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What next for Special Drawing Rights?

Lessons from Christian Aid in Sierra Leone, Kenya and Malawi

1. Introduction

In August 2021, the IMF created USD $650 billion in Special Drawing Rights (SDRs), an international reserve currency, to respond to urgent financing needs triggered by the Covid-19 pandemic. SDRs were distributed to almost all countries without policy conditions attached. While their distribution was incredibly unfair, based on the quota-based governance structure of the IMF, and meant that rich countries received over 60% while low-income countries received less than 4%, for many developing countries, it was the largest source of external financing received during the crisis.

2. How were Special Drawing Rights used?

In 2022, Christian Aid and its partners conducted research in Sierra Leone, Kenya and Malawi to find out how governments were using their SDRs and advocated for spending these resources in ways that reduce inequalities and serve marginalized communities and people in poverty.

Kenya

Kenya received 0.11% of the total SDR disbursement and research carried out in partnership with the Kenya Institute of Public Finance established that the government committed to using half of it to shore up its reserves and the other half to support its public budget. This was later reflected in Kenya's 2022 Budget Review, which designated this financing to recurrent expenditures to cushion the poor from the adverse effects of the pandemic, including purchasing Covid-19 vaccines. At the same time, Kenya continues to face an increasingly constrained fiscal environment. In 2022, USD 2.5$ billion in spending cuts were announced, equivalent to about half of Kenya's education budget, with more planned for this year that are expected to hit the agricultural, energy and education sectors and come on top of earlier spending restrictions for most of these sectors.

Malawi

Malawi received 0.02% of the total SDR disbursement. Together with the Malawi Economic Justice Network, we established that the government immediately used almost all of its SDRs to pay its debt obligations. The size of Malawi's public budget was maintained at the time, arguably made possible by SDRs providing much needed breathing room. Later that year however, Malawi's foreign currency reserves became depleted, triggering acute fuel and food crises amidst a global cost of living crisis. This suggests that the amount of SDRs created still fell short of providing Malawi with adequate financing to avert a reserve crisis, ultimately leading to it needing financing under the IMF's new Food Shock Window, bringing the country back to IMF loan programmes for the 17th time since 1965.

Christian Aid Sierra Leone organizing national SDR workshop

Sierra Leone

Sierra Leone received 0.04% of the total SDR disbursement. While the government retained the majority of its SDRs to shore up its reserves, advocacy with the Sierra Leone Budget Advocacy Network pushed policymakers to support structurally underfunded sectors. In response, the government of Sierra Leone committed to using a part of its SDRs for critical social programmes, including to increase access to Covid-19 vaccines and to strengthen the provision of school food programmes. In May 2023 however, Sierra Leone's economic challenges intensified, leading to them having to agree to their 20th IMF loan programme, conditioned on restricting public spending.

3. Lessons on SDRs from the ground

- Transparency and accountability is vital

Christian Aid's work found that SDRs are not a well-understood instrument amongst media, policymakers and the public at large. In Malawi, parliamentary oversight mechanisms were not consulted in decisions about SDRs, while in Sierra Leone, different government departments were unaware SDR resources were available to them. While the IMF publicly keeps track of how many SDRs a government holds, this tells us nothing about where these additional resources end up. This opacity risks under-utilizing this important tool on the one hand, while on the other potentially creating unrealistic expectations about how they work. Most importantly, lacking public financial transparency and accountability on SDRs can get in the way of the public knowing how governments allocate resources and holding policymakers accountable to make these decisions in the interests of people and planet.

- SDRs did not go to waste…

Our research demonstrated that all three countries studied used their SDRs in a variety of ways to suit differentiated needs. This included by urgently shoring up reserves, paying off debts, and supporting social programmes that are critical to marginalised communities. Research by others confirms that the majority of developing countries rapidly used their SDRs, with CEPR finding that at least 69 countries used them for budget support, while 55 countries also used SDRs to pay back IMF loans.

- …but not enough were made available

Ultimately, the 2021 allocation of SDRs, and the international financial response to the pandemic generally, was inadequate to prevent a significant tightening of fiscal space in the global South taking place right now, amidst increasing development and climate financing needs and looming deadlines for meeting the Sustainable Development Goals and the Paris Climate Agreement.

4. Where next for SDRs?

As states discuss the crises now unfolding and how SDRs could help address financing needs, we urge them to listen to those most affected by their decisions calling for:

1. The urgent channeling of USD $100 billion of unused SDRs as promised by the G20, in ways that are consistent with the civil society Principles for Fair SDR Channeling.

2. Allocating an additional USD $2.5 trillion in SDRs to meet urgent financing needs, as per our joint 2022 letter to the G20.

3. Urgently begin a fundamental review process to reform the SDR system, as per the UN SG's recent report, to enable more equitable allocations in future.

While this last step may take longest to realize, it is the most urgent because our experiences tell us we need deep reform of our global financial system, including:

- Making regular SDR allocations to achieve their original intent and mitigate exchange rate biases embedded against the global South in the global financial system.

- Allowing for selective SDR allocations to take place more easily and on a needs basis, to only go to those countries facing weak external positions.

- Agreeing specific and objective conditions under which selective SDR allocations are triggered and for what amount based on need. This should not be up to specific congressional rules of one member state.

- Reclassifying SDRs as equity instead of as liabilities.

- Decoupling IMF quotas from the distribution of SDR allocations and examining the role of the IMF and SDRs in embedding neo-colonial and racist global power structures.