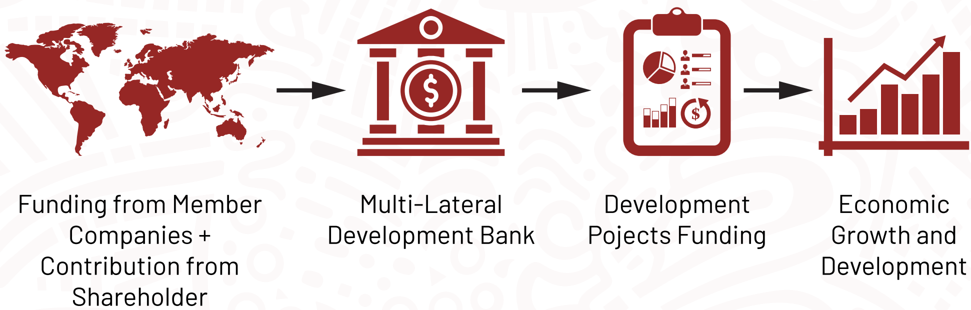
Mechanism Two: The Resilience and Sustainability Trust (RST)[3]

The RST was created in recognition of the gaps that exist within the Global Financial Architecture i.e. the lack of a dedicated instrument to provide concessional finance to low- and middle-income countries to address climate change and emergencies. However, in its design it contains faults which would alter the original nature of SDRs, thus compromising its utility. Additionally, the RST deepens the involvement of the IMF in global climate governances and finance, which would be controversial evolution of the organisation.

Mechanism Three: Channelling SDRs through Multi-Lateral Development Banks (MDBs)

Another proposed mechanism for channelling SDRs is through other prescribed holders such as Multi-Lateral Development Banks. However, the IMF has previously argued against channelling SDRs through regional development banks as this would undermine their status as a reserve asset. However, early in 2024, it was noted that the IMF would need a legal change in order to enable the use of SDRs in MDB re-channelling facilities. The use of SDRs for private capital issuance was subject to approval by the IMF board and MDBs would be responsible for finding contributors to these new facilities.

Multi-Lateral Development Bank



3. About the Resilience and Sustainability Trust (RST): https://www.imf.org/en/Topics/Resilience-and-Sustainability-Trust

Special Drawing Rights In Africa

African countries received roughly $33 billion, or just 5% of the total SDRs allocated in August 2021. For a comparison, the U.S received $113 billion, or 17% of the total allocation.[4]

IMF Allocations Kenya, Malawi, Zambia and Senegal (August 2021)

Country	SDR Allocation (SDR Billion)	USD Billion	Type of Use	SDRs as a % of the Global Allocation
Kenya	0.54	0.74	**Fiscal Support** National budget reports indicate that the SDRs utilised so far were channelled to recurrent expenditure and external debt servicing. For instance, Kenya used its allocations to service debt, particularly with regard to its debts with Kenya airways.	0.11%
Malawi	0.13	0.18	**Reserves & Fiscal** The SDRs were also used in exchange for Malawian Kwacha to fill foreign exchange shortages. Additionally, SDRs have been channelled towards ensuring Food Security.	0.03%
Zambia	0.97	1.33	**Fiscal Support** The SDRs funded Youth and Women Empowerment Funds, the Social Cash Transfer, helped fund grants to all hospitals in Zambia and financed medical supplies, equipment & Covid-19 vaccines to the Zambia Medicines and Medical Supplies Agency (ZAMMSA).	0.20%
Senegal	0.32	0.44	**Fiscal Support** The authorities spent 0.9% of GDP on the health sector, cash transfers, and faster repayment of unmet obligations. A significant share of the SDR allocation is kept as a buffer to guard against fiscal risks.	0.07%

Source: IMF SDR Database

In 2021, the four countries received US $ 2.7 billion, accounting for barely 8% of the continental SDR allocation (see Table 10 above). The size is smaller, relative to GDP, far below the annual projection of 14% of GDP as additional financing to meet SDGs in low-income and low-middle income economies.

4. Guide to the special drawing rights of the International Monetary Fund and recommendations for change: https://repository.uneca.org/bitstream/handle/10855/49855/b12036602.pdf?sequence=1&isAllowed=y

Given that the IMF does not impose conditions requiring recipient nations to channel SDRs into specific sectors or projects, individual countries have the discretion to decide on what they use their allocated SDRs for. With increase in public debt, some of the SDRs received were channelled towards debt servicing leaving very little for social expenditure.

SDRs in Africa have been utilised to increase/supplement official/exchange reserves; settle the balance of payment (BOP) deficits; reduce reliance on costly domestic or external debt sources like capital market borrowing; and so on.[5] In addition, any use of SDRs attracts interest when countries use them below their quota share. However, the interests are below the alternative sources of financing and there is no repayment of the principle.[6]

5. Guide to the special drawing rights of the International Monetary Fund and recommendations for change: https://repository.uneca.org/bitstream/handle/10855/49855/b12036602.pdf?sequence=1&isAllowed=y

6. Statistical Treatment of SDR Allocation: Frequently Asked Questions: https://www.imf.org/external/np/exr/faq/pdf/sdrfaqsta.pdf

How SDRs Can Contribute To Financing A Feminist Future:

An essential aspect of feminist fiscal justice involves harnessing the complete capacity of SDRs which may be converted into cash by governments. The existing distribution of SDRs does not facilitate the achievement of a feminist future that effectively addresses the needs of women and girls throughout the African continent. Examining the redistribution of Special Drawing Rights (SDRs) from a gender perspective and being intentional about the allocation of money can enhance their effectiveness and advance a more comprehensive recovery from the COVID-19 pandemic. Below are some feminist recommendations for consideration;

1. **National laws on the management of SDRs:** Countries should put in place national laws or policies to guide the allocation, utilisation, and reporting of SDRS. This should be in a participatory manner, and laws should provide for accountability mechanisms to check for the rightful use of SDRs. This will further contribute to ensuring transparency and accountability regarding the use and distribution of SDRs.
2. **Invest in capacity strengthening and awareness creation initiatives on SDR processes.** It is crucial to ensure that all individuals, particularly women and girls, have knowledge of SDR processes and actively engage at the national level to exert influence on governments about the effective utilisation of SDRs to address their most pressing needs.
3. **Targeting expenditure of SDRs towards sectors that are critical to the wellbeing of women and girls:** Some of the Special Drawing Rights should be allocated specifically for funding areas such as climate change mitigation and resilience efforts, health, education, water, and sanitation. These measures would be crucial in guaranteeing women and girls' access to these services, while also helping to decrease the amount of time spent on unpaid care duties, thereby enabling women to participate in income-generating activities.
4. **Review of mechanisms for the re-channelling and recycling of SDRs:** The initially proposed mechanisms to facilitate the rechannelling and recycling of SDRs should be reviewed by the IMF to ensure that they are not keeping countries in vicious debt cycles- that would limit their ability to finance the needs of marginalised groups in society- especially women and girls. For example, the Liquidity and Sustainability Facility by UNECA, a financial mechanism designed to help African states access affordable financing and reduce liquidity premiums associated with borrowing from international bond markets is one that could be leveraged on.

Additional Resources

Reconceptualising SDRs as a tool for development finance: https://www.brettonwoodsproject.org/wp-content/uploads/2023/10/Reconceptualising-SDRs-as-a-tool-for-development-finance-Oct-2023.pdf

Shaping Africa's Voice on Special Drawing Rights Through Global Financial Architecture Reforms: From Allocation to Utilisation: https://afrodad.org/sites/default/files/documents/Synopsis%20of%20the%20SDRs%20Study.pdf

Factsheet: Special Drawing Rights (SDR): https://www.imf.org/en/About/Factsheets/Sheets/2023/special-drawing-rights-sdr

Guide to the special drawing rights of the International Monetary Fund and recommendations for change: https://repository.uneca.org/bitstream/handle/10855/49855/b12036602.pdf?sequence=1&isAllowed=y