More SDRs for Latin America and the Caribbean: An Effective Tool in an Era of Multiple Crises

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Table of Contents

1. Executive Summary 3
2. Introduction 6
3. Origins, Evolution, and Current Developments Regarding SDRs 11
4. Active Use in Latin America and the Caribbean 17
5. SDRs in Global Perspective: Regressive Accounting Allocation, Progressive Effective Use 30
6. Regional Bodies and Prescribed Holders 37
7. SDR Recycling and the Rechanneling Agenda: Proposals and Obstacles 39
8. Conclusions 44
9. References 47
10. Methodological Appendix 56

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1. Executive Summary

This report explains how issuances of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF) are an effective tool to mitigate the effects of the multiple crises that Latin American and Caribbean countries currently face. SDRs are among the most important alternative financing mechanisms available within the international monetary system, as they can generate new resources without increasing debt levels. Untapped for decades, recent issuances in 2009 — to address the effects of the global recession — and in 2021 — to help countries respond to the COVID-19 pandemic — reintroduced SDRs as a powerful instrument for addressing global emergencies. However, the scale of their impact could be much more significant.

The current context, marked by the climate crisis, economic stagnation, and rising external debt burdens, calls for a strong, coordinated, and global response by the international community. So far, however, the response has failed to meet these challenges sufficiently or adequately. Given these circumstances, a new SDR issuance becomes not only relevant but also necessary for ensuring that countries of the Global South receive the financial support required for climate change adaptation and mitigation, as well as for the achievement of the Sustainable Development Goals (SDGs). In order to achieve further issuances of SDRs, a coordinated push by Latin American and Caribbean countries, together with other countries and organizations in the Global South, is essential.

SDR issuances offer numerous benefits both for the countries that receive them and for the global economy as a whole. Moreover, SDRs can be actively used for a wide range of operations and allow countries to, among other things, alleviate external debt burdens and create additional fiscal space. However, there has been little systematic analysis of the extent to which countries have benefited from the active use of their SDR allocations. Based on an original methodological approach, this report estimates the amount and purposes for which SDRs allocated in 2021 were used during the two years following their issuance, with a focus on Latin America and the Caribbean. The main findings of our analysis are as follows:

- **For Latin American and Caribbean countries, the 2021 issuance resulted in a 9.4 percent average increase in international reserves.** The region received approximately USD 51.5 billion in SDRs — almost 8 percent of the total allocated globally. However, Venezuela has so far been prevented from accessing its allocation. Placing geopolitical restrictions on SDR access is contrary to the spirit in which they were created and undermines their positive effects as well as the ability of affected countries to respond to global emergencies. Given this issue, SDRs that can be effectively accessed by the countries of the region amount to USD 46.4 million, or about 90 percent of the total allocated resources for Latin America and the Caribbean.
- **Since the last issuance, countries in the region experienced tangible fiscal benefits and improved stability in their external accounts.** Out of a total of 32 countries, 19 benefited from the active use of their SDR allocations for various purposes. Of the SDRs issued that could be accessed by countries, 15.9 percent of the region's allocations were used to obtain foreign currency and to settle payments with the International Monetary Fund (IMF). About 47.4 percent of the allocation was used for fiscal support purposes, mainly to respond to the adverse effects of the COVID-19 pandemic.
- **SDR issuances are regressive in their accounting allocation, but progressive in their actual use.** While it is true that a majority of allocations end up in the accounts of rich economies, it is the low- and middle-income economies that benefit most from the active use of SDRs. Out of a total of 95 countries that actively used SDRs globally, 94 were developing countries. These countries made active use of their SDR holdings mainly for fiscal support purposes, but they were also used to obtain foreign currency and make payments to the IMF. The Latin American and Caribbean region stands out as the second most active user of its SDR allocations.
- **SDR issuances are the main alternative financing mechanism currently in place.** They cannot be replaced by proposals for SDR rechanneling, the result of which is to raise the level of indebtedness of countries in the Global South. Moreover, the IMF's main proposed rechanneling model, the Resilience and Sustainability Trust Facility, involves an increase in conditionalities. Other rechanneling initiatives better suited to the needs and challenges of the Global South — in which regional financial institutions play a key role — have so far been hampered by legal and accounting issues. While some key reforms could significantly increase the positive impact of new allocations, SDR issuances remain an already

institutionalized opportunity that allows for the immediate creation of fresh resources for Global South countries without increasing debt levels.

- **More SDR issuances are needed to support countries in the Global South in the face of the overlapping debt and climate crises.** The climate crisis is connected to the debt crisis in which a growing number of Global South countries find themselves, partly as a consequence of the COVID-19 pandemic aftermath and rapidly rising interest rates in major industrial economies. Despite having contributed far less to the current ecological crisis, developing countries are disproportionately exposed to the impacts of climate change and the risks involved in the energy transition. Meanwhile, climate financing has been insufficient, and most of it has been in the form of loan instruments. Further, the increasing burden of debt service hampers progress on climate action and sustainable development. As SDR issuances can create resources for countries in the Global South without increasing debt levels, they should be regarded as a key instrument to support SDGs and climate agenda-oriented policy.

2. Introduction

Special Drawing Rights (SDRs) are international reserve assets originally established in 1969 by the International Monetary Fund (IMF) to supplement the official reserves of its member countries. Due to their peculiar characteristics, SDRs are markedly distinct from other, more conventional and well-known IMF financing mechanisms. On the one hand, the institution can issue and allocate SDRs *ex nihilo* — out of thin air — based on an 85 percent vote of the Board of Governors, the highest representatives of the 190 member countries. On the other hand, and in contrast to typical IMF agreements, SDRs do not represent a loan, and their use does not include conditionality.

Identifying the current and potential limits and benefits of SDRs requires a thorough understanding of their specific attributes. First, an SDR is both a unit of account and an international reserve asset. The value of each SDR is based on a basket of currencies which has changed over time. Currently, the basket consists of the US dollar, the euro, the pound sterling, the Japanese yen and — since 2016 — the Chinese renminbi. The SDR is the unit of account officially used by the IMF, as well as by various other financial institutions and international organizations. Although rare, some private actors also use the SDR as a unit of account in their operations. Just as the US dollar has the code USD, the unit of account for the SDR has a three-letter code standardized by the International Organization for Standardization (ISO): XDR.

In addition, an SDR, as an international reserve asset, represents a potential claim on currencies issued by member countries. In other words, SDRs are exchangeable in official international transactions between member countries or certain prescribed holders. An issuance of SDRs is not carried out by the IMF's General Department — the body in charge of collecting countries' quotas and granting loans with conditions — but by the Special Drawing Rights Department, which operates separately and has its own policy framework as well as its own balance sheet.[1]

Once approved, allocations are credited to each country's SDR account in the IMF's SDR department. Each member receives a quantity of these reserve assets that is proportional to its

1 This special department is more similar to a central bank than a fund, since it has the capacity to create reserves. In terms of monetary hierarchy, the SDR Department is above the IMF's General Department: the latter has an account in the former.

quota, which is, in turn, determined by a few variables, the most important of which is the size of the country's economy. Generally, the SDR allocation appears as an increase on the asset side of a central bank's balance sheet, because it represents an increase in its international reserves. Under current accounting rules, the amount of SDRs allocated is also recorded as a liability, because they are *officially* (theoretically) subject to repayment or cancellation. SDR allocations can be regarded as a loan in perpetuity without any repayment commitment.[2] In practice, they do not represent new debt for the country receiving them. However, the use of SDRs can generate accrued interest, as explained below.

Thus, SDR issuances are an unconditional and freely available source of international liquidity that does not increase levels of external indebtedness and provides numerous benefits both for the countries that receive them and for the global economy as a whole. First, SDR issuances strengthen the external positions of recipient countries by expanding their international reserves. The injection of liquidity promotes economic and financial stability in the global economy.[3] In turn, the increase of international reserves at the country level improves the payment-capacity profile and tends to lower the country-risk perception and borrowing costs in international capital markets for developing countries.[4] This type of use derives from the allocation itself and does not require any further action, other than updating balance sheets.

Moreover, countries can mobilize their allocations for a wide range of operations, in which case we are in the presence of an "active" use of SDRs. According to the IMF, SDRs do not have a prescribed use, and their use is a sovereign decision of each country, according to its legislation and legal framework.[5] The Fund's only recommendation is that any use of SDRs should be aimed at improving macroeconomic and financial stability.[6]

Broadly, there are three types of active use. On the one hand, countries can exchange their SDR holdings for foreign currency. In turn, this cash can be used, for example, to stabilize the exchange rate, to service foreign currency-denominated debt, or to pay for imports. On the other hand, SDRs can be used directly to settle obligations to the IMF itself. In this way, SDRs constitute a powerful instrument of the international monetary system to avoid or alleviate balance of

2 Pérez Caldentey, Cerón Moscoso, and Ianni (2022).
3 IMF (2018).
4 IMF (2023a).
5 IMF (2021a).
6 IMF (2021a).

payments crises, a particularly sensitive issue for developing countries. In addition, in recent times, SDRs have been increasingly leveraged for fiscal purposes, either to reduce deficits or public debt, or to facilitate the financing of new public spending, by supporting expansionary policies in critical contexts.[7] In sum, SDR issuances provide relief from external debt burdens and create additional fiscal space. The specific form of active use for fiscal purposes in a country depends, in addition to economic policy decisions, on its institutional practices.

The national legislation of each member state usually designates a specific institution through which it receives the SDRs allocated to it. Each member country must inform the IMF of which entity will act as its "fiscal agent" — the entity holding the allocated SDRs. In countries such as the United States, Canada, and Panama, the SDRs are allocated to agencies within or directly connected to finance ministries. However, SDRs are generally channeled to central banks.

If, according to local law, the receiving institution on behalf of the country is the ministry of finance, it may deposit the received assets in its account at the central bank and receive, in return, their value in domestic or foreign currency. Alternatively, the ministry of finance may issue SDR certificates and then deposit them in its account at the central bank. If, instead, the designated fiscal agent is the central bank, it may (*a*) pay the equivalent amount of SDRs in domestic currency to the ministry of finance in the form of dividends, or (*b*) provide indefinite-term financing to the ministry for the full or partial amount of the SDRs received.[8] In such cases, the mandate of the monetary authority and its relationship with the government, as well as the country's domestic political and economic context, may be particularly influential in the management of decision-making regarding SDRs.

The SDR interest rate determines the cost generally associated with the active use of SDRs when a country's holdings in the IMF's Special Drawing Rights Department are reduced. This rate is set weekly based on a weighted average of interest rates on short-term government debt instruments of the currencies in the SDR basket. It follows that the cost of active use of SDRs is comparable to the cost of borrowing for rich economies.

When a country's actual SDR holdings are lower than the amount of SDRs allocated to it, due to the active use of a portion of its SDRs, it must pay the SDR interest rate applied to the difference

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7 Cashman, Arauz, and Merling (2022).
8 Latindadd (2021b).

between the two amounts. Conversely, when a country's holdings are higher than the amount allocated, after having received SDRs through a transaction with another country, then that country receives payments corresponding to the SDR rate applied to the difference between the two amounts. The cost of active utilization corresponds to this net interest payment. Note that, while the active use of SDRs may involve a net interest payment, it does not require the payment of the principal.

It should be noted that the interest rate is lower than the cost of conventional IMF credits and, normally, far below the rate that Global South countries pay for funding in international markets. For comparative purposes, the average borrowing cost for a sample of 58 developing countries is estimated to be around 10.5 percent.[9] The SDR interest rate was around 0.05 percent in 2020 and 2021, rising since early 2022 as a result of the monetary policy pursued by the world's major economies, reaching around 4 percent in July 2023. This is 6 percentage points less than the cost of borrowing on international markets.

The fiscal use of SDRs can offer a possible exception to the active use cost described above. When a country uses its SDRs to exchange them for foreign currency or to meet debt payments to the IMF, its holdings in the account at the SDR Department are necessarily reduced in proportion to the quantity used. In contrast, the impact of fiscal use on SDR holdings depends on the specific conditions and purposes of such use. This type of use commonly involves transactions between the central bank and the ministry of finance or other domestic institutions. As a result, the SDR holdings of the country may remain unchanged. In sum, when the use for fiscal purposes does not imply a direct or eventual decline in the country's SDR account, the active use for fiscal support purposes does not incur the SDR interest rate cost.

With only two issuances during the 1970s following their creation in 1969, SDRs were forgotten for decades. Recent initiatives in 2009, during the global recession, when the IMF board of governors approved an issuance worth approximately USD 250 billion — and in 2021, in the context of the COVID-19 pandemic, when an issuance worth USD 650 billion was approved — reintroduced SDRs as a possible tool to address global emergencies. They could even serve as an alternative resource for financing sustainable development in a longer-term perspective.[10]

9 Ramos et al. (2023).
10 For example, see the report of the UN Conference on Trade and Development (UNCTAD [2019], 106–10); UN Secretary-General António Guterres' statements in June 2022 (UN [2022]); Arauz's 2022 statements linking SDRs to

However, the extent to which SDRs have been actively used, and for what purposes, have been studied very little.

Some opponents of new issuances of SDRs have argued that their distribution is regressive, as wealthy nations receive a larger proportion of total SDRs than developing countries. But is it true that SDRs benefit wealthy countries the most? Which countries benefited the most from the last issuance in August 2021, and how have Latin American and Caribbean countries benefited in particular? How were SDRs used in the countries of the region? What proposals would further unlock the potential of SDR allocations in the Global South? What obstacles do such initiatives face? This paper addresses these and other questions, with a focus on Latin America and the Caribbean.

The following section of this report reviews the origins and evolution of SDRs, provides a historical perspective on some of the current debates, and highlights recent initiatives in the region. Section 4 presents the results of the estimated use of the SDR allocation issued in 2021 and analyzes the use rates and their purposes with a focus on Latin American and Caribbean countries. Section 5 discusses the distributional regressivity of SDR issuances in contrast to the high degree of progressivity when their active use is incorporated into the analysis. The proposed methodology allows for a clearer view of SDRs' uses and demonstrates the effective advantages of new issuances for countries in the Global South in general and Latin America and the Caribbean in particular. Section 6 highlights the key role that regional development banks could play in enhancing the positive effect of SDRs. Section 7 discusses various alternatives for recycling unused SDRs held by rich countries and their main obstacles. Finally, conclusions and proposals are outlined.

sustainable development: "SDR = sustainable development right" (Ellmers [2022]). Recently, the president of Colombia, Gustavo Petro, proposed more SDR emissions to boost climate action in the countries of the region (Presidency of the Republic [2023b]).

3. Origins, Evolution, and Current Developments Regarding SDRs

A historical overview of this unique instrument of international monetary policy will help provide us with a better understanding of the current discussion surrounding SDRs. The origin of SDRs is closely linked to a key problem that has repeatedly plagued the global economy since the end of the First World War: the shortage of international liquidity. This issue arises from the limited supply of assets that function as international reserve currencies. Under the gold standard, the quantity of these assets was determined by the availability of gold. Insufficient international liquidity "could jeopardize growth and establish a contractionary bias in the global economy."[11]

The Bretton Woods agreement established the core framework for the global financial system in 1944. The post-World War II international monetary system (characterized by fixed exchange rates pegged to the US dollar, which in turn was convertible to gold at a fixed parity), in conjunction with other factors, such as the widespread adoption of expansionary fiscal policy (including military spending), the removal of trade restrictions, and increased capital mobility, required an ever-increasing amount of international reserves at the global level. The tensions between the international demand for more dollars, US trade deficits, and the rising pressure on North American gold reserves — necessary for maintaining the fixed convertibility of the dollar — led to the so-called Triffin dilemma.[12] This dilemma was compounded by growing demands for resources from "Third World" countries (as they were then called) to finance their development. The United Nations Conference on Trade and Development (UNCTAD), established in 1964, had among its main objectives the promotion of new forms of supplementary financing.[13]

After a long period of negotiations, SDRs were created in 1969 by the IMF following an agreement reached by the Group of 10 (G10).[14] Although designed to underpin a broader range of objectives, the impetus to create SDRs was the urgent need to supplement official reserves and

11 Pérez Caldentey, Cerón Moscoso, and Ianni (2022).
12 Paduano (2022).
13 UNCTAD (2014).
14 Pforr, Pape, and Murau (2022).

provide international liquidity in a manner that was outside the endogenous mechanisms of the Bretton Woods system. In this context, SDRs were also referred to as "gold paper."[15]

The IMF Articles of Agreement stipulated that allocations and cancellations of SDRs should be regular, with base periods of five years, but also envisaged issuances in response to unexpected major events. Allocations were to be based on meeting global liquidity needs, avoiding "economic stagnation and deflation as well as excessive demand and inflation."[16] The value of an SDR was initially fixed at a one-to-one parity with the US dollar.[17] In the same year of its creation, the first allocation was agreed to be made in annual installments between 1970 and1972 for a total amount of 9.3 billion SDRs.

However, SDRs only briefly coexisted with the monetary system that created them. In 1971, the United States ended the convertibility of the dollar to gold, leading to an international system of floating exchange rates. In 1974, as a result of these changes, the value of an SDR became variable, determined by the fluctuating value of a basket of 16 currencies. This basket was made up of the currencies of the countries with the largest shares of global exports of goods and services.[18] The basket included currencies of countries considered to be developing countries.[19]

At the time, some developing countries insisted on the creation of an "aid link" for SDR allocations.[20] This proposal entailed linking the IMF's creation of international liquidity (through SDRs) to the transfer of resources to countries that required them most to meet their development needs.[21] Representatives of African countries were among those who pushed the most for the proposal. However, this proposal was not accepted by the countries of the Global

15 Boughton (2011).
16 According to the IMF Articles of Agreement (2011+0), Article XVIII, Section 1, on "Principles and considerations governing allocations and cancellations." See References (IMF 2020a).
17 As mentioned, in those years there was still a fixed value of the US dollar that was convertible into gold within the international monetary system. The SDR was equivalent to 0.888671 grams of fine gold.
18 Zöllner (2016).
19 The basket of 16 currencies was maintained for several years. In 1981, it included the US dollar, the pound sterling, the Japanese yen, the French franc, the German mark, the Australian dollar, the Austrian schilling, the Belgian franc, the Canadian dollar, the Iranian rial, the Italian lira, the Dutch guilder, the Norwegian krone, the Saudi rial, the Spanish peseta, and the Swedish krona. See Pozo (1984).
20 IMF and World Bank Group (1974).
21 The quotas of each IMF member country are defined according to a formula that gives greater weight to the size of its economy and its foreign trade. Details of this calculation and a proposal for its modification can be found in Arauz et al. (2022).

North.[22] The distribution of SDR allocations based on the IMF's quota system, which gives the allocations an apparently regressive character, has remained unchanged to this day.

Long-term liquidity issues have continued to exist since the collapse of US dollar convertibility and the fixed exchange rates system. SDRs retained a critical role in this respect. Indeed, in 1978, the second amendment to the IMF's Articles of Agreement came into force, committing its members to establishing SDRs as the main reserve asset of the international monetary system. Moreover, the second allocation took the form of annual payments in 1979–81 totaling 12.1 billion SDRs.

However, for various reasons, SDR issuances fell into disuse from the 1980s onward. On the one hand, the collapse of the Bretton Woods system meant that global liquidity was no longer dependent on gold reserves.[23] Freed of this constraint, the US was able to fully enjoy the extraordinary privileges that come with controlling the primary international reserve asset, without the pressures stemming from the fixed convertibility of the dollar to gold. On the other hand, along with the monetarist ideas in vogue in the 1980s, there was an increased reluctance among countries of the Global North and the IMF to provide relief and financial assistance to poorer economies. Finally, the strength of the proposal was undermined by the lack of agreement among member countries on several key aspects regarding the functioning of the SDR, including the absence of an "aid link" in the relative allocation demanded by the countries of the Global South.[24]

For its part, the SDR valuation basket continued to evolve. From 1981 onward, its valuation method was simplified to a basket of five currencies: the US dollar, the pound sterling, the Japanese yen, the French franc, and the German mark. In 1999, the latter two were replaced by the euro, thus forming a basket of four currencies until 2016, when, due to the vastly increased weight of China in the global economy, the renminbi was added.[25]

SDR issuances only reappeared nearly three decades later when, in response to the global recession, the IMF created and distributed 161.2 billion SDRs (about USD 250 billion) and another

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22 In 1974, at the annual meeting of the World Bank and the IMF, the governor for Sri Lanka exclaimed: "we asked for a link, and we got a committee." The committee never reached a final agreement on the initiative.
23 IMF (2018).
24 Williamson (2009).
25 On the incorporation of the renminbi into the currency basket, see IMF (2016).

special allocation of 21.5 billion SDRs (about USD 34 billion) in August and September 2009, respectively. On this occasion, there was also a significant diversification in the use of SDRs: they were no longer reserved for meeting external needs, but were also used as an instrument of fiscal support, which further enhanced their positive impact. In Latin America, Ecuador was the first country to decide to use SDRs for fiscal support.[26] Argentina also used SDRs for fiscal purposes.

These experiences were consolidated and extended throughout the developing world. The most recent allocation was approved in response to the fiscal emergency caused by the COVID-19 pandemic, for a record 456.5 billion SDRs (USD 650 billion). After the outbreak of the pandemic, Ecuadorian economist and coauthor of this report, Andrés Arauz, was among the first in the region to publicly call for a new SDR issuance. Many similar demands followed, including from broad sectors of civil society.[27] Shortly before the last issuance, Latindadd published a manual on the fiscal use of SDRs,[28] which was shared with the region's ministries through official channels. The most recent allocation was finalized on August 23, 2021, following the US administration's decision to support a new allocation[29] 17 months after the World Health Organization (WHO) officially identified COVID-19 as a global pandemic.[30]

Countries in the Global South experienced concrete fiscal benefits and external accounts relief from this latest issuance (as we will see in more detail in sections 4 and 5). Moreover, the IMF concluded that there is no evidence to suggest that the SDR allocation in 2021 contributed to the recent increase in global inflation.[31]

These two experiences, in 2009 and 2021, reintroduced SDR issuances as a powerful instrument to respond to global emergencies. Yet, they could have a far greater impact. In recent years, there have been growing calls by stakeholders from across the world for new SDR issuances to support countries in the face of the climate crisis and to support the achievement of the United Nations

26 The proposal was originally presented in August 2008 on behalf of Ecuador to the Stiglitz Commission, where several of its members made harsh and alarming criticisms. It was also presented to representatives of the Inter-American Development Bank (IDB), the Development Bank of Latin America and the Caribbean (CAF), the World Bank, and the Economic Commission for Latin America and the Caribbean (ECLAC), who questioned the technical and political viability of the proposal, which in a short time proved the opposite.
27 CEPR (2020); Oxfam International (2020).
28 Latindadd (2021b).
29 Tooze (2020).
30 WHO (2020).
31 IMF (2023a).

Sustainable Development Goals (SDGs). In the current context of multiple crises, in which the climate and debt crises are closely intertwined, SDR issuances are a particularly useful tool.

On one hand, despite having contributed less to the current climate crisis,[32] countries in the Global South are disproportionately exposed to the impacts of climate change and the risks involved in the rapid energy transition required to comply with the Paris Agreement. However, the funding needed to drive sustainable development in the countries of the Global South falls far short of what is required. The United Nations Environment Programme (UNEP) estimates that the financing needs for climate adaptation in low- and middle-income countries are between 79 and 612 billion USD per year until 2030 — 5 to 10 times the amount of funds that have been recently mobilized.[33] For Latin America and the Caribbean, the estimated costs of adaptation are in the range of 8 to 62 billion USD annually. In 2020, according to an analysis by the Organisation for Economic Co-operation and Development (OECD), climate finance mobilized by developed countries reached 83.3 billion USD, still below the 100 billion USD annual commitment made at COP15 in 2009.[34] Meanwhile, according to UNCTAD, the investment gap for SDGs in developing countries is around 4 trillion USD.[35]

On the other hand, the growing debt burden of many countries in the Global South represents an obstacle to investment in climate action and sustainable development.[36] External debt service eats into foreign currency export earnings and reduces fiscal policy space, undermining states' ability to fund public services and invest in development and climate action. Moreover, debt crises can induce many of these countries to deepen their dependence on the overexploitation of natural resources and fossil fuels in order to obtain foreign exchange, potentially slowing the decarbonization of their economies.[37] At the same time, exposure to climate risks tends to increase borrowing costs for vulnerable countries. As in other developing regions, the threat of a decade of economic stagnation resulting from the COVID-19 pandemic and current global macrofinancial conditions presents serious concerns for debt sustainability and sustainable development efforts in Latin America and the Caribbean.[38]

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32 IPCC (2023).
33 UNEP (2022).
34 OECD (2022b).
35 UN News (2023).
36 Vasic-Lalovic, Merlin, and Wu (2023).
37 Woolfenden (2023). For the case of Argentina, see Bohoslavsky and Cantamutto (2023).
38 ECLAC (2023).

Moreover, climate finance mobilized in the region has not only been insufficient; the form it takes could deepen existing debt problems. In 2020, 71 percent of public climate finance mobilized by developed countries took the form of loan instruments;[39] in Latin America and the Caribbean, this figure exceeded 80 percent.[40]

In this context, SDR issuances are a particularly well-suited instrument, as they can provide additional fiscal space and external relief without involving higher levels of indebtedness. If the SDR allocations of 2009 and 2021 were motivated by the global financial crisis and the COVID-19 pandemic, new issuances are an indispensable instrument to address the combined effects of climate change and the debt crisis in the Global South.

As the 2021 experience revealed, achieving new SDR issuances requires coordinated action by various actors and consensus-building at the international level. In this regard, Latin American and Caribbean countries have a key role to play. Historically, the region has not been proactive in promoting SDR issuances, despite the fact that this financial instrument was originally proposed and promoted by UNCTAD when it was led by the Argentine economist Raúl Prebisch in the 1960s.[41] In the region, SDRs have been studied by Colombian economist José Antonio Ocampo, whose book *Resetting the International Monetary (Non) System* (2017)[42] is the most extensive study on the subject. The Ecuadorian economist Pedro Páez Pérez promoted the issuance of SDRs within the Stiglitz Commission in 2009.[43] Nevertheless, until recently, the Economic Commission for Latin America and the Caribbean (ECLAC) very rarely referenced SDRs in its research.[44]

However, in recent years, key actors in the region have shown increased interest in SDRs and have promoted new SDR issuances. In 2022, the initial version of the Bridgetown Initiative put forward by Barbados prime minister Mia Mottley included calls for new SDR issuances, though the proposal seems to have been dropped in more recent versions.[45] More recently, Colombian

39 OECD (2022a).
40 Latindadd (2023a).
41 Promoting new forms of supplementary financing was one of Prebisch's main objectives during his tenure at UNCTAD (1964–69). See UNCTAD (2014).
42 Ocampo (2017).
43 The Commission of Experts on Reforms of the International Monetary and Financial System was chaired by the economist and Nobel laureate Joseph E. Stiglitz, which is why it is commonly referred to as the Stiglitz Commission. The position of Pedro Páez Pérez can be found in Paéz Pérez (2016).
44 ECLAC (2021); ECLAC (2022); Pérez Caldentey, Cerón Moscoso, and Ianni (2022); Pérez Caldentey and Villarreal (2023).
45 Ministry of Foreign Affairs and Foreign Trade (2022).

president Gustavo Petro proposed a global "Marshall Plan" against the climate crisis, which would include a call for new SDR issuances.[46] Such initiatives are key to promoting new SDR allocations in the near future.

4. Active Use in Latin America and the Caribbean

On August 23, 2021, the IMF's SDR Department issued a new allocation of approximately USD 650 billion, the largest ever. This was distributed among the 190 countries that are part of the SDR Department (currently all IMF member countries). **Figure 1** presents the main global issuance statistics by country group. Among developing regions, Latin America and the Caribbean was the second most favored, after the emerging and developing economies of Asia.

Figure 1
2021 SDR Allocation by IMF Geographic Grouping, Billions

Geographic grouping	SDRs	USD	Percentage
Total	***456.5***	***650.2***	***100%***
Advanced Economies	280.3	399.2	61.4%
Emerging and Developing Economies	176.2	250.9	38.6%
Emerging and Developing Economies Asia	59.2	84.4	13%
Emerging and Developing Economies Europe	29.9	42.6	6.6%
Latin America and the Caribbean	**36.2**	**51.5**	**7.9%**
Middle East and Central Asia	34.7	49.5	7.6%
Sub-Saharan Africa	16.1	22.9	3.5%

Note: The exchange rate used for conversion is 1 SDR = 1.42426 USD, in force at August 2021 when the allocation occurred.
Source: Analysis by the authors based on IMF data.

However, not all countries in the region have received their issued SDRs. Although Venezuela's SDRs were deposited in its account in the IMF's SDR Department, the Venezuelan central bank

46 Presented at the Paris Summit for a New Global Financial Pact last June 2023, as well as on several occasions thereafter, including the UN General Assembly (United Nations) in September 2023. Presidency of the Republic (2023a).

was unable to access the corresponding assets. The IMF managing director claimed that, as some member countries had recognized Juan Guaidó as "interim" Venezuelan president, there was a lack of clarity over the rightful government.[47] Consequently, the IMF disabled the Venezuelan authorities' access to the account.[48]

It should be emphasized that this decision was taken independently from the rest of the agencies of the United Nations System (of which the IMF is a part), none of which stopped recognizing the government headed by Nicolás Maduro. As of the date of publication of this report, this decision, which blocks Venezuela's access to its IMF accounts, remains in place. This is despite the fact that Guaidó is no longer recognized as interim president by the entities that had designated and recognized him,[49] and even in spite of the fact that unblocking access to SDRs was one of first issues agreed to in the talks between the Venezuelan government and opposition held in Mexico in September 2021.[50]

By taking away essential resources to address external and fiscal needs, the blocking of Venezuela's access to its SDR allocation in 2021 reduced the capacity of the Venezuelan authorities to respond to the country's humanitarian crisis, which was mostly a result of US economic sanctions, and had been worsened by the COVID-19 pandemic. It should be noted that, according to the IMF's own guidelines,[51] member countries do not need to meet any preconditions to use their share of a general allocation. Given that SDR issuances have been a key tool for responding to global crises in recent times, IMF members should refrain from manipulating their access to pursue geopolitical goals.

It follows from the above that the region had effective access to about 90 percent of the SDRs received in the last issuance. On the other hand, it should be noted that not all Latin American and Caribbean countries are members of the IMF. The most relevant case is that of Cuba, which, although among the founders of the institution, voluntarily ceased its membership in 1964.[52] Based on our own estimates, we calculate that if Cuba were still a member of the IMF (and contributed its quota of around 800 million SDRs, of which 25 percent must be in foreign

47 On sanctioned countries to which the corresponding SDR transfer was not made available, see Galant (2022).
48 Campos (2019); Yapur, Martin, and Itriago Acosta (2022).
49 McEvoy (2023).
50 Norwegian Government Security and Service Organisation (2023).
51 IMF (2023a).
52 Pujol (2012).

currency and the rest in local currency), it would have received 772.3 million SDRs — approximately USD 1 billion — in the 2021 allocation.

Figure 2 presents the authors' estimates of the rates of active use of the 2021 SDRs by country group for the two years following the date of issuance.[53] Of those members who made active use of their SDR allocations, virtually all were emerging and developing economies. Sub-Saharan Africa is the region that has made the most active use of its SDRs, predominantly for fiscal support purposes. As of August 2023, more than 80 percent of the SDRs received by that region have been used for this purpose. Moreover, about one-third of their SDRs were exchanged for foreign currency and payments on IMF obligations.

Figure 2

Active Use Rates of 2021 SDR Allocation by IMF Geographic Grouping

Estimated active use during the two following years after the SDR issuance, between August 2021 and August 2023.

Geographic grouping	Countries with At Least 1 Use	Used to Obtain Foreign Currency or IMF Payments*	Used for Fiscal Support*
Total (95 of 190)	***50%***	***5%***	***12.8%***
Advanced Economies (1 of 36)	2.8%	0.5%	0%
Emerging and Developing Economies (94 of 154)	61%	12.2%	33.2%
Sub-Saharan Africa (41 of 45)	91.1%	34.8%	80.5%
Latin America and the Caribbean (19 of 32)	**59.4%**	**14.3%**	**42.7%**
Emerging and Developing Economies Asia (14 of 30)	46.7%	1.6%	25.3%
Emerging and Developing Economies Europe (7 of 16)	43.8%	11%	5.4%
Middle East and Central Asia (13 of 31)	41.9%	18.4%	38.6%

Note: (*) SDR use is expressed as percentage of SDRs allocated to the corresponding grouping.
Source: Analysis by the authors based on IMF data, official documents, and specialized articles.

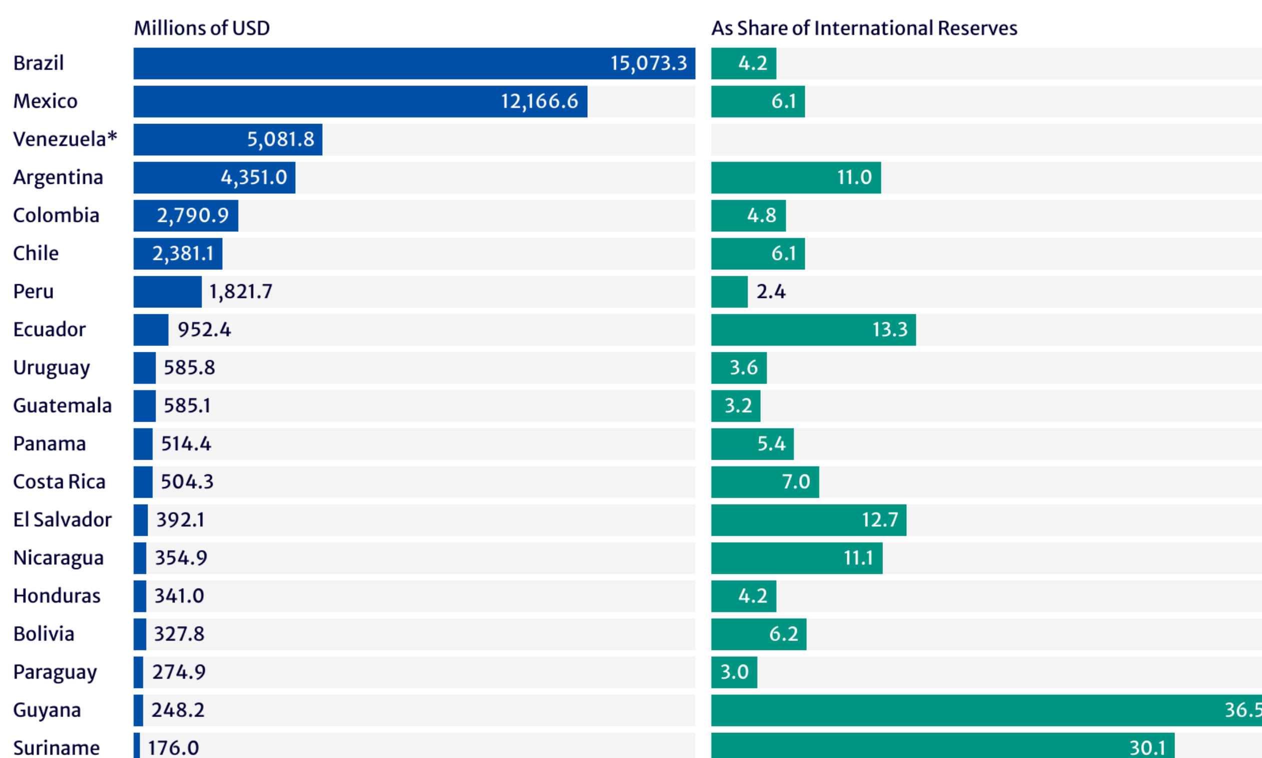
53 See the appendix for a detailed account of the methodology for estimating the active use of SDRs.

The Latin America and the Caribbean region also stands out globally as the second most active user of SDRs received in the 2021 issuance. More than half of the countries benefiting from the measure had at least one type of active use. Countries in the region leveraged 42.7 percent of their SDR holdings for fiscal support purposes and used 14.3 percent for balance of payments needs and IMF obligations. The use rates increased to 47.4 percent and 15.9 percent, respectively, when considering that the effective access for the region as a whole was around 90 percent of the allocation due to the aforementioned situation in Venezuela.

Figures 3 and **4** present the amounts received at the country level in Latin America and the Caribbean, respectively, from the 2021 SDR issuance. The second column of each table contrasts the amount of SDRs a country has received relative to their stock of international reserves in December 2020, an indicator of the impact of the new issuance for each country. In the region, the most recent SDR allocation resulted in a strengthening of international reserves by an average of 9.4 percent, with a variable range between 2.4 percent and 36.5 percent.

Figure 3
2021 SDR Allocation per Country in Latin America

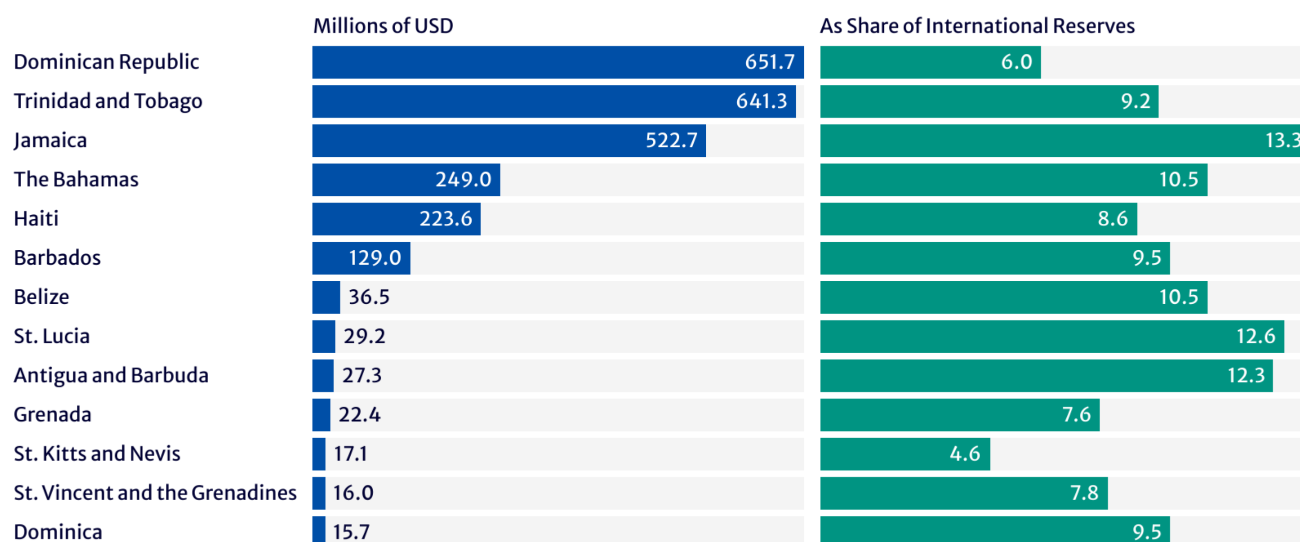
2021 allocation in millions of US dollars and as a share of international reserves in December 2020.



Note: (*) Venezuela's access to its SDR account is blocked to date.
Source: Analysis by the authors based on IMF and World Bank data.

Figure 4

2021 SDR Allocation per Country in the Caribbean



Source: Analysis by the authors based on IMF and World Bank data.

Between September 2021 and August 2023, 19 of the 32 Latin American and Caribbean (LAC) countries used a total of USD 22.1 billion for fiscal support and a further USD 7.19 billion to obtain foreign currency or for IMF payments. This represents 56.7 percent of SDRs issued for the region and about a quarter of the total used globally. **Figure 5** presents the allocation and uses of SDRs in Latin America and the Caribbean by country group.

Figure 5
2021 SDR Allocation Active Use in Latin America and the Caribbean by Subregional Grouping

LAC is one of the regions with highest active use of SDRs, although with differences across countries. Between August 2021 and August 2023, active use rates are generally above the averages for all country members.

Geographic grouping		Countries with At Least 1 Use	Used to Obtain Foreign Currency or IMF Payments*	Used for Fiscal Support*
Total	95 of 190	50%	4.9%	12.8%
Latin America and the Caribbean	19 of 32	59.4%	14.3%	42.7%
Latin America	10 of 19	52.6%	13.2%	44.1%
The Caribbean	9 of 13	69.2%	36.2%	17.6%
North America	1 of 1	100%	0%	58.5%
Caricom	9 of 14	64.3%	45.4%	29.9%
SICA	4 of 7	57.1%	18.8%	37.8%
South America	5 of 10	50%	16.9%	38.4%

Note: (*) SDR use is expressed as percentage of SDRs allocated to the corresponding grouping.
Source: Analysis by the authors based on IMF data, official documents, and specialized articles.

There are some differences among the LAC subregions in the rates of active use, both in terms of the number of countries that used their SDRs and the type and intensity of the use. Caribbean countries used their SDRs more for foreign exchange and payments to the IMF. Latin American countries used their SDRs mainly for fiscal support.

Excluding Mexico, the Caribbean Community (CARICOM) countries have the highest rate of use. However, active use for fiscal support purposes falls below the regional average. South America was the subregion with the fewest users of SDR issuance; only half of the 10 countries made active use of their SDRs,[54] which is slightly fewer than the usage rate of the countries of the Central American Integration System (SICA, by its initials in Spanish). Regarding the active use of SDR assets, in general, the Latin

54 Venezuela is included in the denominator, although it was unable to make use of the SDRs for external reasons; see above.

American subregions mainly used their SDRs for fiscal purposes, while the CARICOM countries used most of their SDRs to obtain other international reserve assets and meet balance of payments needs.

Figures 6, **7**, and **8** present the amounts used at the country level, ranked by the amounts used for fiscal purposes. In some cases, the active use of SDRs may exceed 100 percent of the allocated amount in 2021. This may be due to different reasons, depending on the case, but generally indicates that the country used part of its pre-2021 issuance SDR holdings for fiscal support. Given this high rate of use and drawdown of prior assets, these estimates highlight the need for the active use of SDR allocation, and suggest that for some countries the scale of the emission was insufficient.

Figure 6
Allocation and Active Use of SDRs by Country: Mexico and SICA

Estimated active use during the two years following the SDR issuance, between August 2021 and August 2023.

Country	Active Use	2021 SDR Allocation (USD Millions)	Used to Obtain Foreign Currency or IMF Payments (USD Millions)	Used to Obtain Foreign Currency or IMF Payments (Percentage of Allocation)	Used for Fiscal Support (USD Millions)	Used for Fiscal Support (Percentage of Allocation)
Honduras	Yes	341.0	372.3	109.2%	357.0	104.7%
Panama	Yes	514.4	20.9	4.1%	514.4	100%
El Salvador	Yes	392.1	15.3	3.9%	392.1	100%
Mexico	Yes	12,166.6	0.0	0%	7,121.3	58.5%
Dominican Republic	Yes	651.7	26.5	4.1%	0.0	0%
Costa Rica	No	504.3	12.0	2.4%	0.0	0%
Nicaragua	No	354.9	2.3	0.7%	0.0	0%
Guatemala	No	585.1	0.0	0%	0.0	0%

Note: The exchange rate used for conversion is 1 SDR = 1.42426 USD, in force at August 2021 when the allocation occurred.
Source: Analysis by the authors based on IMF data, official documents, and specialized articles.

Among the SICA countries and North America, Honduras, El Salvador, and Panama stood out, using all their SDRs to support their public budgets (**Figure 6**). In addition, Honduras exchanged its SDRs for balance of payments needs. Starting with the 2021 allocation, Mexico used more

than USD 7 billion[55] for fiscal support to refinance debt owed by the state-owned company Petróleos Mexicanos (PEMEX).[56] On the other hand, the Dominican Republic made active use of its SDRs to meet its obligations to the IMF, albeit at a very low level. Finally, Costa Rica, Guatemala, and Nicaragua did not actively use the SDRs received in 2021, instead holding them as reserves.

Figure 7 presents the same indicators for South America. Argentina, Bolivia, Colombia, Paraguay, and — to a lesser extent — Ecuador used their SDRs for fiscal support purposes.[57] In addition, Argentina used all its SDRs for debt servicing with the IMF, Paraguay exchanged its SDRs for balance of payments needs, and Ecuador used its share of the issuance for both purposes. On the other hand, Brazil, Chile, Peru, and Uruguay did not actively use their SDRs, a group to which Venezuela can be added, keeping in mind the previously mentioned considerations.

Figure 7
Allocation and Active Use of SDRs by Country: South America

Estimated active use during the two years following the SDR issuance, between August 2021 and August 2023.

Country	Active Use	2021 SDR Allocation (USD Millions)	Used to Obtain Foreign Currency or IMF Payments (USD Millions)	Used to Obtain Foreign Currency or IMF Payments (Percentage of Allocation)	Used for Fiscal Support (USD Millions)	Used for Fiscal Support (Percentage of Allocation)
Argentina	Yes	4,351.0	4,351.0	100%	8,701.9	200%
Paraguay	Yes	274.9	277.7	101%	277.7	101%
Colombia	Yes	2,790.9	54.8	2%	2,790.9	100%
Bolivia	Yes	327.8	0.0	0%	327.8	100%
Ecuador	Yes	952.4	998.9	104.9%	819.5	86.1%
Brazil	No	15,073.3	0.0	0%	0.0	0%
Chile	No	2,381.1	0.0	0%	0.0	0%
Peru	No	1,821.7	0.0	0%	0.0	0%
Uruguay	No	585.8	0.0	0%	0.0	0%
Venezuela*	No	5,081.8	0.0	0%	0.0	0%

Note: The exchange rate used for conversion is 1 SDR = 1.42426 USD, in force at August 2021 when the allocation occurred; (*) Since Venezuela is impeded to access its SDR allocation to date, it is, by definition, not possible that these were used actively in the period under analysis.
Source: Analysis by the authors based on IMF data, official documents, and specialized articles.

55 (Suárez 2021).
56 Secretaría de Hacienda y Crédito Público (2021).
57 See Latindadd (2023b) for a study of the use of SDRs in Argentina, Ecuador, and Paraguay.

The case of Argentina is peculiar, but it illustrates the latent potential for the active use of SDRs. The arrival of the pandemic exacerbated the country's preexisting macroeconomic instability and high foreign currency-denominated indebtedness. Indeed, the agreement signed in 2018 with the IMF set the country in first place among the most indebted countries to the organization, a position it still retains. Hence, virtually all its SDRs were used to meet its substantial debt obligations to the Fund. In fact, the new SDR issuance made it possible for Argentina to meet debt maturities with the international financial institution during the renegotiation of the agreement signed in 2018.

However, because SDRs are international reserve assets, and because public spending is carried out in domestic currency, the SDR operations mentioned above did not prevent the country from also using its SDR allocation for fiscal support purposes.[58] In general, when a country issues its own currency, it is with this currency that it carries out its budgetary expenditures as well as the collection of taxes. The state does not generally use SDRs (or any other international reserve asset) *directly* for its expenditures. Ultimately, using SDRs in this way is conditioned by the national legislation of each country. A series of operations between the treasury and the central bank made it possible for Argentina to use the SDRs it received to finance (in Argentine pesos) part of the public budget, for an amount of about twice the value of the SDRs in dollars valued in domestic currency. At the same time, these SDRs were also used to meet maturing debt obligations to the IMF.[59]

In the case of Colombia, increased international liquidity resulting from the SDR allocation made it possible to finance the public budget, in accordance with local legislation and without altering the availability of international reserves, the monetary base, or the level of indebtedness.[60] With the purpose of financing the public budget, the ministry of finance purchased foreign currency from the central bank for an amount equivalent to the SDR allocation received. In exchange, it delivered treasury securities already held by the finance ministry. This model is similar to the one followed by Mexico.

Figures 8.1 and **8.2** show the corresponding indicators for the Caribbean Community countries. We find that Antigua and Barbuda, Guyana, and to a lesser extent, Haiti used their SDR

58 Calcagno (2021).
59 Boletín Oficial de la República Argentina (2021).
60 IMF (2022a).

allocations to strengthen their fiscal position. In addition, Antigua and Barbuda used its SDRs to earn foreign currency, while Barbados, Dominica, Grenada, and St. Vincent and the Grenadines used them to make payments to the IMF. Guyana, Haiti, and Jamaica used their SDRs for both purposes. Finally, Bahamas, Belize, St. Lucia, St. Kitts and Nevis, Trinidad and Tobago, and Suriname have, to date, made no active use of the SDRs allocated to them in 2021.

Figure 8.1
Allocation and Active Use of SDRs by Country: CARICOM

Estimated active use during the two years following the SDR issuance, between August 2021 and August 2023.

Country	Active Use	2021 SDR Allocation (USD Millions)	Used to Obtain Foreign Currency or IMF Payments (USD Millions)	Used to Obtain Foreign Currency or IMF Payments (Percentage of Allocation)	Used for Fiscal Support (USD Millions)	Used for Fiscal Support (Percentage of Allocation)
Guyana	Yes	248.2	248.3	100.1%	248.3	100.1%
The Bahamas	Yes	249.0	12.3	4.9%	249.0	100%
Antigua and Barbuda	Yes	27.3	26.9	98.6%	26.9	98.6%
Haiti	Yes	223.6	138.0	61.7%	118.1	52.8%
Barbados	Yes	129.0	31.4	24.4%	61.0	47.3%
Jamaica	Yes	522.7	594.5	113.7%	0.0	0%
Grenada	Yes	22.4	7.1	31.9%	0.0	0%
Dominica	Yes	15.7	3.8	24.2%	0.0	0%
St. Vincent and the Grenadines	Yes	16.0	1.2	7.4%	0.0	0%

Note: The exchange rate used for conversion is 1 SDR = 1.42426 USD, in force at August 2021 when the allocation occurred.
Source: Analysis by the authors based on IMF data, official documents, and specialized articles.

Figure 8.2

Allocation and Active Use of SDRs by Country: CARICOM

Estimated active use during the two years following the SDR issuance, between August 2021 and August 2023.

Country	Active Use	2021 SDR Allocation (USD Millions)	Used to Obtain Foreign Currency or IMF Payments (USD Millions)	Used to Obtain Foreign Currency or IMF Payments (Percentage of Allocation)	Used for Fiscal Support (USD Millions)	Used for Fiscal Support (Percentage of Allocation)
Suriname	No	176.0	5.2	2.9%	0.0	0%
Belize	No	36.5	0.0	0%	0.0	0%
St. Kitts and Nevis	No	17.1	0.0	0%	0.0	0%
St. Lucia	No	29.2	0.0	0%	0.0	0%
Trinidad and Tobago	No	641.3	0.0	0%	0.0	0%

Note: The Exchange rate used for conversion is 1 SDR = 1.42426 USD, in force at August 2021 when the allocation occurred.
Source: Analysis by the authors based on IMF data, official documents, and specialized articles.

Among the countries that have used their allocations for fiscal purposes, many explicitly did so in response to the emergency caused by the COVID-19 pandemic. The specific way they have been applied, however, has varied. For example, in Argentina, while the use of SDRs was justified — among other reasons — as part of a response to the consequences of the pandemic, these resources financed the public budget as a whole and were not earmarked for relief or other specific purposes.[61] In Paraguay, on the other hand, the allocation was used to finance specific social programs and the health system in order to mitigate the effects of the pandemic.[62] Some governments, like those of Ecuador[63] and Guyana,[64] declared that the resources obtained from the allocation would be used to finance public investment and social services. In Honduras, SDRs were used to meet sovereign bond maturities under a decree of "Fiscal and Financial Emergency in the Public Sector."[65]

61 Official Gazette of the Republic of Argentina (2021).
62 Latindadd (2021a).
63 Kueffner (2021).
64 Guyana Times Inc (2021).
65 ZV (2022).

The analysis shows that most countries in the region made active use of their SDRs, albeit with some differences in intensity. With emphasis on this last dimension, we can form three large groups. First, there are 15 countries that used all or most (half or more) of their SDRs, usually for mixed purposes, to meet both balance of payments and fiscal support needs. This group includes Antigua and Barbuda, Argentina, Bahamas, Barbados, Bolivia, Colombia, Ecuador, El Salvador, Guyana, Haiti, Honduras, Jamaica, Mexico, Panama, and Paraguay. A second group consists of the four countries that made active use of their SDRs, but to a lesser degree (using less than half of their 2021 allocation): Dominica, Grenada, the Dominican Republic, and St. Vincent and the Grenadines.

A final group of 13 countries did not, at least according to publicly available information, make active use of their SDR allocations: Belize, Brazil, Chile, Costa Rica, Guatemala, Nicaragua, Peru, St. Lucia, St. Kitts and Nevis, Suriname, Trinidad and Tobago, Uruguay, and Venezuela. Five of the members of this group are Caribbean countries. The South American members of the group include countries in distinctly different categories from other countries in the region. In addition to Venezuela, these include Brazil, Chile, and Mexico, which were net buyers of SDRs during the period under review.

Under the IMF's Voluntary Trading Arrangements (VTAs), these three countries exchanged SDRs with a net positive balance during the period under review. Through the VTAs, the IMF obtains pre-authorization from the subscribing countries — more precisely, in the three cases mentioned here, from their central banks — to buy and sell SDRs when required by other countries. Notably, being part of this agreement does not preclude the possibility of taking advantage of SDRs for the same purposes as any other country, as is clear in the case of Mexico, which, in addition to being a net buyer of SDRs, leveraged part of its holdings for fiscal support purposes.

By accumulating SDRs in excess of the amounts allocated to them, these countries earned a net interest rate, which is around 4 percent at the time of this writing,[66] although for the whole of 2021 it was around 0.05 percent.

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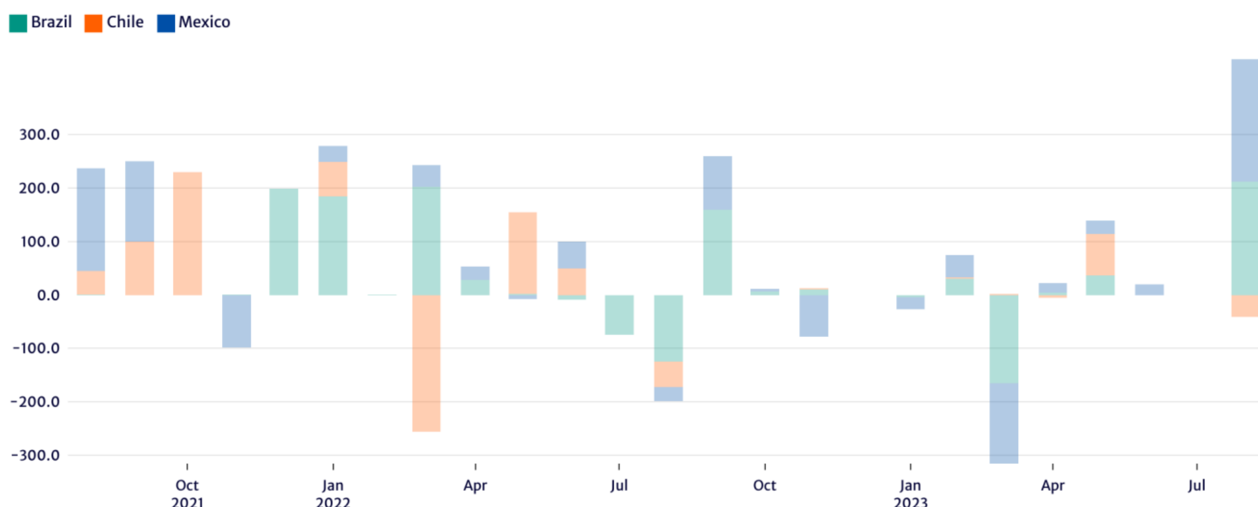
66 The SDR interest rate was 4.15 percent during the first week of October 2023.

Figure 9

Voluntary Trading Arrangements: SDR Holding Monthly Net Variation of Brazil, Chile, and Mexico, Millions of SDRs



Note: Monthly net variation of SDR holdings is obtained by contrasting SDR holdings by the end of each month with those registered in the preceding month, after IMF payments.
Source: Analysis by the authors based on IMF data, official documents, and specialized articles.

Figure 9 illustrates central bank net acquisitions by Brazil, Chile, and Mexico from the 2021 SDR allocation until August 2023. During this period, transactions had a positive balance of SDR 700 million for Brazil, SDR 375 million for Chile, and SDR 543 million for Mexico. Together, this represents about USD 2.3 billion. Remarkably, the net acquisitions of the three countries are equivalent to two-thirds of the total SDRs that the rest of the countries in the region exchanged for foreign currency. In other words, the net supply of foreign currency for countries that wished to exchange their SDRs could be provided largely on an intraregional basis, a fact that underscores the potential role of regional development banks, which we will discuss in section 5. An analysis of the active use of SDRs can also help identify winning and losing strategies in terms of countries' management of the SDR allocations, given the context of SDR exchange rate fluctuations. A simple approximation involves comparing the XDR/USD[67] exchange rate on the date of the SDR allocation with the exchange rate 24 months after issuance (August 23, 2023). Since all countries in the region use the US dollar as the reference unit of account for their

67 Just as the dollar has the code USD, the unit of account for the SDR has a three-letter code standardized by the ISO: XDR.

external accounts, a depreciation of the SDR against this currency implies a loss in the value of international reserve assets. Indeed, the XDR (the SDR unit of account) depreciated against the USD by 6.4 percent in the period under review. As a result, countries that kept their SDR positions unchanged saw their holdings lose value.

On the other hand, countries that increased their SDR positions (Brazil, Chile, and Mexico) gained net interest on the amount acquired beyond their allocation, but still saw a drop in the total value of their holdings due to the depreciation of the SDRs in their possession. Conversely, countries that decreased their SDR position below their allocations incurred a quarterly net interest rate on the difference between SDR holdings and allocations. As noted above, the SDR interest rate is similar to the cost of borrowing for rich economies and is below the cost of conventional IMF credits and normally below the rate that developing countries pay to finance themselves in international markets. Consequently, if these countries were to buy back the SDRs they already used, they currently need to use fewer dollars than the amount that they acquired when they sold their SDRs. Gains and losses in these cases are more complex, as they depend on the date of acquisition of the SDRs, as well as the precise exchange rate and interest rates on those dates.

5. SDRs in Global Perspective: Regressive Accounting Allocation, Progressive Effective Use

One of the main arguments advanced against new allocations of SDRs is that their distribution across countries is regressive.[68] However, this rather widespread perception that SDR issuances favor richer countries is based on an incomplete picture, one that focuses on the accounting distribution of allocations and excludes their subsequent active use. A comprehensive analysis reveals that it is the low- and middle-income countries that benefit the most from SDR allocations through the active use of these assets.

It is true that the distribution of SDR accounting allocations is regressive, as it is based on the IMF's quota system (which is determined, among other factors, by the size of national economies).[69] In other words, the regressive nature of the allocation reflects the regressive

68 US Congressman French Hill (2022).
69 Arauz et al. (2022).

concentration of decision-making power in the IMF's co-governance. Indeed, in the last issuance in August 2021, advanced economies received the bulk of the allocated amount: 61.4 percent of the total, about USD 400 billion (Figure 1). However, during the two years following the allocation, only one of these countries engaged in the active use of its SDRs: in April 2022, Greece repaid its IMF credit of about USD 1.5 billion in SDRs ahead of schedule.[70] In other words, advanced economies actively used just 0.5 percent of the SDRs they received in 2021 (Figure 2).

Emerging and developing economies, which received the remaining 38.6 percent of the allocation (about USD 250 billion), used a considerable proportion of the SDRs they received. In the two years following the issuance, it is estimated that 93 countries out of 154 channeled 32.5 percent of their SDRs for fiscal purposes, while 17.1 percent was used to obtain foreign currency or settle payments with the IMF. In other words, it is the countries of the Global South that have effectively put their allocations to active use. This reality is overlooked in analyses that only assess the accounting distribution of allocations.

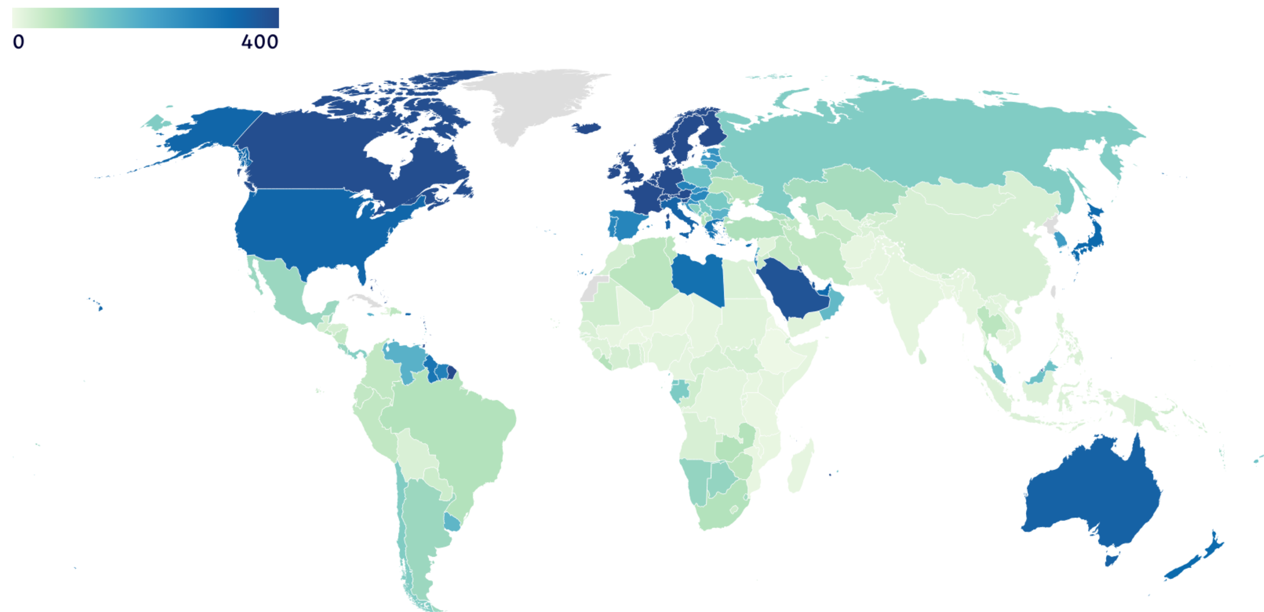
Figures 10 and **11** graphically highlight this contrast. While the first map shows how many SDRs per capita each country received in the 2021 allocation, with North American and European countries standing out, the second reveals that it was indeed the countries of the Global South — mainly countries in Africa and Latin America and the Caribbean — that used their SDR allocations the most. The latter map includes all types of active use. The color-reversed maps give a straightforward picture of the regressive accounting allocation and the actual progressive use of the SDR issuance.

70 IMF (2022b).

Figure 10

Per Capita 2021 SDR Allocation, All Member Countries

The map illustrates the per capita distribution of the 2021 SDR allocation across IMF member countries.

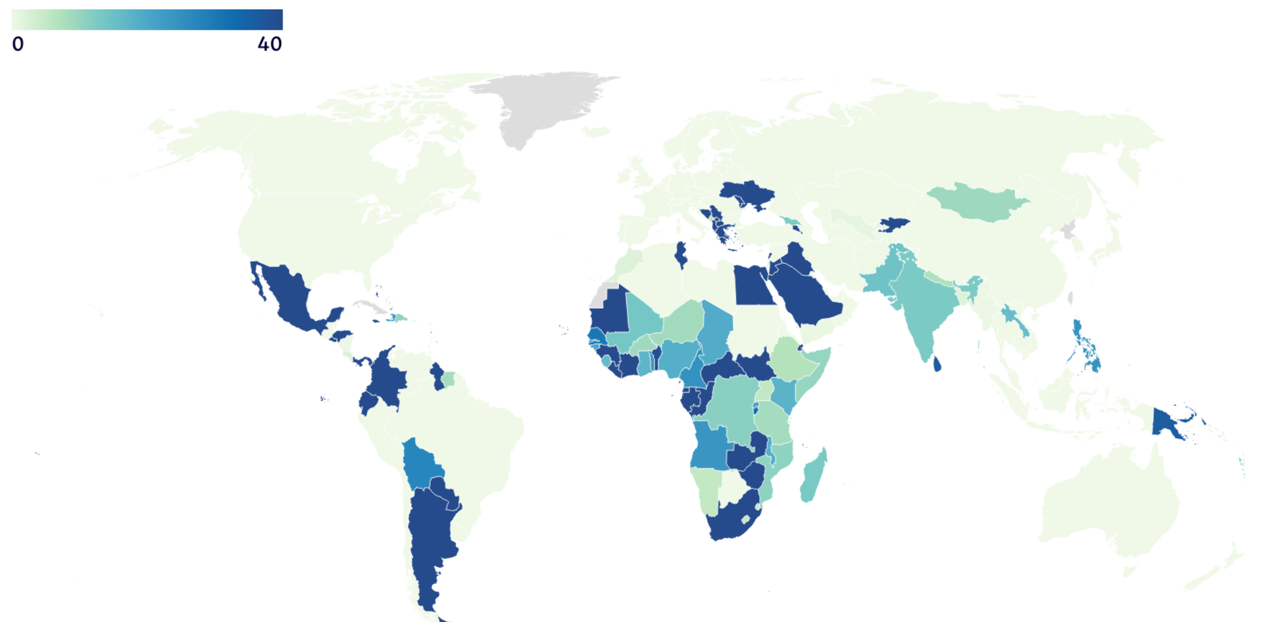


Note: For illustrative purposes, a maximum of USD 400 per inhabitant is established in the color palette, although the range is greater.
Source: Analysis by the authors based on IMF and World Bank data.

Figure 11

Per Capita Active USE of 2021 SDR Allocation, All Member Countries

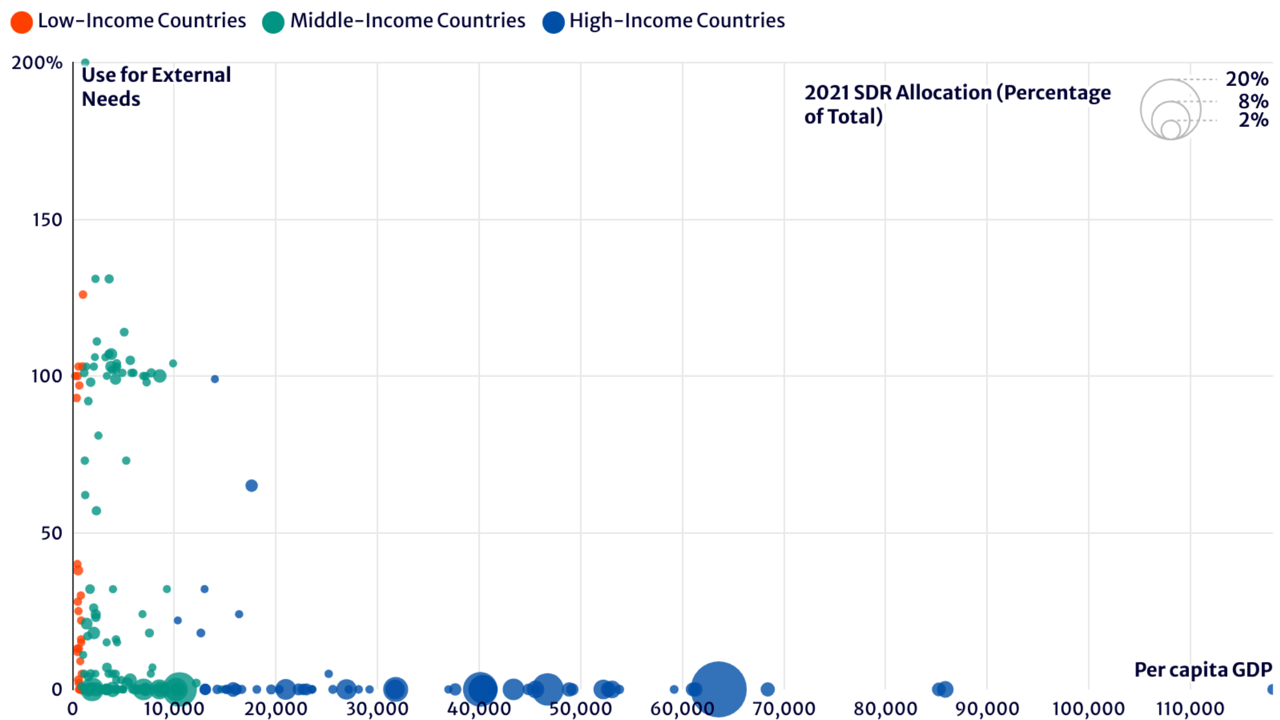
The map illustrates the all types of active use of SDRs per capita of the 2021 SDR allocation across IMF member countries.



Note: For illustrative purposes, a maximum of USD 40 per inhabitant is established in the color palette, although the range is greater.
Source: Analysis by the authors based on IMF and World Bank data.

Figures 12 and **13** illustrate the same point in an alternative manner by showing the difference between the allocation and use of SDRs between countries in the Global South and North. The diagrams show the relationship between gross domestic product (GDP) per capita, the 2021 accounting allocation of SDRs, and their actual active use for balance of payments needs (Figure 12) and fiscal support purposes (Figure 13). On the one hand, high-income countries were the largest recipients of the SDR allocation — although some middle-income countries have received relatively high shares within their group. On the other hand, it is primarily low- and middle-income countries that have made active use of their SDR holdings, both to finance their foreign currency needs and payments under IMF credits, and for fiscal support purposes.

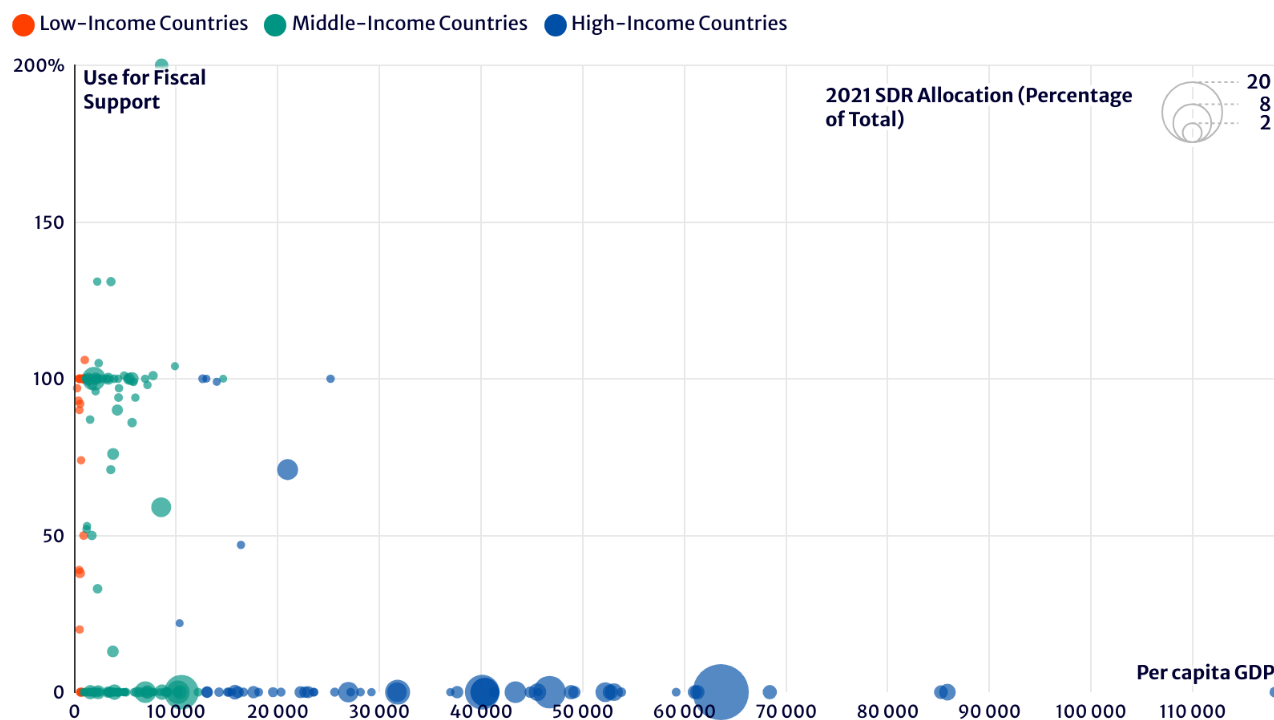
Figure 12
Active Use of SDRs for External Needs, Per Capita GDP, and Size of 2021 SDR Allocation



Note: Active use for external needs includes SDR use to obtain foreign currency and meet IMF payments; it is expressed as a percentage of the 2021 allocation at the country level; per capita GDP in current USD by 2020 retrieved from IMF's World Economic Outlook; country classification by income corresponds to 2021 classification according to the World Bank.
Source: Analysis by the authors based on IMF and World Bank data, official documents, and specialized articles.

Figure 13

Active Use of SDRs for Fiscal Support, Per Capita GDP, and Size of 2021 SDR Allocation



Note: Active use of SDRs for fiscal support is expressed as a percentage of the 2021 allocation at the country level; per capita GDP in current USD by 2020 retrieved from IMF's World Economic Outlook; country classification by income corresponds to 2021 classification according to the World Bank.
Source: Analysis by the authors based on IMF and World Bank data, official documents, and specialized articles.

The underlying reason becomes apparent when SDR issuances are properly contextualized. The current international monetary system in which SDR issuances take place is characterized by a hierarchy of currencies in which only some fulfill the basic functions of money (as a means of payment, unit of account, and store of value) on an international scale. The IMF determines which currencies are considered internationally "usable" — and which are not.[71] The main freely usable currencies are the US dollar, the euro, the pound sterling, the yen, and the yuan renminbi.[72] In other words, the currencies that perform, to a greater or lesser extent, the role of

71 The difference can be intuitively illustrated in a simple way: while the IMF owns domestic currencies of almost all member countries, not all its holdings are considered useful for international lending. For example, the Fund has 16.1 billion Honduran lempiras on its balance sheet (IMF [2023c]), but when lending to Sri Lanka, Honduran lempiras could not cover international payments. Instead US dollars, or some other currency usable for this type of operation, would be needed.

72 For certain types of payments, SDRs are also usable directly, and sometimes those held by the IMF's General Department are added to the number of usable currencies.

money at the international level are mainly those issued by some of the countries of the Global North.[73]

Other national currencies are not considered "usable" currencies, as they are not generally accepted for international trade and finance. Consequently, countries in the Global South are generally unable to make international payments in their own currency, e.g., to meet import needs or service foreign currency-denominated debt. As a result, they are usually heavily dependent on foreign currency earnings from exports. In turn, the export baskets of many of these countries are concentrated in raw materials or low-tech manufactured goods, which makes developing economies particularly vulnerable to terms-of-trade volatility.

Since they do not issue "usable" foreign currencies, countries in the Global South are often forced to incur foreign currency-denominated debt at relatively high costs to meet their external payments. This is the so-called "original sin" of developing countries. Developing countries are also more financially fragile in the face of exogenous shocks, such as changes in monetary policy in the world's major economies or in the perceptions of international investors. Financial liberalization and globalization in recent decades have amplified such circumstances, resulting in recurrent external debt crises in the Global South. The current climate crisis is expected to aggravate the macroeconomic exposure of these countries due to environmental impacts and emerging energy transition risks, for example, through increased borrowing costs and negative effects on export revenues.

In sum, the need to actively use SDR allocations is greatest in the countries of the Global South. As they represent a potential claim on freely usable currencies, SDR allocations offer international and unconditional liquidity, without raising debt levels. Therefore, SDR issuances have the potential to provide critical support for countries facing balance of payments problems by simultaneously alleviating external debt burdens and creating additional fiscal policy space.

In contrast, foreign exchange shortages are generally not a problem for what are commonly referred to as advanced economies. As issuers of freely tradable international currencies, these countries tend to borrow in their own currencies and have access to relatively low financing costs. In addition, these facts have implications for the current accounting treatment of SDRs.

73 The IMF considers that there are eight international reserve currencies. These include the Swiss franc, the Australian dollar, and the Canadian dollar, in addition to the currencies that make up the SDR basket. Iancu et al. (2020).

The most recent IMF statistical recommendation states that countries' international reserves may be recorded as deposits or investments in gold, SDRs, or currencies that are part of the SDR basket.[74,75] In turn, the IMF recommends that countries record SDR allocations as a "reserve liability" and SDR holdings as "reserve assets." In theory, the impact of net reserves would be zero. However, few countries report this way; most publish gross reserves in which any "reserve liability" is omitted. Many countries even continue to apply the previous version of the Balance of Payments Statistics Manual, which — together with the current Monetary Statistics Manual — indicates that the allocation of SDRs can be described as equity, rather than as a liability.[76]

This recommendation is based on an erroneous provision in the accounting standards of the International Public Sector Accounting Standards Board (IPSASB) regarding the treatment of SDR allocations as liabilities for most countries. In a recent pronouncement, the IPSASB ruled that SDRs should be defined as assets to be exchanged for other monetary *assets.*[77]

The above is not true for the countries issuing the freely usable currencies that make up the SDR basket. From the external sector's point of view, for these countries, SDRs are convertible into monetary *liabilities* (while for the rest of the member countries, SDRs are exchanged for assets). For example, if the Bank of Japan needs to exchange its SDRs and receives yen in exchange, all that would occur is that the yen would be extinguished from the (external) liabilities of the Bank of Japan; however, it does not receive any other external asset. In addition, according to the IMF's Articles of Agreement, countries must establish a balance of payments need in order to exchange their SDRs. Consequently, since the currencies issued by these countries are "usable" for international payments, their need to exchange SDRs is not justified.[78] Should they require US dollars instead of their own hard currencies, all these countries, except China, have swap lines with the Federal Reserve.[79,80] As for China, it has sufficiently large international reserves to

74 Balance of Payments Manual, version 6, available in IMF (2009).
75 For its part, the IMF's SDR Department has a formal ad hoc accounting system that applies only to itself, in which neither gross assets nor liabilities are presented, but rather the net positions are presented as assets and liabilities. This accounting practice is unconventional and creates confusion about the size of the department's balance sheet. Moreover, this accounting practice is not consistent with the principle of double entry — quadruple entry if the counterpart of the financial position is considered — as member countries record SDRs on a gross basis and not on a net basis.
76 For a discussion of the impact of SDR statistical standards, see Arauz et al. (2023).
77 IPSASB (2020).
78 IMF (2016).
79 European Central Bank (2016).
80 Adler and Arauz (2020).

weather external sector shocks. The case of the euro area countries is distinct because of the existence of a supranational central bank. But, given the unlimited credit of the Target2 payment system between the European Central Bank and the national central banks of the euro area, the national banking systems can — de facto — issue euros.

This crucial difference means that a significant group of high-income countries are not interested in using, or cannot — by design — benefit from the use of, SDRs. As a result, approximately USD 400 billion in SDRs received by rich countries in 2021 will not be used. For this reason, it is wrong to attribute the significant proportion of unused SDRs as a reason to claim that a new allocation is not required.

6. Regional Bodies and Prescribed Holders

When countries decide to exchange their SDRs for foreign currency, they can trade with one of the 26 countries accredited to the Voluntary Trading Arrangements (VTAs) mechanism, but they could also exchange them with a multilateral financial institution, which must be previously authorized by the IMF as a prescribed holder. For its part, the IMF's General Department — the regular operations unit — does not exchange SDRs; it only disburses them in the case of loans or accepts them as payment of past debts or as part of quota contributions (a phenomenon that occurs only sporadically).

The World Bank is authorized to realize operations in SDRs but, unlike the IMF, its accounting is not expressed in XDR (the unit of account for SDRs), but in US dollars. The World Bank held SDRs in its reserves until 2020.[81] In the past, the World Bank rejected the possibility of accepting payments in SDRs, although recent announcements have shown a possible openness to this possibility.[82]

The Bank for International Settlements (BIS) does buy and sell SDRs. Known as a central bank for central banks, it also hosts the G20 Financial Stability Forum and the Banking Supervision Committee. It operates in Basel, Switzerland, and has two offices: one in Hong Kong and one in Mexico City. The BIS acts as the IMF's trustee bank and is one of the institutions that also

81 IMF (2020).
82 Gold (2023).

denominates its balance sheets in the SDR unit of account (XDR).[83] The International Fund for Agricultural Development (IFAD) is also a prescribed holder of SDRs, but its SDR accounts have remained idle.

In addition to these international institutions, regional organizations such as the European Central Bank, the African Development Bank, the Arab Monetary Fund, and the central banks of the Central African and West African monetary unions are authorized to operate with SDRs.

In Latin America and the Caribbean, until a few months ago, there were two institutions authorized to hold SDRs: the Latin American Reserve Fund (FLAR) and the Eastern Caribbean Central Bank (ECCB). The FLAR's last significant SDR transactions appear to have taken place between May 2018 and December 2021;[84] its audit balance sheet reports that these were foreign exchange transactions from the Fund's credit portfolio. The ECCB held SDRs from 1984 to 2003.[85] As of February 2023, the CAF, the IDB, and the Caribbean Development Bank have been designated by the IMF as prescribed SDR holders.[86] Within the region, the Central American Bank for Economic Integration is not listed as a prescribed SDR holder.

SDRs present an opportunity to strengthen regional banks in their provision of financing to Latin American and Caribbean countries. In this regard, financial institutions and development banks that are not yet authorized SDR holders should apply to the IMF board to qualify. This would allow them to provide liquidity in a timelier manner to the countries of the region. As authorized holders, regional development banks can provide member countries with foreign currency in exchange for SDRs. Financial institutions in the region can also act as trustees, receiving SDRs from countries that do not use them to expand credit on concessional terms to other countries in the region, based on the specific mandate of the established fund.[87] In addition, regional banks could create financial products on their balance sheets denominated in SDRs. Such products have existed in private financial institutions in the past.

The specific characteristics of SDRs also offer an opportunity for diversification, as they provide greater exchange rate stability and a good return per unit of risk when compared to other assets

83 IMF (2022c).
84 IMF (2019).
85 IMF (1984); IMF (2003).
86 IMF (2023b).
87 IMF (2018).

denominated in an individual currency. In this sense, holding SDRs represents an alternative, low-cost and practical portfolio-diversification strategy. Since the value of SDRs is determined on the basis of a basket of internationally usable currencies with exchange rates that are imperfectly and negatively correlated, their value relative to other currencies is remarkably stable, thereby reducing exchange rate risk. For example, an appreciation of one of the usable currencies would be partially offset by the depreciation of one or more of the other currencies in the basket. SDRs can also reduce interest rate risk given the fact that their interest rate is based on a weighted average of the monetary policy rates of the countries whose currencies are in the basket.[88] These properties extend to SDR-denominated instruments that can potentially stabilize debt service payment flows with respect to exchange rate or interest rate changes in each currency, e.g., vis-à-vis debt denominated exclusively in US dollars.

7. SDR Recycling and the Rechanneling Agenda: Proposals and Obstacles

Since a large part of issued SDRs sit unused in Global North countries, discussions regarding the recycling or reuse of these resources have intensified in recent times, with calls for these resources to be rechanneled to Global South countries. The quantity of allocated SDRs held by rich countries is so large that the transfer of about a quarter of them would make it possible to prepay and cancel the entire debt of all countries in the world to the IMF and its trusts.[89]

The term "rechanneling" contains a linguistic ambiguity that suggests the redistribution of SDRs held by wealthy nations to poorer countries. Nevertheless, this mechanism shouldn't be seen as a substitute for new SDR issuances. The various proposals for rechanneling generally imply increased indebtedness for developing countries.

This is the case of IMF-endorsed initiatives like the Resilience and Sustainability Facility (RSF), established in April 2022. The RSF is exclusively intended for long-term lending operations based on SDRs transferred to trusts run by the IMF. In other words, it generates additional debt. The initiative has faced criticism for several reasons, including its narrow focus on helping

88 Hoguet and Tadesse (2011).
89 Advanced economies held about SDR 424 billion as of August 2023. Low- and middle-income countries owed about 115 billion SDRs to the IMF and IMF-administered trusts. A ratio of 27 percent is determined from their quotient.

countries address climate change and pandemics. Furthermore, the IMF's lack of proficiency in climate change matters has been called out, as has the fact that it results in increased IMF conditionality.[90] For instance, it is estimated that conditionality for Costa Rica increased threefold after it signed the RSF agreement.[91]

Alternative proposals suggest rechanneling some of the unused SDRs through funds managed by multilateral development banks (MDBs).[92] MDBs are better equipped than the IMF to support SDGs and climate action efforts, and some are already prescribed holders of SDRs. Broadly, these proposals involve rechanneling SDRs to finance new lending programs. Certain initiatives suggest employing SDRs to boost the capital of MDBs and leverage them to obtain further resources in capital markets at relatively low cost. In theory, proposals that involve rechanneling through MDBs would be more favorable to countries in the Global South than most other forms of financing. Even though they entail higher levels of indebtedness, the financing costs associated with these proposals would be lower than those of the market and would involve less onerous conditions than those attached to IMF programs. However, to date, efforts in this regard have been impeded by claims surrounding the international reserve asset status of SDRs.[93]

Conversely, recycling SDRs through donations is more desirable and congruent with the spirit of new issuances, as this does not entail additional debt for Global South countries. Nonetheless, there is lingering concern about the accounting treatment of SDRs, which causes reluctance in potential donors. In most rich countries that could potentially act as SDR donors, these assets are featured on the balance sheets of their respective central banks. Unlike the balance sheets of finance ministries, which are rarely disclosed or known by the public due to their focus on the public budget (flows) rather than public assets (stocks), those of the central bank are consistently scrutinized. Central banks currently follow the convention of recording their holdings of SDRs as reserve assets and the allocation of SDRs as reserve liabilities. If SDRs were to be donated in this situation, a reduction in assets would occur without a reduction in liabilities. This contrasts with the accounting convention of just under a decade ago, when a reduction in assets would have corresponded to a reduction in equity.

90 Camps Adrogué and Plant (2013).
91 Wainer (2023).
92 Plant (2022).
93 Diop N'Sele (2022).

If the SDR allocation is deemed a liability, the feasibility of donations of SDRs becomes more difficult due to the ensuing imbalance between assets and liabilities. Alternatively, if SDRs are defined as equity, a new issuance and allocation of SDRs, and a subsequent donation of part of them, would have the effect of increasing a central bank's equity (in net terms) without involving any balance-sheet imbalances. According to the accounting methodology outlined in the Fifth Balance of Payments Manual,[94] it would be possible to direct an SDR donation without any negative (net) impact on a central bank's net worth.

A hypothetical scenario can help illustrate this. Consider a central bank from a wealthy nation that initially holds 20 SDRs. Following a new issuance, the bank's holdings increase to 60 SDRs; however, it chooses to donate 10 SDRs. Following the guidelines presented in the Fifth Balance of Payments Manual, these transactions are recorded in the assets and equity of the central bank's balance sheet. Following the issuance and a subsequent donation, the central bank experiences a net increase of 30 SDRs both in its assets and equity (net), though this was due to a gross increase of 40 SDRs and a gross decrease of 10 SDRs.

In contrast, with the current Balance of Payments Manual in which the SDR allocation is registered as a liability, both the starting point and final result differ from what is described above. Initially, in our hypothetical scenario, the central bank's balance sheet shows 20 SDRs in assets and 20 SDRs in liabilities. Following the issuance, it has 60 SDRs in assets, but also 60 SDRs in liabilities. Finally, with the donation of 10 SDRs, its holdings decrease to 50 SDRs, but its liabilities remain at 60 SDRs. This creates a negative equity gap of 10 SDRs. Even with net accounting, an equity gap appears. From the perspective of central bank accounting, a smaller increase in equity is tolerable, but an equity gap is not.

94 IMF (2009).

Figure 14
Differences in the Accounting Treatment of an SDR Donation

Comparison of accounting treatment of SDR issuance followed by a donation of 10 SDRs between the Balance of Payments Manual-version 5 (BPM5) and the Balance of Payments Manual-version 6 (BPM6).

	BPM5			BPM6		
	Assets	**Liabilities**	**Equity**	**Assets**	**Liabilities**	**Equity**
Before Issuance	20	0	20	20	20	0
After Issuance	60	0	60	60	60	0
After Donation	50	0	50	50	60	-10

Source: Analysis by the authors.

An additional issue relates to the quarterly interest payment that a country must pay if it has a deficit of SDRs relative to the total allocation that it has received. Ideally, SDR donation agreements that outline the grant's terms and conditions could stipulate that the donor countries take on the burden of paying the interest on the donation. To do so, they could retain a percentage of the donation. For example, if a wealthy nation decided to donate 100 SDRs to a less affluent nation, assuming an annual SDR interest rate of 3 percent, they may agree to the richer country retaining 30 SDRs to cover the deficit interest rate for the next 10 years. The donor country could assume the subsequent responsibility by committing to purchasing the donated SDRs for hard currency from the recipient country, or the recipient nation could assume the interest payment in the future. Donor countries could hedge against the risk of interest rate increases through financial derivatives, which would entail establishing a financial derivatives market for the SDR interest rate.

The challenges associated with donating SDRs — which, if there were political will, could easily be resolved — have pushed the concept of rechanneling toward borrowing operations. In this case, the accounting challenge is twofold: preserving SDRs as both assets and *reserve assets* — namely, liquid or semiliquid assets.[95] In this respect, the IMF has suggested employing trusts that retain about one-third of rechanneled SDRs as a buffer to guarantee liquidity in cases where rich countries withdraw their SDR contributions without warning. These trusts would accept SDR

95 Arauz (2022).

deposits, which would continue to be considered liquid assets on the balance sheets of creditor countries. These trusts can then grant loans on the deposited SDRs to poor countries on a long-term basis. This term transformation is based on the fact that approximately one-third of the SDRs are immobilized (as short-term deposits at the Bank for International Settlements [BIS]) to meet contingent urgent liquidity needs of wealthy nations. It is worth noting that, if these liquidity needs do in fact arise, SDRs would not be the primary source of support for these countries. Instead, they would issue their own currencies or access dollar swap lines, as previously explained. Despite these obvious points, the president of the European Central Bank and the managing director of the IMF have spoken out against rechanneling through regional development banks, arguing that it would be contrary to European treaties.[96]

From the viewpoint of countries in the Global South, any rechanneling in the form of loans would require a conventional credit contract that would constitute an external debt liability, with a time-bound amortization schedule and policy measures applied as conditionality. In a comprehensive study of the type of rechanneling offered by the IMF, Ivana Vasic-Lalovic[97] shows that rich country governments' commitments to rechanneling their surplus SDRs into IMF trusts have been meager.

Among the few countries that have so far reached agreements under the IMF's RSF, three are from Latin America and the Caribbean.[98] These include Costa Rica and Barbados, which requested new loans without first fully utilizing their own SDR allocations, which — in contrast — do not carry conditionalities. Jamaica, on the other hand, used its full SDR allocation, mainly by exchanging it for foreign currency and, to a lesser extent, to settle payments with the IMF itself. Despite these agreements having been signed, as of August 2023 only Barbados had received RSF disbursements, amounting to about 14.1 million SDRs.

Given the constraints limiting the potential of donations and the meager impact of rechanneling through lending facilities, in addition to the above-mentioned implications of current rechanneling proposals, a new SDR issuance remains the best option. Ultimately, this would have the effect of expanding the pool of resources that can be rechanneled. If rechannelling is guided

96 Georgieva (2022).
97 Vasic-Lalovic (2022).
98 Kaminski (2023).

by initiatives more suited to the needs and challenges of countries in the Global South, new SDR allocations can be viewed as being complementary to these initiatives.

8. Conclusions

Latin America and the Caribbean is one of the regions that benefited most from the active use of SDRs in the last issuance of 2021. The measure created unconditional resources for 32 countries in the region and resulted in an average increase in international reserves of 9.4 percent. The countries of the region used 14.3 percent of their SDRs to meet external needs, including the payment of outstanding debt to the IMF, and they used 42.7 percent of their SDRs for fiscal support. Altogether, 19 Latin American and Caribbean countries actively used their SDR allocations. During the two years following the issuance, the region stands out as the second-largest beneficiary of the active use of SDRs.

The above results were achieved even though the region only had effective access to about 90 percent of the SDRs it received. This is primarily due to the IMF's decision not to recognize the Venezuelan government, thereby blocking the country from accessing the SDRs that have been allocated to it as an IMF member. This policy was implemented despite the enormous challenges stemming from the COVID-19 pandemic, and it remains in place despite the pressing need for liquidity in a context of multiple crises and financial turbulence. The measure, motivated by geopolitics, is contrary to the spirit of the most recent SDR issuances, which were designed precisely to help member countries respond to global crisis scenarios. In this regard, the IMF executive board should not further delay granting the Venezuelan central bank access to the country's SDR account and should refrain from pursuing such actions in the future in general, particularly during global emergencies and crises.

While the latest issuance has greatly benefited most Latin American and Caribbean countries, SDRs offer a wide range of opportunities that have not yet been fully exploited. At the national level, some countries have not actively used their SDR allocations or have done so only partially. Active use of SDRs for fiscal purposes could improve levels of economic activity — following a decade of stagnant economic growth and rising levels of indebtedness in the region — while addressing the needs of a population that is marked by inequality and is still dealing with the

consequences of the COVID-19 pandemic. Notably, under certain conditions, this kind of active use does not entail any associated costs.

At the regional level, regional development banks can leverage the use of these financial assets, including through rechanneling models that are better suited to the needs and challenges of the countries in the region. At the international level, SDR issuances present a concrete alternative for addressing climate and development goals without deepening the debt crisis facing a growing number of countries in the Global South.

While it is true that SDR allocations are regressive in their accounting distribution, we have presented firm evidence to demonstrate that they are strongly progressive in their effective, active use, and that it is the countries of the Global South that benefit the most from SDR allocations. In section 5, we showed that there are several reasons why these international reserve assets, beyond inflating the size of rich countries' balance sheets, do not bring significant benefits to these countries. As a result, the vast quantity of SDRs held by rich countries generally remain unused. The donation of just about a quarter of the current SDR holdings of advanced economies could pay off the entire debt owed by countries around the world to the IMF and its trusts.

Recycling SDRs via donations is feasible if the political will can be found to adjust how these assets are treated in IMF's accounting principles. At a time when accounting conventions have been reinterpreted in the context of the financial turmoil affecting banks, it is certainly possible to find solutions to make reforms to the accounting treatment of SDRs in order to benefit countries in the Global South and enhance their positive impact worldwide. Rechanneling through lending is also feasible for any entity authorized to hold SDRs — as the IMF-led trust experiences have shown. However, political constraints and the misinterpretation of international treaties prevent loan-based rechanneling from being properly implemented. In the absence of the technical and legal solutions outlined here, the easiest, most direct way forward, without having to pursue legislative reforms, is to carry out new issuances of SDRs.

New SDR allocations, as well as eventual reforms in their functioning, are contingent on the political will of IMF member countries, in particular the United States, which has a controlling vote with regard to SDR-related decisions. As the experience of the historic 2021 issuance has shown, coordinated pressure from various actors around the world and consensus-building in

the international community are key to achieving new issuances in the short term. In this sense, coordinated action by Latin American and Caribbean countries, together with other countries and international actors, is necessary to promote new SDR issuances. Governments, agencies, regional banks, nongovernmental organizations, and other actors committed to sustainable economic and social development in the region have good reasons to promote the allocation of these assets. It is especially crucial for Latin American and Caribbean countries, in any multilateral space, to speak out jointly — as the African Union did recently[99] — in support of new issuances of SDRs.

In a context of multiple crises and major challenges for sustainable social and economic development, structural reforms to the international monetary system remain highly relevant. Initiatives such as a "development link" allowing for a more progressive allocation of SDRs, regular issuances, changes in accounting treatment, and greater use by multilateral and regional development banks could enhance the positive effect of new SDR issuances. The issuance of new SDRs remains a powerful alternative to conventional financing mechanisms, enabling debt relief and additional fiscal space for Global South countries.

Although the world continues to navigate the aftermath of the pandemic and new macro-financial conditions, the international community has reached a critical juncture. At issue today are not just the fundamental human rights of countless individuals, but also the survival of humanity as we know it. Responses to the climate crisis, energy transition risks, poverty, and hunger are being hindered by mounting debt levels, which greatly limit feasible solutions in numerous Global South countries. An era marked by multiple crises requires a robust, joint, and global approach to constructing a fairer future. The issuance of SDRs presents an exceptional opportunity to generate resources that can propel climate action and sustainable development worldwide, without incurring additional debt.

99 (African Union 2023).

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10. Methodological Appendix

This appendix is devoted to the methodology implemented for the estimation of the active utilization of the SDRs allocated in August 2021 for the two years following their issuance, between September 1, 2021, and August 31, 2023. The methodology presented here is based on similar principles to those used by Arauz and Cashman (2022). The main data sources are provided by the IMF and include monthly IMF[100] payments and disbursements, monthly SDR allocations[101] and holdings, and the IMF's SDR-Tracker.[102] This last source is supplemented by official publications or specialized articles when necessary.

Firstly, we calculate the *gross* monthly change in SDR holdings for each member country i in month t over the period analyzed (**Equation 1**). SDR holdings on the last day of the month are published by the IMF. Compared to the last day of the preceding month, they may remain unchanged, increase or decrease. A negative gross change in SDR holdings is a first indicator of possible active use of SDRs.

$$(1)\ Gross\ variation\ SDR_t^i\ = Holdings\ SDR_t^i + Holdings\ SDR_{t-1}^i$$

Secondly, we estimate the monthly payments to the IMF (either for interest and charges or principal) of member country i in month t made with SDR holdings, with the condition expressed by **Equation 2**. When a country's SDR holdings show a negative gross change and simultaneously payments to the IMF are verified in the reference month, the latter are imputed as payments made with previous SDR holdings to the extent that gross holdings decreased. At most, the computed payments to the IMF are equal to the negative gross change — in which case, as we shall see, the net change in SDR holdings is zero. When payments to the IMF are recorded, but SDR holdings remain unchanged (or increase), these payments are not imputed, since they are assumed to have been made with resources from sources other than previous SDR holdings. That is, the variable of payments to the IMF is computed in such a way that it only includes payments that are deducted from the member's SDR holdings in the reference period.

100 (IMF 2023d).
101 (IMF 2023e).
102 (IMF 2021b).

$$(2)\ Payments\ IMF_t^i \leq \left|gross\ variation\ SDR_t^i\right|$$
$$If\ Gross\ variation\ SDR_t^i < 0$$

On the other hand, we calculate the *net* monthly change (of payments to the IMF) in SDR holdings by contrasting the gross change in SDR holdings with the payments to the IMF made with these holdings (**Equation 3**). For ATV subscribers, such as Brazil, Chile and Mexico, the net changes in SDR holdings allow for estimating their SDR transactions.

$$(3)\ Net\ variation\ \ SDR_t^i\ = Gross\ variation\ \ SDR_t^i\ +\ Payments\ IMF_t^i$$

From **Equation 2**, it is possible to estimate the active use of SDRs to cancel payments to the IMF. However, not all payments to the IMF made with SDR holdings are considered active use. To establish the presence of active use of SDRs for payments to the IMF, we determine a ratio that reflects the significance of SDRs received in 2021 to alleviate the burden of this type of commitment. The ratio is the sum of payments to the IMF (made from previous SDR holdings, as explained above) divided by the minimum of three alternative measures: member i's allocated SDRs as of July 31, 2021 (before the last issuance), member i's SDR holdings as of July 31, 2021 (before the last issuance), or member i's SDR latest holdings (**Equation 4**).

$$(4)\ Significance\ payments\ IMF_t^i = \sum_{e=0}^{t}\ \ Payments\ IMF_e^i\ /\ \alpha$$

$$\alpha = min\ [Allocation\ SDR_{jul21}^i, Holding\ SDR_{jul21}^i, Holding\ SDR_t^i]$$

We assume that there is active use of this type when the significance of payments to the IMF made with previous SDR holdings during the period under examination is greater than 60 percent (**Equation 5**). Thus, when the ratio exceeds the proposed threshold, it is assumed that the issuance of SDRs represented an effective relief from payment obligations to the IMF for member country i.

$$(5)\ active\ use\ payments\ IMF_t^i\ = \sum_{e=0}^{t}\ \ payments\ IMF_e^i$$
$$If\ significance\ payments\ IMF_t^i > 0{,}6$$

The active use of SDRs to obtain foreign exchange is based on **Equation 3** in combination with a review of the monitoring of the use of allocated SDRs from the IMF, supplemented with official

publications or specialized articles when needed. From this information, a binary variable is set equal to one when — according to the above sources — the country decided to exchange its SDRs to obtain freely usable currencies and equal to zero otherwise. When we are in the presence of active use of this type, the amount used is determined as the sum of the monthly net change in SDR holdings in the period under analysis, as shown in **Equation 6**.[103]

$$(6)\ Active\ use\ BoP_t^i = \sum_{e=0}^{t} Net\ variation\ SDR_e^i$$

Similarly, to determine the active use of SDRs for fiscal support purposes, a binary variable is established when — based on the monitoring of the use of allocated SDRs by the IMF and official publications or specialized articles when needed — a country uses its SDRs for such purpose. When such active use is verified, the amount used can be determined by three alternative methods, depending on the case. On the one hand, the amount of SDRs used for fiscal purposes is determined independently when it is explicitly expressed in the above-mentioned sources. For example, this is the case of Argentina from the information provided by the official decree. Such a mechanism is preferred whenever sufficient information is available, because, as explained in section 4, active use for fiscal support purposes may leave the country's SDR holdings unchanged.

If the information to follow the above method is not available and the country used its SDRs for the procurement of freely usable currencies, it is assumed that the amount used for this purpose is equivalent to the sum of the monthly net change in SDR holdings (**Equation 5**). This is, for example, the case of Ecuador, in accordance with its specific institutional context. Finally, if the country used its SDRs for fiscal purposes according to the available sources, but the specific amount is not explicit, and the country did not use its SDRs to obtain freely usable currencies, it is assumed that the country used the entirety of the SDRs it received in the 2021 issuance.

103 Beginning in September 2022, net changes in SDR holdings also control for gross positive changes explained by new IMF credit disbursements or SDR acquisitions. In some specific cases, SDR inflows can significantly change the outcome in the short term. This control allows for the reduction of the distorting effect of new SDR inflows and a focus on the change in SDR holdings received in the 2021 issuance.