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Fiscal SOS via Special Drawing Rights sees growing momentum

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Almost one year after the World Health Organization (WHO) declared COVID-19 a global pandemic, one of its striking revelations has been the disparity between the fiscal and monetary firepower available to developed compared to developing countries. Advanced economies (representing 39 countries) have spent an aggregate of USD5 trillion in fiscal stimulus, while developing economies (155 countries) have been able to finance just USD1.5 trillion.[1]

While this yawning gap illustrates the structural asymmetries in fiscal capacity (as well as the privilege of reserve currency status) it has also widened economic and social inequalities. In its January 2021 World Economic Outlook, the International Monetary fund (IMF) stated that "the developing world is mired in severe challenges due to high debts, few financial resources and lack of access to vaccines."[2]

Access to liquidity for developing countries is a top priority. One of the most accessible and low-cost sources of liquidity is Special Drawing Rights (SDRs), a reserve currency that can be exchanged for cash. Created by the IMF in 1969 to support member countries' foreign exchange reserves, SDRs are based on a basket of five currencies (the USD, the Euro, the Chinese renminbi, the Japanese yen and the British pound).[3] Unlike other IMF instruments, SDRs are a non-conditional, non-debt creating resource. It is, in effect, a liquidity booster not dis-similar to quantitative easing.

On 29 January, the Italian presidency of the Group of 20 (G20) noted that Italy will urge wealthy nations to support a new issuance of USD500 billion of SDRs, describing fiscal support to low-income countries as "an absolute priority."[4] Just five days before, UN Secretary-General António Guterres stated at the World Economic Forum that a new allocation of SDRs must form part of a worldwide fiscal relief campaign, "so that no one is forced to choose between providing basic services for their people or servicing their debts."[5]

1 United Nations Conference on Trade and Development (UNCTAD) figures. Not all fiscal stimulus has been 'real' (i.e. tax deferrals, which have to be repaid later). In addition, not all fiscal stimulus has yet been deployed.
2 International Monetary Fund, World Economic Outlook Update, January 2021, see: https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update.
3 See IMF, Fact Sheet – Special Drawing Right, 24 March 2020, at https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR.
4 "Italy G20 presidency to push for debt relief, new IMF drawing rights," Reuters, 29 January 2021, see: https://tbsnews.net/world/italy-g20-presidency-push-debt-relief-new-imf-drawing-rights-193822
5 Special address at Davos Agenda António Guterres, 25 January 2021, see: https://www.un.org/sg/en/content/sg/speeches/2021-01-25/special-address-davos-agenda

Third World Network (TWN) is an independent non-profit international research and advocacy organisation involved in bringing about a greater articulation of the needs, aspirations and rights of the peoples in the South and in promoting just, equitable and ecological development.

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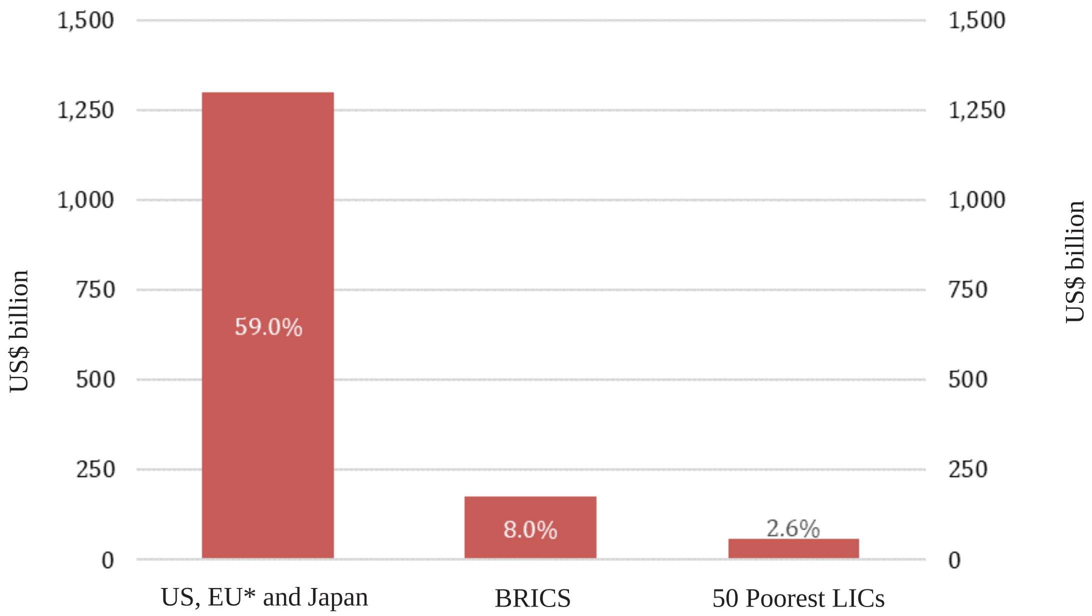
The call for new SDRs has been consistently supported by IMF Managing Director Kristalina Georgieva, who proposed the idea to the G20 in March 2020 as a possible measure to assist developing countries. Economists, academics and civil society groups from around the world have also backed new SDR issuances.

Despite their broad backing, former US Treasury Steven Mnuchin vetoed SDR issuances at the IMF Board in April 2020. IMF decision-making is moot without US backing (due to the assignment of voting power in congruence with financial contribution and GDP size) and Washington has consistently demonstrated an unwillingness to aid countries considered to be political adversaries.

SDR ALLOCATION CHALLENGES

Concerns over SDR allocations have been fraught since they were first created. Countries receive SDRs according to their IMF quotas, or financial contribution shares, rather than fiscal need. This creates an inequity by which almost 60% of SDRs go to wealthy countries. On the flipside, countries with the greatest need receive the least.

Country allocations in event of USD2 trn in new SDR issuances



Sources: IMF, Third World Network

*EU figures are dated 31st December 2020, so contain United Kingdom figures

Even with this imbalance, however, a new SDR issuance would offer significant fiscal contributions to low-income countries. For example, a USD2 trillion issuance would generate USD1.38bn to Ethiopia, amounting to 50% of its health budget.[6] Cambodia would receive USD1.62bn, or 56% of its annual health costs.[7] Ghana, meanwhile, would stand to gain USD3.82bn, approximately 200% of its medical outlays.[8]

New SDRs would also provide liquidity to middle-income countries excluded from the G20's debt suspension initiative. Despite being home to more than 75% of the global population, and accounting for almost 96% of

6 IMF figures for SDR allocations 2020. Latest World Bank figures (2018) for annual health expenditure.
7 IMF figures for SDR allocations 2020. Latest World Bank figures (2018) for annual health expenditure
8 IMF figures for SDR allocations 2020. Latest World Bank figures (2018) for annual health expenditure

the external debt of all developing countries (excluding China and India), middle-income countries have so far not been granted access to G20 debt relief.[9]

Various proposals have been suggested to address the skewed allocation of SDRs. One such proposal would be for countries with no immediate need for their SDRs to voluntarily provide them to countries that do.[10] But the G20, as well as the IMF, note that there is near total consensus about re-purposing rich country SDRs through concessional loan facilities, such as the Fund's Poverty Reduction and Growth Trust. Georgieva noted that roughly USD20 billion of unused SDRs have already been reallocated to developing countries through concessional loans.[11]

Admittedly, this may sound like a pragmatic approach capable of winning favor with wealthy nations who might otherwise hesitate to voluntarily offer unconditional liquidity. However, it is an unfortunate recourse for two reasons.[12]

First, it will almost certainly discourage wealthy countries from offering direct and unconditional transfers. While such transfers are technically possible within the Fund, there are legal barriers in several countries that require authorization from the national government.

Second, the challenge with reallocating SDRs through loans, even if concessional, is that they may also be attached to the IMF's characteristic structural adjustment policies. These include, for example, austerity and privatisation measures such as reducing public spending for social sectors, or opening up public services to private ownership.

The pandemic has demonstrated that accessible and affordable public services, especially in health, education and social protection, are indispensable to human survival. This begs the question of whether the costs associated with IMF conditionality are a fair price to pay for the urgent need for fiscal liquidity. In April 2020, over 500 organizations and individuals signed a petition calling on the IMF to put an end to its history of requiring fiscal consolidation in exchange for low-cost loans.[13]

During the global financial crisis of 2008, the possibility of re-formulating SDR allocations in line with fiscal needs was discussed. A new arrangement, it was argued, would include criteria such as development indicators, the need for foreign exchange reserves and the relative proportions of national income devoted to reserves.

The UN Conference on Trade and Development (UNCTAD) suggested that SDR issuances could be linked to the needs of developing countries by allowing the IMF to invest some of its SDR funds in the bonds of multilateral development banks.[14] Such a proposal was made by a UN panel of experts in the 1960s, before the liberalization of financial markets took off, and when access to capital market financing by developing-country borrowers was very limited.

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9 UN Economic Commission for Latin America and the Caribbean, "Costa Rica Presents a Proposal for a COVID-19 Economic Relief Fund," 25 September 2020, see: https://www.cepal.org/en/pressreleases/costa-rica-presents-proposal-covid-19-economic-relief-fund#:~:text=In%20the%20framework%20of%20the%2075th%20United%20Nations%20General%20Assembly,the%20pandemic%20and%20an%20instrument.

10 Kevin P. Gallagher, Jose Antonio Ocampo and Ulrich Volz, IMF Special Drawing Rights: A key tool for attacking a COVID-19 financial fallout in developing countries, Brookings Institute Blogs, 26 March 2020, at https://www.brookings.edu/blog/future-development/2020/03/26/imf-special-drawing-rights-a-key-tool-for-attacking-a-covid-19-financial-fallout-in-developing-countries/.

11 International Monetary Fund, "Joint Press Conference by IMF Managing Director Kristalina Georgieva and IMFC Chair Magdalena Andersson," 19 January 2021, see: https://www.imf.org/en/News/Articles/2021/01/19/tr011821-transcript-of-joint-press-conference-by-imf-managing-director-and-imfc-chair-andersson.

12 ActionAid and Third World Network, "Fruits of the Crisis: Leveraging the Financial & Economic Crisis of 2008-2009 to Secure New Resources for Development and Reform the Global Reserve System," January 2010, see: https://www.twn.my/title2/finance/docs/sdr_reserve_final.pdf.

13 See: https://medium.com/@Oxfam/the-imf-must-immediately-stop-promoting-austerity-around-the-world-49a8d7ba7152

14 UNCTAD, Trade and Development Report 2009: Responding to the global crisis, see: https://unctad.org/system/files/official-document/tdr2009_en.pdf

NEW MOMENTUM

The recent confirmation of Janet Yellen as US Treasury Secretary has raised hope for international cooperation on sustainable development financing and debt assistance for poor countries.

In a press conference on 19 January, Georgieva mentioned that IMF leadership had requested that SDRs remain firmly on the table as a possible emergency tool.[15] On 14 January, a petition organized by dozens of international humanitarian, development and policy organizations urged President Joe Biden to act swiftly on a global response to the COVID-19 pandemic, in particular by directing the US Treasury to support an allocation of USD2 trillion worth of SDRs.[16]

Organizations signing the letter include the AFL-CIO (the largest federation of unions in the U.S.), Global Citizen, the American Friends Service Committee, Amnesty International USA, Bread for the World, the Iowa Farmers Union, Jobs With Justice, NETWORK Lobby for Catholic Social Justice, Oxfam America, Partners in Health, T'ruah: The Rabbinic Call for Human Rights, and the United Methodist Church – General Board of Church and Society, among many others.

To soothe the liquidity crunch resulting from the global financial crisis, USD250 billion in SDRs were issued in 2009. Due to the greater economic impact from COVID-19, numerous economists have called for new issuances ranging from USD500 billion to USD4 trillion. Legislation to issue USD2 trillion in SDRs passed the U.S. Congress House of Representatives twice in 2020.

The bill, "Robust International Response to Pandemic Act,"[17] also calls for the relaxation of fiscal targets and opposes the approval or endorsement of any loan, grant, document, or strategy that would lead to a reduction in health care spending or any other expenditures that would impede the ability of a country to prevent (or contain) the spread of, or treat persons who are infected with, the virus.

Former U.S. Treasury Secretary Larry Summers and former British Prime Minister Gordon Brown, who supported the 2009 SDR issuance, called for USD1 trillion-plus in new monies. They noted that "if ever there was a moment for an expansion of international money known as Special Drawing Rights, it is now."[18] With the G20 opting for a low bar of USD500 billion, an opportunity may be missed to provide financing commensurate with the depth of the pandemic's economic, social and humanitarian costs.

Yet another way that liquidity could be generated is the consistent call by many civil society organizations for the IMF to sell its gold reserves and other assets in its General Resources Account, estimated at USD140 billion, for cash. This too was advocated during the 2008 crisis.

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15 International Monetary Fund, "Joint Press Conference by IMF Managing Director Kristalina Georgieva and IMFC Chair Magdalena Andersson," 19 January 2021, see: https://www.imf.org/en/News/Articles/2021/01/19/tr011821-transcript-of-joint-press-conference-by-imf-managing-director-and-imfc-chair-andersson.

16 See: https://static1.squarespace.com/static/5ec6bed76ba5e669b5ad6784/t/6000718c7e274a46bd2e54f5/1610641804221/Letter+to+President-Elect+Biden+on+Global+Covid+Relief.pdf.

17 US House of Representatives, US House of Representatives Bill 6581 –Robust International Response to Pandemic Act, 116th Congress (2019-2020), 21 April 2020, at https://www.congress.gov/bill/116th-congress/house-bill/6581/text.

18 Gordon Brown and Lawrence Summers, National governments have gone big. The IMF and World Bank need to do the same, Washington Post, 14 April 2020, https://www.washingtonpost.com/opinions/2020/04/14/national-governments-have-gone-big-imf-world-bank-need-do-same/.