

Special Drawing Rights

Can the IMF's reserve currency become a transformative financial resource?



eurodad
european network on
debt and development



By Chiara Mariotti

Executive summary

Since the 2015 Paris Climate Agreement, the urgency of the climate crisis and the magnitude of the financial resources required to tackle it have made clear the need for profound reforms to the international financial architecture. The Covid-19 pandemic has increased the need for additional resources, eroding global progress on poverty reduction, deepening inequalities and pushing many developing countries to the verge of sovereign default. In response to this, in August 2021 the International Monetary Fund (IMF) issued a new US\$650 billion allocation of Special Drawing Rights (SDRs) – the largest allocation in history.

SDRs are a reserve asset originally created to help IMF member countries face balance of payment crises, and are distributed on the grounds of countries' IMF quotas. They have two characteristics that make them 'special' and extremely valuable at a time of crisis: they create no debt in the recipient country and they come with no conditionality.

From the beginning, the new SDRs allocation was presented as 'a shot in the arm' to the global economy that would supplement countries' foreign exchange reserves and reduce their reliance on domestic or external debt, thereby creating space to step up their Covid-19 response, including vaccination efforts. Indeed, just a few months after the allocation, at least 80 developing countries have been using their SDRs either to purchase foreign currency or for fiscal expenditure.

However, the allocation was inadequate in size when compared to its ambitious and broad goals and the magnitude of countries' needs. Moreover, given its unfair distribution

based on IMF quotas, it did not reach the countries that needed it the most: of the \$650 billion, only about \$275 billion went to emerging and developing countries, and low-income countries received around \$21 billion. The need for reform of the unfair quota system soon became clear. Instead, the discussion progressed to focus primarily on how to create mechanisms to channel unused SDRs from rich to developing countries. Both the G20 and the G7 committed to reallocate \$100 billion of SDRs but not a cent has been channelled yet.

This briefing takes stock of this discussion and assesses the different solutions proposed so far. It reveals that all proposals reflect the shortcomings and injustices of the existing financial architecture and do not offer satisfying ways forward unless substantial reforms are implemented.

The only concrete action has been the design of a new fund, the Resilience and Sustainability Trust (RST), which would channel SDRs through the IMF. Far from being a 'silver bullet', the RST presents several limitations in its design which make it misaligned with the principles proposed by CSOs in September 2021 for just and transparent SDRs channelling and increase the risk of getting little traction from developing countries. Another limitation is that, as it currently stands, it will only be able to absorb about \$50 billion of SDRs over a decade. Meanwhile about US\$400 billion of the newly allocated SDRs are left idle in central banks around the world. Finally, the RST's focus on promoting reforms in the area of climate action will increase the IMF role in global climate governance; this is a controversial move that warrants further scrutiny. Overall, the RST risks failing to support a sustainable and equitable recovery, in a moment in which the IMF is already contested for continuing to push countries towards fiscal austerity.

Meanwhile, the proposals put forward to channel SDRs outside the IMF, especially through Multilateral Development Banks (MDBs), have encountered political opposition motivated by technical constraints – mostly from central banks and linked to the need to preserve the reserve asset nature of SDRs. Channelling SDRs for climate finance received a lot of attention at COP26, but the options currently on the table are either not yet technically feasible or they are inadequate to provide high quality finance for climate adaptation and loss and damage.

Despite these obstacles, it remains critical to design viable and just alternatives to channel SDRs outside of the IMF. It is a moral duty to find adequate ways to mobilise these resources given the magnitude of the global challenges that the world faces. Designing and implementing better alternatives for SDRs channelling requires substantial reforms to SDRs processes and institutions. Civil society must push for these reforms to maximise SDRs' potential as a source of global liquidity for equitable and just sustainable development and climate finance.

To this end, we call on the IMF, the G20 governments and in particular their finance ministers, and Central Bank Governors to consider the following set of reforms:

I. Adopt urgent reforms to SDRs mechanisms and institutions

- A new urgent allocation of \$2.5 trillion SDRs is warranted following the continuation of the pandemic and the additional global economic uncertainty triggered by the war in Ukraine.
- In the short term, the IMF should consider implementing regular SDRs allocations that are not linked to existing members' quotas and adopt instead a needs-based allocation formula that makes them directly available to the countries that need them when they need them.
- Any new allocation should be additional to current and future global climate finance goals and to Official Development Assistance (or aid) commitments, and channelling of SDRs should be counted as contributions towards these commitments only when provided as grants or highly concessional finance.

II. Implement substantive reforms to the RST to ensure that it is compatible with the objective of supporting a sustainable and equitable recovery

- Broaden the eligibility criteria to include all climate-vulnerable developing countries, regardless of income level.
- Revise the terms of financing so that the RST provides highly concessional financing that does not undermine members' debt sustainability and is not linked to having an existing IMF program. Access limits should be increased.

- Include state contingent clauses in RST loans to protect recipient countries on the wake of external shocks.
- Prioritize country ownership and avoid harmful conditionalities, particularly those focused on fiscal consolidation and on enhancing the role of the private sector in public services delivery.
- Before implementing the RST, the IMF should convene a consultative discussion, including a broad range of stakeholders, to ensure that its design supports a just, feminist transition.

III. Develop alternatives to channelling SDRs outside the IMF

- Additional mechanisms to channel SDRs outside the IMF should preserve the key SDRs characteristics of being debt free and unconditional.
- The IMF should expand the closed circuit in which SDRs circulate by allowing the creation of new prescribed holders, and central banks should adopt a more flexible understanding of SDRs reserve asset status.
- SDRs channelling mechanisms should be designed to serve the specific needs of climate finance, meaning they should be predictable, made available as grants and be used to address the most pressing needs of climate adaptation and loss and damage.

IV. Adopt structural reforms to democratise the global financial architecture and expand fiscal space

- The IMF should reform its governance towards a more equitable repartition of its quotas. This would address many of the limitations encountered in ensuring that SDRs support countries recovery and deal with currently emerging new external shocks.
- Any present and future SDR issuance and channelling should not deter from other measures needed to expand countries fiscal space, such as meeting the 0.7 GNI/ODA target, debt cancellation and structural reforms towards a multilateral debt resolution framework and UN Tax convention.

Three years into the pandemic the need for deep transformation of the global financial architecture is more evident and urgent than ever. The set of reforms outlined above are ambitious and not without technical difficulties, but they are feasible provided there is political will. If implemented, SDRs would turn into a powerful manifestation of international solidarity, enabling redistribution of income to tackle the inequality crisis and reparation for developing countries for the harm that they suffer because of climate change caused by rich countries.

Introduction

The global economic governance system is in turmoil. Since the 2015 Paris Climate Agreement, the urgency of the climate crisis and the magnitude of the financial resources needed to tackle it have made clear the need for profound reforms to the international financial architecture. The Covid-19 pandemic has increased the need for additional resources, eroding global progress on poverty reduction and human development, deepening inequalities and pushing many developing countries to the verge of sovereign default. Despite the fact that levels of global liquidity are high, it is lacking where it is needed the most: the public budgets of developing countries. This was evident in the substantially different fiscal responses to the Covid-19 crisis between developed countries and low-income economies, being on average 21 per cent of Gross Domestic Product (GDP) in the former and 5 per cent of GDP in the latter.¹ As a result of the pandemic, the gap in financing needed to meet the Sustainable Development Goals (SDGs) has increased from US\$2.5 trillion per year to \$3.6 trillion.²

In this turbulent and dramatic context, in August 2021 the International Monetary Fund (IMF) mobilised one of the least-known tools in its arsenal: Special Drawing Rights (SDRs). SDRs are a reserve asset, originally created by the IMF to help its member countries face balance of payment crises, and they are distributed on the grounds of countries' IMF quotas (see Box 1, overleaf). They have two characteristics that make them 'special' and extremely valuable at a time of crisis: they create no debt in the recipient country and they come with no conditionality.

At the outset, the new SDRs allocation was presented as 'a shot in the arm' to the global economy³ that would supplement countries' foreign exchange reserves and reduce their reliance on more expensive domestic or external debt, therefore creating space to step up their Covid-19 response, including in their vaccination efforts, and their climate action.⁴ In other words, they were meant to help countries relax their budget constraints in responding to the Covid-19 crisis and engaging in the transition towards clean and affordable renewable energy sources and energy efficiency policies.

However, despite the unprecedented size of the 2021 SDRs allocation, equivalent to \$650 billion, it was clear from the beginning that it was inadequate in size to achieve its ambitious and broad goals, and that it did not target the countries that needed it the most, because of its unfair distribution based on IMF quotas. The solutions to this problem that are being discussed focus on creating mechanisms to channel unused SDRs from rich to developing countries. To this end, the IMF has proposed creating a dedicated new fund, the Resilience and Sustainability Trust (RST), while proposals are being developed for channelling SDRs through multilateral development banks or newly created climate funds. Among other limitations, these proposals fail to address the core of the problem: the unfair quota system on which the IMF governance relies.

SDRs have two key characteristics: they create no debt in the recipient country and come with no conditionality

This briefing aims to take stock of the discussion on SDRs channelling and assess the different solutions proposed so far. It shows that they are all a reflection of the shortcomings and injustices of the existing architecture and will not offer satisfying solutions unless substantial reforms are implemented.

Section 1 summarises the events that led to and immediately followed the new \$650 billion SDRs allocation. Section 2 presents the main options for channelling SDRs proposed by the IMF. Section 3 focuses on the RST and argues that, as currently designed, it risks undermining countries' fiscal and policy space. Section 4 discusses what alternatives exist to channel SDRs outside the IMF and the technical constraints that they encounter, showing that significant reforms are needed for SDRs to be used for and to cater to the needs of climate finance. Section 5 makes a strong case for developing alternatives for channelling SDRs outside the IMF, and it concludes with policy recommendations on how to reform SDRs allocation, including a much-needed reform of the IMF quota system, which would turn them into a powerful instrument of international solidarity.

Box 1: Key features of SDRs

Special Drawing Rights (SDRs) are an international reserve asset, created by the IMF to supplement its member countries' official reserves and provide liquidity support when experiencing balance of payments crises. An SDRs allocation provides each member country with a costless asset that does not create new debt and that countries can use with no policy conditionality.

Once SDRs are allocated to a country, they are listed as reserve assets. Reserve assets are high credit quality and liquid assets held by a country's monetary authorities for meeting balance of payment financing needs, for interventions in currency exchange markets and for other related purposes.⁵ IMF rules do not specify which domestic authority should be in charge of SDRs. While in most countries they are recorded in the central bank's balance sheet, in others (for example the USA), they are recorded on the balance sheet of the government. However, when held in central banks, their designation as a 'reserve asset' makes it difficult for them to be used for budget expenditure.

SDRs can only be exchanged with the IMF, other countries, and a small set of 'prescribed holders', mostly multilateral development banks.⁶ If countries want to use SDRs for other purposes, they need to convert the SDRs to one of five reserve currencies, namely the euro, dollar, sterling, yen and renminbi. SDRs have three broad uses:

- They can be kept as reserves, bolstering a country's savings and creditworthiness – the country can therefore borrow more and at better terms.
- They can be exchanged for hard currency through a system of swaps managed by the IMF.
- When they have been exchanged for another currency, they can be used to pay for imports or, depending on each country's rules and agreements between the central bank and the treasury, for fiscal purposes.

The IMF treats SDRs as both an asset and a liability, and so do the monetary authorities of its member countries. This implies that if countries give away their SDRs (either exchanging them for another currency, lending them or donating them), they incur a cost that is equivalent to an interest rate set out by the IMF. Usually, countries lend SDRs rather than donating them so that they can offset the cost of the interest rate with the earnings from their loan.

1. The \$650 billion Special Drawing Rights allocation: potential and limitations

In August 2021, the IMF issued a new allocation of \$650 billion worth of SDRs. This was a historic decision in terms of the size of the allocation – the largest so far – but from the beginning it also presented several shortcomings. In particular, its timing and size were in fact determined by the political will of the US. This meant that the new allocation came a year later than when first needed and called for by civil society,⁷ as it only became possible following the US election since the Trump administration had used its de facto veto power within the Executive Board to prevent it.

In addition, its size was determined by what was politically feasible within the US Congress,⁸ rather than by estimates of actual need. In fact, it was much smaller than the SDRs emission of \$3 trillion that had been called for by 250+ organisations in April 2021.⁹ For instance, for countries that are considered to have weak creditworthiness by credit rating agencies, the actual amount issued will be insufficient to bring their reserves up to adequate levels.¹⁰ For most indebted countries, the amount of SDRs received will be less than the cost of their debt service in 2021.¹¹

Finally, because SDRs were allocated according to the quota system, the greatest majority went to rich countries, which least need them. Of the \$650 billion, only about \$275 billion went to emerging and developing countries, and low-income countries received about \$21 billion. By way of comparison, the 54 African countries received \$33 billion in total,¹² while Germany alone received \$25.5 billion.¹³

And yet, despite these limitations, the SDRs allocation was a breath of fresh air for struggling developing countries. Since the new allocation, 80 developing countries have been using their SDRs, either to purchase foreign currency or for fiscal expenditure (see Box 2, overleaf), demonstrating that the cost of this operation (the SDRs interest rate to be paid on the shortfall between SDRs holding and each country's original allocation) is worth the additional liquidity that they acquire from it.

This underscores the real advantage of SDRs: they create no additional debt and they are unconditional, meaning that countries are able to use them when and how they wish. The possibility of using SDRs to increase fiscal space has been critical for many countries that did not have balance of payment problems but did face severe budget constraints. Overall, the trends in their use are much higher than they were for the 2009 SDR allocation, suggesting both a greater and more urgent need for these resources and a higher level of awareness among policymakers on how they can be used.

Given the potential benefits of SDRs, there is a compelling argument for repeating the allocation in the very near future and adopting an allocation formula based on needs rather than IMF quotas. This argument seems even more compelling in light of the spillover effects of the Ukrainian war on developing countries,¹⁴ which has accelerated the reversal of long-term trends in the global economy, magnifying the increase in interest rates and in the price of food and energy commodities.

However, the response so far has focused on designing mechanisms to channel existing SDRs that are sitting idle in rich countries' central banks to developing countries. As discussed in the following sections, these solutions are partial at best and inadequate to the scale of the challenge.

Box 2: How countries have been using the SDRs allocation

According to the monthly updates of the Center for Economic and Policy Research,¹⁵ since August 2021:

- 32 countries have exchanged SDRs for hard currency, for \$11.6 billion.
- 55 countries have paid the IMF with SDRs, for \$6.5 billion.
- 39 countries have recorded the SDRs in government budgets or have used them for fiscal purposes, for \$37.3 billion.

For example, Iraq, Mauritania, Djibouti, Cabo Verde¹⁶ and Sri Lanka¹⁷ exchanged all or almost all of their SDRs for hard currency. In Latin America, Argentina used them to pay off part of its debt with the IMF, and Paraguay's Economic Consolidation Law provides that SDRs will be used towards meeting the cost of the pandemic recovery.¹⁸ In sub-Saharan Africa, Senegal has made a similar move by deciding to use part of its SDRs allocation for public expenditure¹⁹ and the Nigerian Finance Minister declared that SDRs were being taken as part of the financing for the 2022 budget.²⁰

2. Channelling of SDRs: the IMF's unsatisfactory solutions

Special Drawing Rights (SDRs) are unlike other global liquidity instruments because they are cost and debt free and come with no conditionality. Mechanisms meant to channel existing and unused SDRs should preserve these characteristics that make them 'special'. This is the core message of the Civil Society Organisation (CSO) principles for fair and transparent channelling of SDRs (see Box 3, overleaf). However, this is not the case with the solutions proposed so far. The IMF has been leading the conversation on SDR channelling, choosing the easiest path that replicates existing structures instead of correcting the dysfunctionalities of the existing global financial architecture.

At the IMF/World Bank Annual Meetings in October 2021, the IMF announced that it was working on a plan that envisioned three different options for channelling SDRs from developed to developing countries:

- Use 'spare' SDRs to increase the size of the Poverty Reduction and Growth Trust (PRGT).
- Create a new IMF-administered Resilience and Sustainability Trust (RST), to be funded with unused SDRs.
- Channel SDRs to other prescribed SDR holders, comprising 15 organisations including the World Bank, some regional central banks, and multilateral development banks.²¹

Each of these options raises a number of important issues.

First, the PRGT is the only existing mechanism for channelling SDRs and for this reason it has been considered the technically quickest and easiest solution. However, it does not respect the SDRs original characteristics; instead, it creates new debt and it has a history of coming with harmful fiscal-consolidation conditionality.²² Moreover, it is only available to a small group of low-income countries, excluding middle-income countries and emerging economies where millions of poor people live.

Second, the RST has several faults in its design, which also alter the original nature of SDRs and compromise its utility. In addition, the creation of the RST would deepen the involvement of the IMF in global climate governance and climate finance, marking an important but problematic and controversial evolution of the organisation. These issues are presented at greater length in section 3.

Box 3. CSOs principles for fair and transparent SDRs channelling

In September 2021, a group of 280 CSOs laid out six core principles that should guide the design of mechanisms for fair and transparent SDRs channelling.²³ These are:

1. Provide **debt-free financing**, so it does not add to unsustainable debt burdens of developing countries. Grant-based financing is ideal but, if additional loans are to be offered, then maximum concessionality is critical (zero interest and lengthy repayment terms with extended grace periods).
2. Refrain from **tying transfers to policy conditionality (directly or indirectly)**. Conditionality will lengthen the time it takes to negotiate such financing, could force countries into adopting difficult adjustment or austerity measures, and will put the financing beyond the reach of countries unable to comply with such conditions.
3. Make financing accessible to **middle-income countries**. These countries have persistently been left out of debt relief initiatives and concessional financing, and they should not be excluded from yet another financial assistance option when many of them face deep debt distress and challenging pandemic vulnerabilities.
4. Include **transparency and accountability** safeguards on both providers and recipients of such financing in the spirit of democratic ownership, strengthening independent scrutiny, participation and accountability to citizens.
5. Ensure **that SDRs contributions are additional to existing Official Development Assistance (ODA, or aid) and climate finance commitments**. Only SDRs channelled to developing countries as grants should count as ODA, or, where appropriate, against the climate finance goal of \$100 billion.
6. Prioritise a use of SDRs that expands international grant funding for **combatting the pandemic, through budget support** for public services and the public sector workforce in health and education, for social protection and for other needs. Grants can also promote **a fair recovery that supports climate justice and that tackles economic and gender inequality, including the unpaid care burden** that women bear, which the Covid-19 pandemic exacerbated.

Third, with regards to channelling SDRs through other prescribed holders, the IMF has maintained an ambiguous position: after first opening up the option of channelling through multilateral development banks, it has recently argued that SDRs cannot be recycled through regional development banks because this would undermine their reserve asset status.²⁴ This position discounts the fact that the absorption capacity of the PRGT and the RST (respectively about \$30 billion and about \$50 billion) is limited and much smaller than the amount of unused SDRs available and needed by developing countries. According to UNCTAD estimates, about \$400 billion of the newly allocated SDRs are kept idle in central banks around the world.²⁵ It is compelling to find adequate ways to mobilise these resources given the magnitude of the needs faced by many countries.

Section 4 reviews in more depth the proposals that have been made for channelling SDRs outside the IMF, the technical constraints that they encounter, and their limitations. It argues that, despite these constraints and limitations, it is crucial to design alternatives for channelling SDRs outside of the IMF to ensure that much-needed additional liquidity is made available to developing countries.

**3. The Resilience and Sustainability Trust:
more of the same IMF medicine**

In January 2022, the IMF published a blog that outlined the key design features of the RST,²⁶ which should be finalised by the 2022 Spring Meetings in April and operational by mid-2022. The RST was created in recognition of the gaps within the existing global financial architecture, namely the lack of a dedicated instrument to provide concessional finance to low- and middle-income countries to address climate change and emergencies.²⁷ However, its design raises a number of problems,²⁸ not least due to the fact that it was developed through a process lacking transparency and without the participation of a broad range of stakeholders, especially from civil society. The current form of the RST alters the original characteristics of SDRs and is misaligned with the CSO principles for SDR channelling, prompting calls for an urgent rethink and revision of it.

In particular, the RST has six main problematic design features:

Purpose. RST loans will focus on supporting countries to make investment and policy reforms in the areas of climate mitigation and adaptation, health, digitalisation and, more broadly, achievement of SDGs. While there are valid and compelling reasons for this focus, the implication is that it will creep into areas that are outside the expertise of the IMF, possibly creating competition with other international financial institutions and at the same time increasing the need for greater cooperation with the World Bank and other specialised institutions. Another important and controversial implication is that the RST will increase the role that the IMF has started to play in global climate governance (see Box 4, overleaf).²⁹

Scale of funding: The RST is planned to be capitalised at \$30 billion, with the potential to rise to \$50 billion over a decade. This is just a fraction of the \$450 billion that low-income countries will need over the next five years to meet pandemic-related costs, according to the IMF,³⁰ and it is a minuscule amount when compared to the \$6 trillion stated in the climate finance needs assessment of the United Nations Framework Convention on Climate Change (UNFCCC). Its small size is partially explained by a lack of consensus among countries to reallocate their SDRs through it, and also because its design would not allow it to disburse much greater amounts of SDRs.

Country eligibility: The RST is set to support all low-income countries, all developing and vulnerable small states, and all middle-income countries with per capita gross national income (GNI) below \$12,000. Using an income-based eligibility criteria risks excluding middle-income countries that are highly vulnerable to climate change, as well as those that are struggling with increased poverty rates, a sluggish economic recovery, high indebtedness and difficult access to lending markets. This is inconsistent with the goal of the RST to channel resources to countries most vulnerable to climate change whose response has been impeded by the pandemic.

Terms of financing: The RST aims to provide 20-year maturity and a 10-year grace period, accompanied by a tiered interest structure that would differentiate financing terms across country groups, with a high degree of concessionality for lower-income members. This means that low- and middle-income countries may face quite different interest rates and that a zero-interest rate is not guaranteed for low-income countries, a worrying feature in a context of increasing interest rates. For example, higher interest rates are predicted to cost climate vulnerable countries \$168 billion during the next decade.³¹ There will also be an access limit of 150 per cent of a country's quota (or \$1 billion, whichever is smaller). This may create a barrier to accessing the trust for highly indebted middle-income countries that are already beyond or close to those limits and whose climate and recovery-related finance needs go way beyond them.

Qualifying criteria: Countries eligible to receive funding from the RST should have a package of high quality policy measures consistent with the RST's purpose; a concurrent financing or non-financing IMF-supported programme with appropriate macroeconomic policies to mitigate risks for borrowers and creditors; and sustainable debt and adequate capacity to repay the fund. This means that the RST will not be accessible to the many climate vulnerable countries that do not have an existing IMF programme and are not willing to have one, not least to avoid the stigma and the conditionality that come with it. A related potential source of inconsistency is that existing IMF programmes may have targets (for example, for fiscal consolidation) that are incompatible with those of the RST (such as greater spending for climate adaptation).

Conditionality: RST programmes will be designed to promote structural reforms, in areas such as climate change, pandemic preparedness and digitalisation, in collaboration with the World Bank. In other words, countries will be subject to conditionality agreed by the World Bank and the IMF. Conditionality is considered indispensable by several IMF shareholders, such as the US and the European Union (EU), to get countries on the "right reform path",³² to ensure transparency and accountability in the management of resources, to maintain the reserve nature of SDRs, and as a guarantee against credit risk.³³ Despite reassurances by IMF management that this will be done respecting the principle of country ownership,³⁴ there are serious risks that the RST will lock countries into multiple frameworks of conditionality and undermine their already limited policy space.³⁵

The fact that reforms will be designed in collaboration with the World Bank, and using its Development Policy Financing (DPF) as a model, is of no reassurance. DPF provides budget support to developing countries with conditions (in the form of 'prior actions') which specify the adoption of specific policy and regulatory reforms on a wide range of areas, including climate. DPF has been long contested for the type of policy reforms pushed onto countries and for the use of conditionality as a way of exerting undue influence over national policy making. For instance, recent Eurodad research found that post-Covid-19 DPF programmes continued to promote private finance-first reforms, undermining the role of the state in the provision of public services, and its ability to bring about a just, feminist and green transition.³⁶ Analysis by civil society³⁷ has also shown that policy reforms in DPF are characterised by a contradictory approach to dealing with fossil fuels (promoting phasing out with one hand and incentivising investment with the other). In fact, the World Bank has recently been accused of being 'missing in action' when it comes to climate change.³⁸ The fact that conditionality in RST – especially conditionality in the areas of climate action and health – may be designed using the example of DPF is concerning.

Box 4. IMF as the new kid on the climate finance block: potential leader or intruder?

The RST's focus on climate change is motivated by the IMF's increasing efforts to integrate climate into its work and to play a role in climate global governance. There are good reasons why climate action should be mainstreamed in all of the IMF's operations and policy advice. For example, the IMF has a comparative advantage in developing analysis to identify the national and international macroeconomic implications of climate risks and of the macroeconomic and financial impacts of policies to mitigate climate change.³⁹ It also has a crucial role to play in responding to climate shocks, where those shocks impact balance of payments, fiscal stability and growth trajectories.⁴⁰

However, there are also many factors that make this move controversial and warrant further scrutiny.

The first issue to consider is that the international institutional and legal framework that regulates climate policy and climate finance rotates around the UNFCCC and the Paris Climate Agreements. These operate on principles such as 'common but differentiated responsibilities' and 'polluters pay' that are at odds with the IMF governance system, which depends on countries' quotas (namely, the one-dollar-one-vote rule).

A second related issue is that, despite some improvements, IMF policy advice continues to have a contradictory and often harmful approach to fossil fuel. On the one hand, it tends to see it as a 'demand side' problem, leading it to

focus on energy pricing reforms and fossil fuel removals that hurt the poorest consumers the most.⁴¹ On the other, in several countries its advice has increased fossil fuel dependency and favoured new investment in coal, for instance through tax breaks, as was documented in the cases of Mozambique, Indonesia and Mongolia.⁴² Overall, this policy advice may have undermined energy transition in member countries, and worsened its distributional negative impact, pushing its cost onto ordinary citizens.⁴³

The IMF also continues to lack expertise and capacity in critical areas.⁴⁴ Notably, it recently recognised that the 'transition risk' posed by the shift from a fossil fuel-based global economy to a low-carbon one⁴⁵ is macrocritical, and it included it as a pillar of its climate strategy.⁴⁶ However, its understanding and engagement with the issue remains limited,⁴⁷ while it continues to focus on advising countries to enact carbon pricing to reduce greenhouse gases, ignoring lessons from the past that this market-based approach may have detrimental effects.⁴⁸

While the IMF's increasing role in climate finance remains a questionable move that warrants further scrutiny, it is clear that any contribution to climate finance should include a strong element of justice and retribution, acknowledging that the most important policy issue in economics today is how to tackle climate change in an equitable, just, gender-responsive and human rights-based manner.

Overall, the current design of the RST appears to be incompatible with the objective of supporting sustainable, equitable recovery and it does not align with principles for fair and transparent channelling of SDRs. It also risks getting little traction from countries and therefore failing to achieve its objectives,⁴⁹ while at the same time increasing the relevance of the IMF at a moment when the institution is being contested for continuing to push countries towards fiscal austerity.⁵⁰ Turning the RST into a more useful and appropriate instrument to channel SDRs would require substantive changes, discussed in section 5.

4. Beyond the RST: options for channelling SDRs outside the IMF

The discussion on channelling SDRs outside the IMF is an increasingly heated one and it is exposing the shortcomings of the SDRs as an instrument for development finance. It also reflects the shortcomings of the current global financial architecture more generally. Some actors, especially central banks, are opposing the development of these alternatives. Others are putting forward inventive proposals, which bring opportunities but also risks, especially if not designed in alignment with the CSOs' principles for fair and transparent channelling of SDRs. This section reviews these debates and proposals.

Central banks, led by the European Central Bank (ECB), are blocking the development of channelling options outside the IMF because, they argue, it would constitute monetary financing.⁵¹ Monetary financing is the use of monetary policy instruments for the purpose of funding a government

budget and is prohibited in countries that are part of the European Union. This argument is at odds with the pledges made by some European countries to channel SDRs; it is also contingent on the specific ECB rules, not on SDRs rules: as discussed above, in some countries SDRs are held directly by the treasury, and others have used them for fiscal purposes even if held by the central bank.

Another argument used by central banks to oppose SDRs channelling is that SDRs should maintain their reserve asset status, that is, remain largely risk-free and liquid enough that the lending country's central bank can still count them as a reserve asset on its balance sheet. The ECB and the IMF have questioned that this would be the case. However, a recent paper from Lazard, a financial advisory and asset management firm, argues that these technical constraints could be overcome. In particular, many problems could be overcome by adopting a more pragmatic and flexible definition of reserve asset status.⁵² Ultimately, what is and is not possible will be a matter of political will.

Multilateral Development Banks (MDBs), led by the African Development Bank (AfDB), are very keen to become key actors in the channelling of SDRs from developed to developing countries. They see it as a way to strengthen their capital base and acquire a more prominent role in directing global economic governance; this has clearly been the case for the AfDB.⁵³ MDBs (many of which are already prescribed holders of SDRs) could use SDRs in two ways:⁵⁴

- SDRs could be lent to MDBs that would in turn lend them to countries in need of investment in specific areas, such as vaccines, climate mitigation/adaptation, agricultural support. This could be done mimicking the structure of the PRGT at the IMF, so that (i) the MDB compensates the SDR lender, either from the proceeds of the loans it makes to developing countries or from another pot of money designed for such compensation, and (ii) the MDB guarantees that the SDR lender can retrieve its SDRs on demand.
- MDBs could use SDRs to increase their balance sheet and leverage additional investment in capital markets. This would imply turning a monetary instrument (SDRs) into a long-term investment instrument.⁵⁵

The feasibility of these two options is contingent on whether they would preserve the SDRs' reserve asset characteristic. Their desirability is contingent on the implementation of comprehensive governance reforms to make MDBs truly work in the public interest instead of focusing on 'de-risking' private finance. The latter is an approach aimed at using financing instruments like guarantees, equities or public-private partnerships to mobilise additional private finance, arguably to finance the achievement of the SDGs and the Paris Agreement. In practice, it is leading to the increased financialisation of development lending,⁵⁶ putting the latter in the service of profit rather than the common good.⁵⁷

The **UN Economic Commission for Africa (UNECA)** has suggested using SDRs to fund the **Liquidity and Sustainability Facility (LSF)**, an initiative aimed at developing a repo bond market in Africa, to be developed in collaboration with the asset management firm PIMCO. The LSF would provide short-term loans, known as repos, to international investors with portfolios containing African government bonds, using them as collateral. This would make the bonds less risky and therefore more attractive to a wider range of investors, ultimately reducing the borrowing cost for African countries.⁵⁸ At the moment, the use of SDRs for the LSF encounters the same limitations encountered by MDBs.

In any case, the LSF has raised several concerns,⁵⁹ including the pro-cyclical nature of repo arrangements, the institutional risks linked to potential conflicts of interest, and questions about the real beneficiaries of a development model structured around partnerships with global finance. More generally, using SDRs to leverage private capital, either through MDBs or through the LSF, warrants caution and scrutiny. There is a risk that SDRs becomes the object of financial securitisation instead of an instrument for equitable development finance.

Climate justice organisations and actors are seeing SDRs as a potential source of additional climate finance. The use of SDRs for climate finance is not a new idea,⁶⁰ but it has acquired renewed strength in November 2021 at the COP26 in Glasgow. The COP26 Glasgow Climate Pact retained a generic reference to considering use of SDRs to address climate vulnerabilities⁶¹ and great prominence was given to the proposal put forward by Mia Mottley, Barbados' Prime Minister, of an annual issuance of \$500 billion worth of SDRs to be put into a Climate Finance Trust (see Box 5, overleaf). Others have proposed to direct SDRs to the Green Climate Fund or to use them to create a specialised fund for loss and damage (impacts of climate-related phenomenon that fall outside normal parameters, such as unprecedented flooding, landslides and wildfires).⁶²

Box 5. Mottley's proposal on the use of SDRs for climate finance

At COP26, Mia Mottley, Barbados' Prime Minister, called for an additional \$500 billion worth of SDRs to be issued every year for 20 years to unlock the carbon-cutting investments needed to limit heating to 1.5C.⁶³ According to the proposals (developed by Avinash Persaud, her special envoy for investment and financial services), the annual issuance would be channelled into a Climate Finance Trust. The Trust would auction SDRs-backed low-interest loans to the investment that proposed the highest level of greenhouse-gas reduction or removal. Environmental, social and governance (ESG) conditionality would be attached to the loans; both private and public actors would be allowed to bid.⁶⁴ According to Persaud, the Trust would preserve the reserve asset quality of SDRs because it would invest in assets that are liquid and guarantee a high credit quality. The Trust would be focused specifically on climate mitigation efforts, and should be complemented by other climate finance mechanisms that focus specifically on climate adaptation and loss and damage.

The proposal has been criticised for leaving "the design of the transition and decarbonisation strategies completely in the hands of private finance".⁶⁵ This would risk undermining governments' role in setting out priorities, coordinating investments and building institutional capacity to manage the transition.

However, the proposals developed so far for channelling SDRs outside the IMF are either not feasible or not well aligned with climate finance needs (see Box 6). As discussed above, at the moment only some MDBs are SDRs prescribed holders and therefore in the position to use SDRs for climate finance in the short term. Moreover, MDBs mostly provide climate finance in the form of loans and tend to target mitigation and energy projects,⁶⁶ and do little to contribute with grants and concessional finance to climate adaptation and loss and damage.

A favoured alternative would be for the IMF to turn existing and future climate funds into a prescribed holder.⁶⁷ The most straightforward candidate is the Green Climate Fund, for which the World Bank (which is a prescribed holder) acts as a Trustee.⁶⁸ However, as things stand, the use of SDRs by climate funds should be set up so that the SDRs' reserve asset status is maintained. As discussed above in the case of MDBs, this would make it difficult to use SDRs to provide climate finance in the form of grants or even of very concessional finance. Past proposals of using SDRs to create dedicated climate funds have encountered the same limitation.⁶⁹

Another potential problem is that, as in the case of the RST discussed above, loan-based climate finance would be likely to come with conditionality; this could lead to debtors being required to perform obligations that would not necessarily be matched by the discharge of obligations by trust fund contributors, in violation of the UNFCCC 'common but differentiated responsibilities principle'.

A final, and until now neglected, option for the channelling SDRs, is that **countries could donate their SDRs (bearing the cost of doing so) or, instead of transferring SDRs, they could channel the equivalent amount of hard currency from their international reserves.** Both options would hinge on a country's legal ways of turning international reserves (including SDRs) into fiscal expenditure. As seen above, many central banks oppose this and in the case of EU Member States this option would appear to violate ECB rules. In the case of the UK, a recent proposal has been developed to leverage some of the UK's additional SDRs for global vaccinations. This would be done by selling some foreign currency reserves and leaving SDRs untouched, and using the hard currency to make donations to global development. A recent study by CAFOD has shown that this initiative would be consistent with the UK legislation and fiscal rules on borrowing and debt and it would leave UK overall foreign reserves higher than before the SDRs allocation.⁷⁰

Ultimately, what is and is not possible in terms of SDRs channelling is a matter of political will: with sufficient motivation, the technical constraints can be overcome and innovative solutions found. So far, however, demonstrations of political will by developed countries have been lukewarm and inconsistent. Both the G20⁷¹ and the G7⁷² committed to reallocate \$100 billion of SDRs to more vulnerable countries and French President Emmanuel Macron called for countries to channel \$100 billion of SDRs to a 'Global New Deal' for Africa,⁷³ but commitments so far are stuck at \$56 billion and in practice not a cent has been channelled yet.⁷⁴

Box 6. Criteria for just and effective climate finance

In 2009, at the United Nations climate summit in Copenhagen, rich nations committed to channel \$100 billion a year to less wealthy nations by 2020 for mitigation and adaptation activities. However, the goal is not predicted to be met until 2023,⁷⁵ and the quality of the climate finance that has been provided is being undermined by the fact that it is mostly provided as loans and in other forms of non-concessional finance.⁷⁶ There are several reasons why these types of solutions lead to poorer outcomes.

First, the excessive reliance on loans means that climate finance makes climate vulnerable countries more vulnerable to debt, which in turn reduces the ability of these countries to adapt and to address loss and damage, or to invest in public services and social protection.⁷⁷ Another problem is that the greatest majority of climate finance is allocated to climate mitigation, and only a small minority to climate adaptation and next to nothing to address loss and damage, despite these two last categories being the most pressing for many developing countries.⁷⁸ Investment in climate adaptation and in loss and damage are unlikely to generate substantive financial returns from which loans could be repaid, which is why they should be funded through grants. Finally, there are

equity reasons based on the principle of 'common but differentiated responsibilities' for why rich countries should provide climate finance in the form of grants.

In order for climate finance to adequately support countries' efforts to tackle climate change and develop sustainably, its quality must improve; this means ensuring that climate finance is new and additional to existing international financial commitments such as ODA, and it means increasing its quantity and the share that goes to climate adaptation and loss and damage. It is also important to improve vulnerable communities' access to it. In addition, climate finance should be non-debt creating and without conditions. This means it should be primarily delivered in the form of grants. If loans are to be used, it should only be in highly concessional terms and only for certain purposes and programmes that will not lead to the accumulation of unsustainable and illegitimate debt burdens. Climate finance should also be public and disbursed for public and publicly accountable programmes and projects rather than private for-profit initiatives or public-private partnerships. A gender-responsive approach to finance should be followed in order to create transformative and positive change within societies.

5 Conclusion and policy recommendations

The \$650 billion allocation of SDRs has been an important and useful measure to help developing countries face the Covid-19 crisis, especially to help them fund the expenditures necessary to tackle the health and social emergency. However, the allocation was inadequate in size and unfairly distributed, making a compelling case for a second larger and fairer allocation, and for the establishment of mechanisms to channel the unused SDRs of rich countries to developing countries that most need them. Even more, it has demonstrated the need for a reform of the IMF quota system, to ensure fairer future SDRs allocation and decision-making.

So far, the discussion has focused on how to channel SDRs, and has been a further demonstration of the lack of adequate mechanisms and institutions to provide development and climate finance without undermining countries' fiscal and policy space.

The only concrete action until now has been the design of a new fund, the Resilience and Sustainability Trust (RST), to channel SDR through the IMF. Far from being a 'silver bullet', the RST presents several limitations in its design that are at odds with principles for just and transparent SDRs channelling. In addition to shortcomings in its design, the RST would mobilise only a minority of the unused SDRs available. Using all resources available has become a moral duty given the magnitude of the global challenges that the world faces.

It is paramount that alternatives for channelling SDRs outside the IMF are developed. The proposals put forward so far have encountered opposition motivated by technical constraints – mostly linked to the need to preserve the reserve asset nature of SDRs. They are also inadequate for providing good quality climate finance for climate adaptation and loss and damage. Designing and implementing better alternatives for the channelling of SDRs requires substantial reforms to SDRs processes and institutions. Technical constraints can be overcome with the sufficient level of political will. Civil society must push for these reforms to maximise SDRs' potential as a source of global liquidity for equitable and just sustainable development and climate finance.

We call on the **IMF, the G20 governments and in particular their finance ministers, and Central Bank Governors** to consider the following set of reforms:

I. Adopt urgent reforms to SDRs mechanisms and institutions

- A new urgent allocation of \$2.5 trillion SDRs is warranted by the continuation of the pandemic and the additional global economic uncertainty triggered by the war in Ukraine.
- In the short term, the IMF should consider implementing regular SDRs allocations that are not linked to existing members' quotas and adopt instead a needs-based allocation formula that makes them directly available to the countries that need them when they need them.
- Any new allocation should be additional to current and future global climate finance goals and to ODA commitments and channelling of SDRs should be counted as contributions towards these commitments only when provided as grants or highly concessional finance.

II. Implement substantive reforms to the RST to ensure that it is compatible with the objective of supporting a sustainable and equitable recovery

- Broaden the eligibility criteria to include all climate vulnerable developing countries, regardless of income level. This should include middle-income countries, which cannot be served by the PRGT and have struggled to access sufficiently concessional finance during the pandemic, and low-income countries that have not had access to the PRGT because their problem was not a balance of payment one or they needed longer maturities and grace periods.
- Revise the terms of financing so that the RST provides highly concessional financing that does not undermine members' debt sustainability and is not linked to having an existing IMF programme. Access limits should be increased to allow access to countries facing high and increasing levels of debt as a result of exogenous climate and economic shocks.
- Include state contingent clauses in RST loans to protect recipient countries in the wake of external shocks: a resilience instrument ought by definition to be flexible in case of unforeseen contingencies.
- Prioritise country ownership and avoid harmful policy conditionalities, particularly those focused on fiscal consolidation and on enhancing the role of the private sector in public services delivery. At a minimum, the IMF should adopt a 'do no harm' approach in the design of RST programmes, relying on systematic use of ex-ante impact assessments to prevent suggested

reforms from negatively impacting on human rights or entrenching gender and economic inequality and to ensure environmental and biodiversity integrity.

- Before implementing the RST, the IMF should convene a consultative discussion, including a broad range of stakeholders, to ensure that its design supports a just, feminist transition.

III. Develop alternatives for channelling SDRs outside the IMF

- Additional mechanisms to channel SDRs outside the IMF should be developed in alignment with principles for fair and transparent channelling, to preserve the key SDRs characteristics of being debt free and unconditional.
- The IMF should expand the closed circuit in which SDRs circulate by allowing the creation of new prescribed holders.
- National central banks should favour this by accepting a more flexible understanding of SDRs' reserve asset status, which would also make it easier for countries to use SDRs for fiscal purposes.
- SDRs channelling mechanisms should be designed to serve the specific needs of climate finance, meaning they should be predictable, made available as grants and be used to address the most pressing needs of climate adaptation and loss and damage.

IV. Adopt structural reforms to democratise the global financial architecture and expand fiscal space

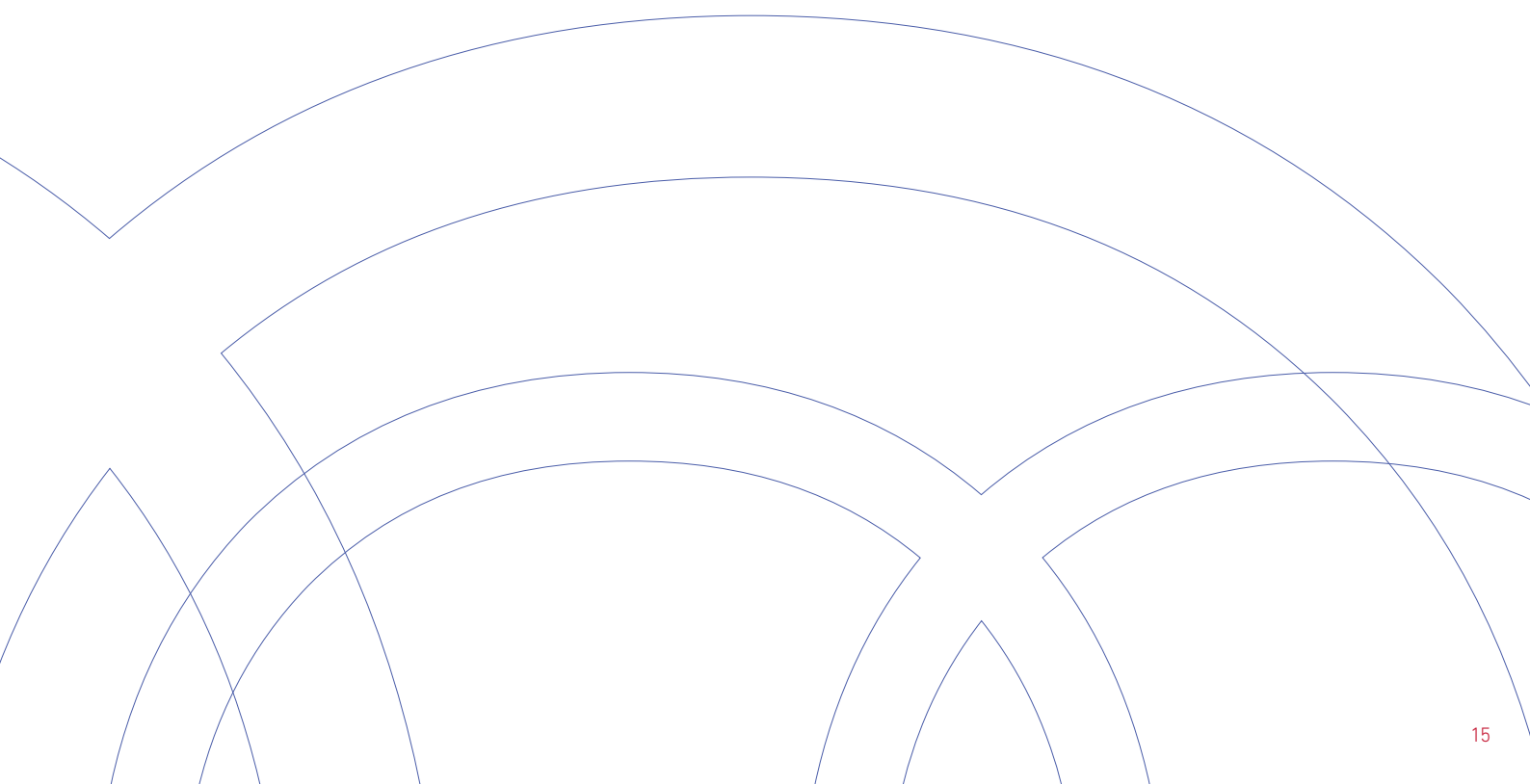
- The IMF should reform its governance towards a more equitable repartition of its quotas. This would address many of the limitations encountered in ensuring that SDRs support the recovery of countries and deal with currently emerging and new external shocks.
- Any present and future SDR issuance and channelling should not deter from other measures needed to expand countries' fiscal space, such as meeting the 0.7 per cent GNI/ODA target, debt cancellation and structural reforms towards a multilateral debt resolution framework and UN Tax convention.

This set of reforms is ambitious and not without technical difficulties, but it is feasible provided there is political will. If implemented, SDRs would turn into a powerful manifestation of international solidarity, enabling redistribution of income to tackle the inequality crisis and reparation for developing countries for the harm that they suffer because of climate change caused by rich countries.

Endnotes

- 1 'Figure 0.4. Fiscal response to the COVID-19 crisis, selected countries, by income group. Based on IMF data updated at September 27, 2021. World Bank. 2022'. World Development Report 2022: Finance for an Equitable Recovery (Washington, DC: World Bank). doi:10.1596/978-1-4648-1730-4
- 2 Financing for Development: Mobilizing Sustainable Development Finance beyond COVID-19, Note by the UNCTAD secretariat, March 2022. https://unctad.org/system/files/official-document/tdb_efd5d2_en.pdf
- 3 'A Shot in the Arm—How Special Drawing Rights Can Help Struggling Countries', IMF Blog, 26 August 2021, accessed 7 April 2022 <https://blogs.imf.org/2021/08/26/a-shot-in-the-arm-how-special-drawing-rights-can-help-struggling-countries/>
- 4 'How the World Can Make the Most of New Special Drawing Rights', Financial Times Opinion: International Monetary Fund. By Kristalina Georgieva, IMF Managing Director, 23 August 2021, accessed 7 April 2022 <https://www.imf.org/en/News/Articles/2021/08/23/how-the-world-can-make-the-most-of-new-special-drawing-rights>
- 5 See International Monetary Fund, Balance of Payments and International Investment Position Manual (Sixth ed., 2009), paragraph 6.64.
- 6 Currently there are 15 prescribed holders: four central banks (Bank of Central African States, Central Bank of West African States, Eastern Caribbean Central Bank, and European Central Bank); three intergovernmental monetary institutions (Arab Monetary Fund, Bank for International Settlements, and Latin American Reserve Fund); and eight development institutions (African Development Bank, African Development Fund, Asian Development Bank, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, and Nordic Investment Bank).
- 7 'SDRs Must Move from Back-Burner to the Front of the Discussion', Oxfam, 16 April 2020, accessed 7 April 2022 <https://www.oxfam.org/en/press-releases/sdrs-must-move-back-burner-front-discussion-oxfam>
- 8 Saleha Mohsin and Eric Martin, 'U.S. Leans Toward Backing \$500 Billion Bump in IMF Firepower', 4 February 2021, accessed 30 March 2022, <https://www.bloombergquint.com/politics/u-s-treasury-leans-toward-backing-500-billion-boost-for-imf>
- 9 "CSOs call for the fair channeling of Special Drawing Rights" https://www.eurodad.org/csos_call_for_the_fair_channeling_of_special_drawing_rights
- 10 Tom Arnold, 'IMF's SDR Cash will Still Leave Poorest Nations Short, S&P Says', 22 June 2021, accessed 7 April 2022, <https://www.reuters.com/business/five-emerging-markets-benefit-most-imfs-sdr-move-sp-2021-06-22/>
- 11 Daniel Munevar and Chiara Mariotti, 'The 3 Trillion Dollar Question: What Difference will the IMF's New SDRs Allocation Make to the World's Poorest?', 07 April 2021, accessed 30 March 2022, https://www.eurodad.org/imf_s_new_sdrs_allocation
- 12 'Data Dive: Special Drawing Rights', One Campaign, accessed 30 March 2022, <https://www.one.org/africa/issues/covid-19-tracker/explore-sdrs/>
- 13 'IMF 2021 General SDR Allocation', accessed 7 April 2022 <https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation>
- 14 UNCTAD, 'Tapering in a Time of Conflict: Trade and Development Report Update', March 2022, accessed 5 April 2022, <https://unctad.org/news/ukraine-war-cuts-global-growth-prospects-1>
- 15 Andrés Arauz and Kevin Cashman, 'Eighty Countries Have Already Used Their Special Drawing Rights, but More of these Resources Are Needed', CEPR, 26 January 2022, <https://cepr.net/eighty-countries-have-already-used-their-special-drawing-rights-but-more-are-needed/>
- 16 Ibidem.
- 17 'Sri Lanka Exchanges IMF Special Drawing Rights for US Dollars', 11 September 2021, accessed 30 March 2022, <https://economynext.com/sri-lanka-exchanges-imf-special-drawing-rights-for-us-dollars-86036/>
- 18 'Aprendiendo lecciones: ¿cómo va el uso de los DEG en América Latina? El caso de Paraguay', Latindadd, 3 November 2021, accessed 30 March 2022, <https://www.latindadd.org/2021/11/03/aprendiendo-lecciones-como-va-el-uso-de-los-deg-en-america-latina-el-caso-de-paraguay/>
- 19 'Seconde loi de finances rectificative de l'année 2021 – l'Assemblée nationale adopte le projet de loi', 16 November 2021, accessed 30 March 2022, <https://laviessengalaise.com/seconde-loi-de-finances-rectificative-de-lannee-2021-las-semblee-nationale-adopte-le-projet-de-loi/>
- 20 Ruth Olurounbi, 'Nigeria to Use IMF Reserve Boost to Fund Next Year's Budget', 8 October 2021, accessed 30 March 2022, <https://www.bloomberg.com/news/articles/2021-10-08/nigeria-to-use-imf-reserve-boost-to-fund-next-year-s-budget>
- 21 Ceyla Pazarbasioglu and Uma Ramakrishnan, 'Sharing the Recovery: SDR Channeling and a New Trust', IMF Blog, 8 October 2021, accessed 7 April 2022 https://blogs.imf.org/2021/10/08/sharing-the-recovery-sdr-channeling-and-a-new-trust/?utm_medium=email&utm_source=govdelivery
- 22 'IMF Increases Limits of its Concessional Lending Facility, Leading to Warnings from Debt Activists', 21 September 2021, accessed 3 April 2022, <https://www.brettonwoodsproject.org/2021/09/imf-increases-lending-limits-of-its-concession-al-lending-facility-leading-to-warnings-from-debt-activists/>
- 23 "CSOs call for the fair channeling of Special Drawing Rights" https://www.eurodad.org/csos_call_for_the_fair_channeling_of_special_drawing_rights
- 24 'Stepping Up With and For Africa', Remarks by IMF Managing Director Kristalina Georgieva at the EU-AU Summit Roundtable on Financing for Sustainable and Inclusive Growth in Africa, 18 February 2022, accessed 3 April 2022, <https://www.imf.org/en/News/Articles/2022/02/18/sp021822-stepping-up-with-and-for-africa>
- 25 'Accelerating the SDGs through Sustainable Financing and Building Trust', Statement by Rebeca Grynspan, Secretary General of UNCTAD, Common Agenda consultation 2, 15 February 2022, accessed 7 April 2022, <https://media.un.org/en/asset/k13/k13c7zfidf> (minute 19:50)
- 26 Ceyla Pazarbasioglu and Uma Ramakrishnan, 'A New Trust to Help Countries Build Resilience and Sustainability', 20 January 2022, accessed 7 April 2022, <https://blogs.imf.org/2022/01/20/a-new-trust-to-help-countries-build-resilience-and-sustainability/>
- 27 Task Force on Climate, Development and the International Monetary Fund, 'Designing a Resilience and Sustainability Trust – A Development-Centered Approach', February 2022.
- 28 See for instance analysis in: <https://www.project-syndicate.org/commentary/imf-must-adjust-funding-criteria-in-response-to-climate-vulnerability-by-sara-jane-ahmed-et-al-2021-12>
- 29 It remains to be clarified whether RST funds will be counted by donor countries as climate finance.
- 30 'Fostering a Fair Recovery'. Opening Remarks for the Spring Meetings Press Conference by Kristalina Georgieva, IMF Managing Director, Washington, DC, 7 April 2021. <https://www.imf.org/en/News/Articles/2021/04/07/sp-fostering-a-fair-recovery>
- 31 Kate Allen, 'Countries Face Higher Debt Bills due to Climate Risks', The Financial Times, 2 July 2018, accessed 3 April 2022, <https://www.ft.com/content/18103b92-7ae6-11e8-bc55-50daf11b720d>
- 32 Statement by Janet Yellen, Secretary of the Treasury, to the 104th Meeting of the Development Committee, 15 October 2021, Washington, DC, <https://www.devcommittee.org/sites/dc/files/download/Statements/2021-10/DCS2021-0066-United%20States.pdf>
- 33 David Andrews and Mark Plant, 'The IMF's New Resilience and Sustainability Trust: Demystifying the Debate over Upper Credit Tranche Conditionality', Center for Global Development, 22 December 2021, accessed 7 April 2022, <https://www.cgdev.org/blog/imfs-new-resilience-and-sustainability-trust-demystifying-debate-over-upper-credit-tranche>
- 34 'Make or Break? Mainstreaming Climate Policy at the IMF', Global Development Policy Center, Boston University, accessed 3 April 2022, <https://www.youtube.com/watch?v=5o2lGVAoNoo>
- 35 Chiara Mariotti, 'Why the IMF Resilience and Sustainability Trust is not a Silver Bullet for Covid-19 Recovery and the Fight against Climate Change', 13 January 2022, accessed 1 April 2022, https://www.eurodad.org/resilience_and_sustainability_trust_not_silver_bullet_covid19_climate_change
- 36 Chiara Mariotti, 'The Policy Lending Doctrine', Eurodad Report, September 2021, accessed 1 April 2022, https://www.eurodad.org/the_policy_lendingDoctrine
- 37 Heike Mainhardt, 'Assessing the World Bank's contributions to Climate Goals and Energy Access: Nigeria, Mozambique and Myanmar', Recourse, the Swedish Society for Nature Conservation and the African Coalition for Sustainable Energy and Access, October 2020.
- 38 Camilla Hodgson, 'World Bank under Fire for being "Missing in Action" on Climate Change', The Financial Times, 13 December 2021, accessed 1 April 2022, <https://www.ft.com/content/a3147c81-a356-462a-811b-0a8b939f2488>
- 39 Taskforce on Climate, Development and the IMF, 'Toward Development-Centered Climate Change Policy at the International Monetary Fund', October 2021.
- 40 Ibidem.
- 41 'IMF Surveillance and Climate Change Transition Risks: Reforming IMF Policy Advice to Support a Just Energy Transition', Action Aid and Bretton Woods Project, August 2021, accessed 3 April 2022, <https://www.actionaidusa.org/wp-content/uploads/2021/08/IMF-x-climate-FINAL-1.pdf>
- 42 Heike Mainhardt and Nezir Sinani, 'IMF in Mozambique and Mongolia: Exacerbating Climate Crisis with more Tax Breaks for Coal and Gas', Recourse, November 2020.
- 43 'Reforming Global Finance To Support A Just Energy Transition: Implications For IMF Policy Advice', Civil Society Briefing 2021, accessed 3 April 2022, https://www.actionaidusa.org/wp-content/uploads/2021/11/CSO-Briefing-IMF-and-a-Just-Energy-Transition_FINAL.pdf
- 44 Valerie Laxton, Caitlin Smith and Carolyn Neunuebel, 'How the International Monetary Fund and Member Countries Can Conduct Climate-Informed Article IV Surveillance', World Resource Institute, 22 March 2022, accessed 3 April 2022, <https://doi.org/10.46830/wriwp.21.00075>
- 45 Transition risks may derive, for example, from the loss of government revenue and tax earnings from fossil fuels or from the emergence of 'stranded assets', if fossil fuel projects become uncompetitive or are no longer needed (resulting in economic losses).
- 46 'IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications', 30 July 2021, accessed 3 April 2022, <https://www.imf.org/en/Publications/Policy-Papers/>

- Issues/2021/07/30/IMF-Strategy-to-Help-Members-Address-Climate-Change-Related-Policy-Challenges-Priorities-463093
- 47 'Missing Links: How Climate Change Remains Peripheral to IMF Economic Surveillance Activities - Assesses the Extent of Climate Change Integration into IMF Article IV Consultations in Three Countries: Indonesia, Philippines and Vietnam', Recourse, 2021, accessed 1 April 2022, https://www.re-course.org/wp-content/uploads/2021/11/Missing-Links-Final_compressed.pdf
 - 48 Daniela Gabor and Isabella Weber, 'COP26 should Distance itself from Carbon Shock Therapy', The Financial Times, 8 November 2021, accessed 3 April 2022, <https://www.ft.com/content/1d2dcdc4-4de2-4e87-ab1f-574a32c5e0e2>
 - 49 Sara Jane Ahmed, Alicia Bárcena and Daniel Titelman, 'The IMF's Missstep on Climate Finance', Project Syndicate, 13 December 2021, accessed 7 April 2022, <https://www.project-syndicate.org/commentary/imf-must-adjust-funding-criteria-in-response-to-climate-vulnerability-by-sara-jane-ahmed-et-al-2021-12?barrier=accesspay>
 - 50 Nona Tamale, 'Adding Fuel to Fire: How IMF demands for austerity will drive up inequality worldwide', Oxfam, 2021, 10.21201/2021.7864
 - 51 Statement by Christine Lagarde, President of the ECB, at the forty-fourth meeting of the International Monetary and Financial Committee. IMF Annual Meetings, 14 October 2021. <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp211014-0e6ead6ce2.en.html>
 - 52 'Rechanneling IMF Special Drawing Rights in a Responsible and Efficient Way', Lazard, 9 February 2022, accessed 1 April 2022, <https://www.lazard.com/perspective/rechanneling-imf-special-drawing-rights-in-a-responsible-and-efficient-way/>
 - 53 'African Development Bank Group President to Press for SDR Reallocation, Vaccine Equality At EU-AU Summit', 16 February 2022, accessed 1 April 2022, <https://allafrica.com/stories/202202160661.html>
 - 54 Mark Plant, 'The Challenge of Reallocation SDRs: A Primer', CGD Notes, 18 August 2021, accessed 1 April 2022, <https://www.cgdev.org/publication/challenge-reallocating-sdrs-primer>
 - 55 The African Development Bank put forward a concrete proposal to use recycled SDRs in this fashion at a recent event organised by the Center for Global Development: <https://www.cgdev.org/blog/rechanneling-sdrs-mdbs-urgent-action-needed-jumpstart-green-equitable-transition>
 - 56 D. Gabor, 'The Wall Street Consensus', Development and Change 52, 2001, 429-459. <https://doi.org/10.1111/dech.12645>
 - 57 Maria Jose Romero, 'Reclaiming Public Development Banks to Finance a Sustainable and Equitable Recovery post Covid-19', 30 November 2020, accessed 7 April 2022, https://www.eurodad.org/reclaiming_public_development_banks_ebook_chapter
 - 58 Tommy Stubington, 'UN Launches African Repo Market in Bid to Lower Borrowing Costs', The Financial Times, 3 November 2021, accessed 1 April 2022, <https://www.ft.com/content/0c5c2e7f-32e9-4e91-9fab-fab9d5ff59b7>
 - 59 Daniela Gabor, 'The Liquidity and Sustainability Facility for African Sovereign Bonds: Who Benefits?', Eurodad Report, 12 March 2021, accessed 7 April 2022, https://www.eurodad.org/the_liquidity_and_sustainability_facility_for_african_sovereign_bonds_who_benefits
 - 60 Action Aid, Using Special Drawing Rights for Climate Finance. A Discussion Paper, 2010, accessed 1 April 2022, http://environmentportal.in/files/sdr_for_climate_finance.pdf
 - 61 Page 4, point 29 https://unfccc.int/sites/default/files/resource/cop26_auv_2f_cov-er_decision.pdf
 - 62 Heinrich Böll-Stiftung, 'Lessons from COVID-19 for Addressing Loss and Damage in Vulnerable Developing Countries. Lessons for Loss and Damage', accessed 1 April 2022, <https://us.boell.org/en/2020/12/11/lessons-covid-19-addressing-loss-and-damage-vulnerable-developing-countries>
 - 63 <https://twitter.com/miaamormottley/status/1449197414502617091>
 - 64 <https://www.linkedin.com/pulse/global-framework-climate-finance-we-need-avi-nash-persaud/?published=t>
 - 65 <https://twitter.com/DanielaGabor/status/1461372165081739270?s=20>
 - 66 '2020 Joint Report on Multilateral Development Banks' Climate Finance', World Bank, 2 July 2021, accessed 1 April 2022, <https://www.worldbank.org/en/news/press-release/2021/07/02/mdbs-climate-finance-for-developing-countries-rose-to-us-38-billion-joint-report-shows>
 - 67 Michael Franczak and Olúf mí O Táiwò, 'Here's How to Repay Developing Nations for Colonialism – and Fight the Climate Crisis', The Guardian, 4 January 2022, accessed 1 April 2022, <https://www.theguardian.com/commentisfree/2022/jan/14/heres-how-to-repay-developing-nations-for-colonialism-and-fight-the-climate-crisis>
 - 68 'As Green Climate Fund and World Bank Sign Framework Agreement, Concerns about Bank's Role Linger', The Bretton Woods Project, 4 April 2019, accessed 1 April 2022, <https://www.brettonwoodsproject.org/2019/04/as-green-climate-fund-and-world-bank-sign-framework-agreement-concerns-about-banks-role-linger/>
 - 69 Hugh Bredenkamp and Catherine Pattillo, 'Financing the Response to Climate Change', IMF Staff Position Note, 25 March 2010, SPN10/06 <https://www.imf.org/external/pubs/ft/spn/2010/spn1006.pdf>
 - 70 CAFOD, 'Leveraging the UK's Reserves Injection of Special Drawing Rights to Increase Global Vaccinations', Briefing Note, February 2022.
 - 71 'G20 Rome Leaders' Declaration', accessed 30 March 2022, <https://www.consilium.europa.eu/media/52730/g20-leaders-declaration-final.pdf>
 - 72 'Our Shared Agenda for Global Action to Build Back Better', Carbis Bay G7 Summit Communiqué, accessed 30 March 2022, <https://www.g7uk.org/wp-content/uploads/2021/06/Carbis-Bay-G7-Summit-Communique-PDF-430KB-25-pages-3.pdf>
 - 73 Emmanuel Macron, Paul Kagame, Cyril Ramaphosa and Macky Sall, 'European and African Leaders Call for a New Deal for Africa', 27 May 2021, accessed 30 March 2022, <https://www.project-syndicate.org/commentary/economic-new-deal-for-africa-by-emmanuel-macron-et-al-2021-05?barrier=accesspay>
 - 74 'SDRs: The Money Hack That Could Pump \$100 Billion Into Weak Economies', 15 February 2022, accessed 6 April 2022, <https://www.globalcitizen.org/en/content/100-billion-sdr-reallocation-imf/>
 - 75 'Climate Finance Delivery Plan: Meeting US\$100 billion Goal', accessed 1 April 2022, <https://ukcop26.org/wp-content/uploads/2021/10/Climate-Finance-Delivery-Plan-1.pdf>
 - 76 Leia Achampong, 'How Lessons from Development Finance can Strengthen Climate Finance', Eurodad Report, 30 March 2021, accessed 30 March 2022, https://www.eurodad.org/lessons_climate_finance
 - 77 Iolanda Fresnillo and Ilaria Crotti, 'The Climate Emergency: What's Debt got to do with it?', 13 October 2021, accessed 30 March 2022, https://www.eurodad.org/the_climate_emergency_whats_debt_got_to_do_with_it
 - 78 CPI climate finance tracker: <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/>



Acknowledgements

Invaluable comments have been provided by Eurodad colleagues: María José Romero, Jean Saldanha, Leia Achampong and Iolanda Fresnillo, and by external reviewers: Aldo Caliarì (Jubilee USA Network), Bodo Ellmers (Global Policy Forum), Patricia Miranda (Latindadd), Sargon Nissan (Recourse) and Jon Sward (Bretton Woods Project).

Copyediting: Amanda Anstee and Julia Ravenscroft

Contact

Eurodad
Rue d'Edimbourg 18-26
1050 Brussels Belgium
+32 (0) 2 894 4640
assistant@eurodad.org
www.eurodad.org

This publication has been produced with co-funding from the European Union. It also has been supported in part by a grant from the Open Society Foundations. Its contents are the sole responsibility of Eurodad and do not necessarily reflect the views of the European Union or the Open Society Foundations.

