

“From Virus to Vitamin” Newsletter

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Special Drawing Rights: a drop of liquidity in an ocean of needs



“From Virus to Vitamin”
Newsletter n14

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QUESTION UNDER DISCUSSION

"A new allocation of a significant amount of SDRs to developing countries could be part of a global response to the pandemic, particularly in times when a private global currency (such as Libra/Diem) is about to be launched. What are the political prerequisites and what should be the magnitude of the next allocation to meaningfully alleviate the hardship of the developing countries?"

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EDITORIAL

Special Drawing Rights: a drop of liquidity in an ocean of needs

Since the election of US President Joe Biden, calls for a new allocation of special drawing rights (SDRs) - an international reserve asset created by the IMF in 1969 - have gained momentum. Yet while an increase of SDRs is meant to help developing countries recover from the global economic recession brought on by the pandemic, such proposal has sparked off a debate about the benefits and limitations of this financing mechanism for developing countries.

The last time new SDRs were issued was during the 2008-2009 global financial crisis, when the IMF allocated \$250 billion to help countries around the world. More than a decade later, world leaders are again discussing SDRs. On 3 February 2021, four European leaders, the UN Secretary-General and the President of Senegal published a joint statement that included a call for the use of SDRs to address developing countries' urgent funding needs. Other commentators made specific proposals for allocations ranging from \$500 billion to \$3 trillion – all considerably larger than the 2009 package.

A new SDRs issuance would relieve the pressure of the global economic crisis on developing countries' balance of payments, thereby helping them to avert financial collapse and maintain the confidence of financial markets. Critics point out that this proposal downplays the question of the distribution of new SDRs, since the new allocation would be made according to a country's IMF quota (reflecting its relative position in the world economy), which means that the majority of the allocated SDRs would

end up “in the top countries that do not need them anyway.”

This limitation is certainly a reason why a reform of IMF quotas is necessary. However, even a smaller share might be a huge relief for developing countries, all the more since SDRs - unlike IMF loans - are unconditional, allowing countries to avoid structural adjustment programmes and austerity measures that may have painful social consequences. Alternatively, part of the SDR allocation could be redirected “to a special fund controlled by recipient countries themselves, which would make disbursements to each other based on needs and development priorities, a procedure that would limit the accompanying imposition of paternalistic conditions.”

Another challenge is political in nature: an issuance of SDRs requires a majority of 85 percent of votes of IMF members, which means positive US and European votes. Yet with a new US administration under President Joe Biden having withdrawn opposition to such an issuance, there is hope for the adoption of an SDR allocation in response to the pandemic.

[Virgile Perret & Paul H. Dembinski](#)

“... the central problem of quotas ...”

Africa alone would need the equivalent of \$ 150 billion in the short term. The additional SDR needs for developing countries can be estimated at \$ 500 billion. Taking into account the allocation rules of the IMF, it would therefore be necessary to create the equivalent of nearly three trillion of SDRs. **There remains the central problem of quotas. It does not reflect the real economic power of the 189 member countries, but simply that granted to them by the main monetary power (the USA).** If the IMF is to become a true multinational body again, it is urgent to grant China, Brazil and India the institutional responsibility that corresponds to their economic weight

[Étienne Perrot](#)



“... the world needs a reliable and interoperable payment system ...”

Pandemic is nobody's fault. The intricacy in coping with it is universal, but particularly great in poorer countries with frail health systems and internationally unacceptable currencies. Pandemic and its economic outcomes will only be defeated if they are defeated everywhere. Mission of Libra Association (renamed to Diem Association) is to facilitate a plain global payment system and financial infrastructure that empowers billions of people. **There is need to create more inclusive and innovative financial system, aiming to develop system intended to ensure compliance with applicable laws and regulations while supporting its objectives of financial inclusion.** It would be ideal for countries that do not need additional reserves to make them available to many weaker countries that do. The world needs a reliable and interoperable payment system.

[Archana Sinha](#)



“... bring significant liquidity and relief to less industrialized countries ...”

Apparently, there is a G20 consensus for more than 500bn USD worth of new SDRs, but two thirds of the new rights would be allocated to advanced economies, which don't need them... **The underlying question is how to recycle SDRs through donations, loans or re-channelling through international institutions, so that they bring significant liquidity and relief to less industrialized countries. The question is political, but there are also some difficult legal obstacles on the road.** A suggestion: as a think-tank, OBSFIN could promote a collection of studies and proposals to help supporting a generous multinational answer

[Domingo Sugranyes](#)



“... most SDRs end up in the top countries that do not need them anyway ...”

The allocation of SDRs would be political condition free given the beneficiaries are citizens who are worse off without the resources than with them, regardless of the political regime. **Most SDRs end up in the top countries that do not need them anyway, so for the free to be scattered around the world it would be kind to allow all citizens to benefit from imported vaccines paid in SDRs, for example.** I understand there is no one country around to give democracy classes these days, from the January 6 experience in the Capitol. Democracy is in question all over, as far as I can see. For once, a little generosity would be well received.



[Oscar Ougarteche](#)

“... the redirection of part of the total SDR allocation to a special fund ...”

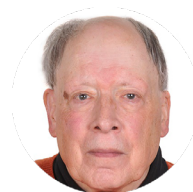
Now that the G20 economies have decided to raise the reserves of the IMF through a new allocation of SDRs of probably USD 500 billion, attention will now shift to ways of ensuring that the shares of low-income countries substantially exceed their small IMF quotas. One longstanding idea is that rich countries should donate some of their receipts of SDRs back to the IMF, which would then lend them to low-income countries. But this leaves open the possibility of an inappropriate distribution or one entailing acceptance by recipients of controversial or ineffective policy conditions designed by the donor countries or by the IMF and the World Bank. **A more attractive proposal – supported by some African policy makers - would be for the redirection of part of the total SDR allocation to a special fund controlled by recipient countries themselves, which would make disbursements to each other based on needs and development priorities, a procedure that would limit the accompanying imposition of paternalistic conditions.**



[Andrew Cornford](#)

LIST OF CONTRIBUTORS

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Paul H. Dembinski is the initiator and Director of the Foundation of the Observatoire de la Finance. In parallel, he is partner and co-founder of Eco'Diagnostic, an independent economic research institute working for both government and private clients in Switzerland and elsewhere. Paul H. Dembinski is also Professor at the University of Fribourg.



Dr. Virgile Perret holds a Ph.D in Political Science from the University of Lausanne and he is specialized in the study of monetary innovation from an interdisciplinary perspective. He collaborates with the Observatoire de la Finance where he is responsible for managing the global Prize "Ethics & Trust in Finance for a Sustainable Future".



P. Etienne Perrot, Jesuit, Doctor in Economics sciences, member of the editorial board of the magazine Choisir (Geneva), editorial adviser of the journal Études (Paris).



Dr. Archana Sinha, a a doctorate in Agricultural Economics, currently is Head, Department of Women's Studies, Indian Social Institute, New Delhi, India. She is responsible for implementing research on various women issues, rural and urban based issues on gender and development, agriculture related rural economy, livelihood, gender and social exclusion, women workers, food security, nutrition, health promotion, SDGs related issues.



Domingo Sugranyes Bickel, KCSG. Graduated from the University of Fribourg, Switzerland. Secretary General of UNIAPAC, Brussels, from 1974 to 1981. With MAPFRE international insurance group from 1981, Executive Vice-Chairman until 2008. From 2009 to 2019, Chairman of Vatican-based Foundation Centesimus Annus Pro Pontifice. Knight Commander of the Pontifical Order of Saint Gregory the Great (April 2019).



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“FROM VIRUS TO VITAMIN” – JOIN THE DISCUSSION

The **Observatoire de la Finance** intends to seize this period of pandemic to step back and take a fresh look at our global economic system, dare to ask new questions which the current crisis brings to the fore and propose innovative ways to rebuild a more resilient and sustainable economy and society. In brief, we want to turn the virus into a vitamin for the future.

Our Discussion Board “From Virus to Vitamin” focuses on commenting issues relevant to finance and economy in relations to society, ethics and the environment from a variety of perspectives, of practical experiences and of academic disciplines. It has been designed to share and discuss information and opinions expressed in a short and concise manner.

Contributors ([Discover the list of contributors](#)) are invited to react on a question/issue that is submitted in parallel to a limited group of experts. This happens on a regular basis, through a dedicated mailing list. After the deadline for submission, the reactions are edited and published with signatures in one document on the website of the Observatoire de la finance and on its LinkedIn page. If you would like to join the discussion, you may send an email to the editor, Dr. Virgile Perret <perret@obsfin.ch>.

OF Discussion Board – Questions addressed so far

- Question 13 : [Trump's economic heritage: false promises setting the stage for populist disruption](#)
- Question 12 : [Will America drive the world again? A wish list for Biden's economic agenda](#)
- Question 11 : [Rush for Covid-19 vaccine: bottle-necks require public-private worldwide](#)
- Question 10 : [Does robotisation trigger redistribution?](#)
- Question 9 : [Scaling up industrial policy at regional level](#)
- Question 8 : [Stock markets and the real economy: dangerously skewed allocation](#)
- Question 7 : [Realigning international trade according to the full cost principle](#)
- Question 6 : [Indulgent creditors and industrial policy](#)
- Question 5 : [Caring for care](#)
- Question 4 : [The changing nature of GAFAs: global market players, national champions or public service providers?](#)
- Question 3 : [Squaring the circle between international good intentions and national \(weak\) institutions](#)