CAFOD
Catholic Agency for Overseas Development

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Discussion paper May 2021

Using the United Kingdom's SDRs to tackle Covid-19 and climate change

Executive summary

The IMF is currently in the process of preparing an issuance of US$650 billion worth of Special Drawing Rights (SDRs). SDRs are a unit created by the IMF which are added to the reserves of member countries of the IMF so that they have more finance available (referred to as liquidity).

They are an international reserve asset which can be used by countries to shore up national reserves or exchanged for hard currency, often US dollars. The last time SDRs were created was in 2009 following the financial crisis. They are about to be created again to respond to the damaging economic impacts of the Covid-19 pandemic.

The UK will receive circa US$27 billion **worth** of SDRs in August 2021 (equivalent to around £19 billion worth). This discussion paper argues that the UK should use this increase to the overall reserves to rapidly scale up access to Covid vaccines for the poorest countries and to tackle the global climate and biodiversity crisis. This can be done through supporting the existing COVAX Facility and climate change focused funds (such as the Green Climate Fund and the Adaptation Fund), both of which have a huge financing gap. It should be done in a way that does not increase the debts of the poorest and climate vulnerable countries.

Tackling the Covid-19 pandemic, climate change and biodiversity loss are areas the UK has consistently identified as priorities through its leadership role in COVAX and in the recent Integrated Review.[1] They are also priorities for key allies. This is evidenced by the on-going commitments by G7 ministers[2] and bold action by the Biden administration to eliminate trade barriers on vaccines, increase climate finance[3] and to agree a huge domestic economic recovery package with a strong green dimension to it.

It is crucial to increase commitments to financing vaccines and climate finance as soon as possible. This finance is a prerequisite to ensuring that the COP26 hosted by the UK in Glasgow later this year is a success and can raise the ambition on climate change that is needed.

The options:

There are different technical options for how the UK could utilise its SDRs through the IMF and **outside** the IMF. Some northern countries have lent SDRs through the IMF's Poverty Reduction and Growth Trust (PRGT) and it is clear that some will be used in this way by countries such as the UK (and the United States where legislation is being prepared to facilitate this[4]).

But the urgent need to step up Covid-19 vaccine supply on a global scale, and for early action on climate change to limit global warming to 1.5 degrees, means that the use of SDRs needs to go above and beyond the traditional methods. We understand this is a live discussion happening with the UK government[5] and others such as the United States.[6]

Whilst there are technical complexities ultimately these are political decisions.

When the UK government receives its SDRs in August it can use the boost to its reserves to free up funds to tackle these global challenges (see Section 2 for more information).

The UK can take the lead to:

- Tackle Covid-19 to ensure that the pandemic is addressed and new variants do not surface. The UK has played a leadership role in pushing forward progress on COVAX, but the facility has a current estimated shortfall of tens of billions of dollars.[7]
- Boost climate finance in a concrete way ahead of the critical COP26 summit. This would build trust and increase the chances of a successful UK legacy from COP26.

Recommendations:

In August 2021 we call on the UK government to deploy £9.5 billion worth of its SDR allocation.[8]
The UK should use the boost to its reserves from the SDRs to make contributions to mechanisms such as COVAX, the Green Climate Fund and the Adaptation Fund.

SECTION 1: The urgency and opportunity

The IMF is currently in the process of preparing an issuance of US$650 billion worth of Special Drawing Rights (SDRs). The UK would receive circa US$27 billion worth of SDRs in August 2021 equivalent to around £19 billion. SDRs are a unit created by the IMF which are added to the reserves of member countries of the IMF which they can use as a claim on foreign currency i.e. they can be exchanged for hard currency, often US$ (they are often referred to as an international reserve asset) so that they have more finance available (referred to as liquidity). The last time SDRs were created was in 2009 following the financial crisis. They are about to be created again to respond to the damaging economic impacts of the Covid-19 pandemic.

The UK chancellor has been leading the way in asking the IMF to look at ways of voluntarily recycling these SDRs, so they don't just sit on a country's balance sheet, but tackle global challenges.

Several northern countries including the UK have to date voluntary lent SDRs through the IMF's PRGT.[9] We expect that to happen this time, but it is only part of the solution.

There are various proposals under consideration, including for new mechanisms and funds inside and outside the IMF, but there is not time to develop these new mechanisms by August 2021 when the UK receives its SDRs.

We need ways of immediately making the most of SDRs in August 2021. Instead of sitting in the national reserves they should be utilised to respond to shared global challenges. They need to be sued to enable everyone to have access to vaccines and to provide climate finance to help the poorest communities to adapt to the impacts of climate change, which is already costing numerous lives and livelihoods.

The longer it takes to identify and disburse finance the longer it will take for the virus to be defeated.

As the UK prepares to host COP26 in November 2021, it is vital to galvanise support for greater climate finance commitments as soon as possible to build trust and make progress on mitigation, adaptation, climate resilience and biodiversity restoration behind the scenes ahead of the vital summit in November 2021.

With such urgency of action needed, northern countries should plan to be first movers and show leadership through their own policies and financial flows – a voluntary action as part of a global effort to safeguard public goods.[10]

We therefore propose that a significant proportion of the UK's SDRs are utilised to make monetary contributions to existing mechanisms such as COVAX and Green Climate Fund (and other mechanisms such as the Adaptation Fund). These global funds are already established and receive funding from the UK and other countries, but they both have a significant shortfall.

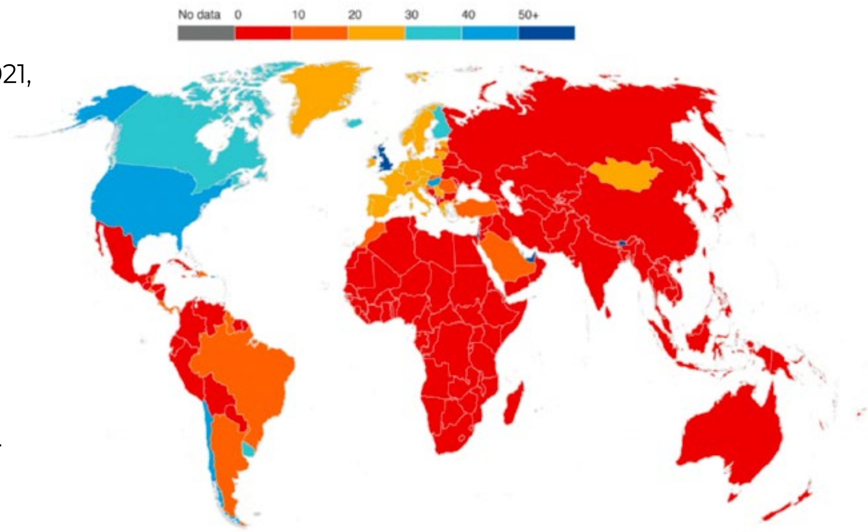
The advantages of utilising SDRs to support COVAX and the Green Climate Fund

- Both funds have the capacity, and further potential, to use funding quickly.
- These mechanisms have room for improvement[11] but right now they are existing mechanisms with significant levels of support from the international community. If both mechanisms received substantial funds from the SDR issuance this would naturally increase government (and civil society) interest in accountability, transparency and effective implementation.
- Contributions to both institutions would likely receive support from countries in the global south because it would be complementary to existing bilateral transfers.
- Their funding is tracked and transparent. They have specific mandates so that the UK, and other donors who choose to follow its lead, would be confident that their contributions would go directly into COVAX and the Green Climate Fund. This would be used to fund their work. With other proposals, institutions, mechanisms this is potentially less clear or guaranteed.
- By going through these mechanisms with specific mandates and eligibility this could help bolster any concerns about SDRs not being targeted.
- They are not just restricted to low-income countries[12] meaning they can respond when there is an urgent need such as a spike in Covid cases in countries like India, or when climate vulnerable countries experience extreme weather events like when islands in the Caribbean such as Barbados and the Cayman Islands have been hit by more and more intense hurricanes. Many of these small island states are not eligible for concessional finance from the PRGT.
- We do not want donors to use their SDRs in ways which would increase the debts of countries in the global south because a growing number of countries are seeing increased debt distress which they were already experiencing *before* the exogenous pandemic economic shock. These two mechanisms can use funding without adding to the debt burden. COVAX uses donated funds to purchase vaccines[13] whilst to date 44% of Green Climate Fund funding has been in the form of grants.[14] The transfer the UK makes to the GCF should be ringfenced to be disbursed as grants.

FIGURE 1: Share of population vaccinated at the end of April 2021

Source: *IMF*

The vaccination gap
(share vaccinated as of end-April 2021, % of population, at least one dose)



Source: Authors' calculations.
See IMF Staff Discussion Note 21/4, May 2021.

Note Country borders or names do not necessarily reflect the IMF's official position.

Using the G7 and COP 26 Presidency as leverage

As host of the G7 and COP26, the UK can take the lead and gain significant political capital by being a first mover.

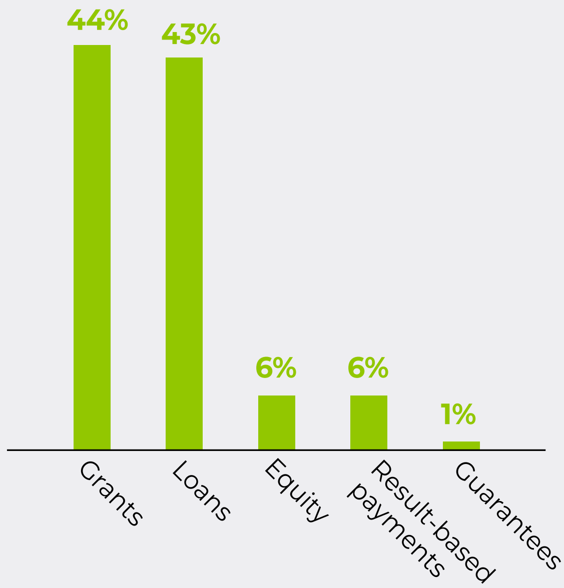
By showing it is prepared to do what is necessary to deploy its SDRs (overcome accounting issues, see Section 2) this would likely spur other G7 and G20 countries to follow suit.

If the UK can convince other G7 countries, especially the United States, to follow its lead and use its SDRs in creative ways to make contributions to COVAX,[15] this could have a huge impact on defeating Covid-19.

If G7 countries utilise their SDRs to boost climate finance this could help meet the commitment G7 Ministers of Environment, Climate and Energy made in late May[16] to increase climate finance ahead of COP26.

FIGURE 2: **Green Climate Fund: Funding by financial instrument**

Source: *GCF*



SECTION 2: How could the UK use its SDRs?

There are specific IMF rules and national legislation which affect how SDRs can be used. There are only a few institutions that can hold them (known as prescribed holders) and if a country exchanges its SDRs it must pay interest on this. The sections below look at these rules and explores alternative routes to maximise the SDR issuance which is predicted to take place in August 2021.

Poverty Reduction and Growth Trust

One of the main contenders being discussed for SDR recycling is the IMF's PRGT.[17] This Trust has three main components[18]:

1. **Loan account:** [*loan*] Provides concessional loans at 0% interest. Funds which are lent by donor countries via the PRGT.
2. **Subsidy account:** [*grant*] The concessional loans from the PRGT are in effect subsidised. This account pays for this subsidy.
3. **Reserve account:** [*grant*] Covers the creditors if there are late payments. This account also earns interest to contribute to the costs from the Subsidy account.

By 2020 the PRGT stock of outstanding credit (loans) reached $19 billion. Between 2015 and 2019 the PRGT was making new commitments of around $1.5 billion a year. In 2020 over $9 billion was committed. Some researchers estimate that with the economic impact of the pandemic it is likely that in the next few years the PRGT will need to commit close to this $9 billion figure each year.[19] For this to happen the PRGT will need more resources from donor countries to cover each account. That is to say if the PRGT lends more then it will also need more resources to cover the Subsidy and Reserve accounts as well.

Given the UK government has in the past lent SDRs through IMF's PRGT (the PRGT does not hold SDRs itself)[20] we understand this is likely to happen again as this complies with how the UK can use SDRs under the Exchange Equalisation Account Act 1979 (as amended by the Finance Act 2000).[21]

Recycling SDRs through the PRGT is a viable use of the UK's SDRs. For donors such as the UK it has the advantage of "protecting the reserve asset qualities of their SDRs and carrying no budgetary cost."[22] This is because these low-risk loans to the PRGT earn interest like SDR holdings would and are fully liquid in that they could in theory if needed be returned to the UK.

In May last year the UK reached an agreement with the IMF so that it could lend more to the PRGT (up to SDR 4 billion). Even though this is one of the largest lending arrangements agreed it is estimated that it covers around 40% of the SDRs the UK's currently has.[23]

The PRGT is one viable option for recycling if a number of IMF shareholders are willing to do this. However, as the Center for Global Development points out there is likely to be a limited number of SDRs the PRGT can absorb.[24] This leaves the risk that unless alternative avenues can be found the vast majority of SDRs would stay unused on the balance sheet of rich countries' central banks (or Finance Ministry depending on the arrangement in that country). At a time of grave crisis dormant SDR are a particularly troubling scenario.

Another reason to explore funds beyond the PRGT is that it only covers a group of low-income countries and therefore limits the impact of utilising SDRs in responding urgently to the level of need regardless of whether this is in low or middle income countries. As the spikes in Covid-19 cases in middle income countries highlight, flexibility in responding to the pandemic is vital. Indeed, there are established middle income countries such as Pakistan which need urgent support to tackle climate change and biodiversity loss but are not eligible for concessional finance from the PRGT.

Exploring options outside the IMF framework

It is a complex technical task for the Treasury and the Bank of England to find a way to present the UK's use of a significant amount of SDRs outside the IMF in the accounts.

However, it is ultimately a political decision on how SDRs are used and at this time of global crisis we call on the UK government to apply its creative domestic thinking (Furlough schemes etc) to address global problems which also have a direct impact on UK citizens.

As an IMF report published two decades ago highlighted: "there is nothing to prevent countries from voluntarily agreeing to transfer SDRs to other countries or prescribed holders for reasons of their own choosing."[25]

Below we look at two approaches and their implications. Making either approach work would require the UK government to reach a decision that made these approaches possible. This would involve discussions between the Treasury and the Bank of England which manages the UK reserves.

In both approaches we focus on the UK transferring funds (we focus on Sterling, Dollars or another currency) rather than lending money. But there could be variations involving donating or lending SDRs which have been discussed in the past.[26]

APPROACH A: Exchange SDRs with other countries for hard currency which is transferred

Any country receiving SDRs in August will have the option to exchange some of them for hard currency.[27] According to an overview published by the Treasury in 2020 on how the official reserves are managed, the UK routinely exchanges SDRs for hard currency.[28]

However, we are unaware of a situation where a country such as the UK has exchanged SDRs for hard currency which it has then transferred to another country or mechanism for a specific purpose such as poverty reduction or tackling the climate crisis.

Given the increase in size of reserves from the August SDR issuance the UK could choose to convert some of these SDRs for US$ which it then donated to a mechanism such as COVAX. If the UK did this there would be budgetary implications. The Treasury would have to pay interest on SDRs it has exchanged and determine (in discussion with the Bank of England) how to present this in the UK's national accounts (Exchange Equalisation Account).

For example, if the UK was to donate or lend SDRs it would see its SDR holdings decline which means paying an SDR interest cost. If the UK lends SDRs then the interest cost can be covered if the loan earns at least the same as the SDR interest rate, which is what happens when the UK lends SDRs via the PRGT.[29] If the UK donates SDRs it would be a permanent asset liability which would reduce the UK's holdings.

As an IMF report observed, "No proposal for the voluntary redistribution of SDRs has ever been put into effect. The primary obstacle these proposals face lies in the zero-sum nature of the SDR system: participants are liable to pay SDR charges on all SDRs allocated to them whether or not they hold, use, loan, or donate their SDRs. Redistribution of SDRs therefore has a real cost to the provider, which can be passed on to others only with their consent or must be borne by the provider, often requiring budgetary and/or legislative action."[30]

For example, if lots of G7 countries began to convert their SDRs into hard currency, would this stretch the system that the IMF has in place to ensure such conversions take place in a manner that does not disrupt the global management of reserves?

Overcoming these technical issues would be possible with sufficient political will. For example, there could be solutions found by the UK by itself, or working with G7 countries, to share the interest cost with other donors or to cover it from other sources within or outside the IMF.

However, we do acknowledge that the existing framework on SDRs (and how they are perceived by the IMF and other IMF shareholders) could inhibit the mass use of SDRs by donor countries. For example, some governments may argue that donating SDRs would permanently reduce the size of reserves and increase SDR liabilities with the SDR interest rate having to be paid.

Therefore, we consider another option.

APPROACH B: Using the SDRs to free up other funds which are transferred

Under Approach B SDRs would stay as SDRs on the balance sheet. The UK could announce transfers of the equivalent of the UK's SDRs received in August. For example, the UK could transfer £5 billion to COVAX. The UK would avoid having to pay interest because the SDRs would not be exchanged.[31] In effect there would be a change in the composition of the reserves.[32]

How would this be accounted for? The transfer of funds to COVAX and the climate change focused funds (e.g. Green Climate Fund, Adaptation Fund etc) would be financed through the national budget. Due to the Exchange Equalisation Account Act 1979 (as amended by the Finance Act 2000)[33] there are restrictions meaning it would not be possible for the Treasury to simply approve the transfer from the Exchange Equalisation Account.

Therefore, the transfer of funds would need to come from another account (see Figure 3). Central government uses the National Loans Fund[34] to put pounds sterling into the Exchange Equalisation Account which uses these funds to purchase foreign currency with a particular emphasis on US$ (around 40% of the EEA), Euros (around 40%) and Yen (around 20%). The EEA also holds the UK's SDRs.[35]

FIGURE 3: UK National Accounts

Source: *UK government website* / *Annual Reports*

Consolidated Fund

Receives the proceeds of taxation and other government receipts which fund public expenditure.

National Loan Fund

Used to account for government borrowing and lending.

Contingencies Fund

Used to finance payments for urgent services in anticipation of Parliamentary provision, to provide funds required temporarily by government departments and to meet other temporary cash deficiencies.

Exchange Equalisation Account

Established in 1932 to provide a fund which could be used for 'checking undue fluctuations in the exchange value of sterling'. It holds the UK's reserves of gold, foreign currencies and SDRs.

As it states in Section 2 of the EEA legislation: "If at any time the Treasury are of opinion that the assets in sterling of the Account are for the time being in excess of what is required for the purposes of the Account, the Treasury may direct that the excess shall be paid into the National Loans Fund."[36]

Therefore, using the language of this clause in Section 2 of the EEA legislation the Treasury's opinion should change for the time being because we are living through a global pandemic, and climate and biodiversity crisis, so that some of the foreign currency holdings are sold for pounds sterling. The Treasury should then consider these sterling assets in excess of what the EEA needs for its purposes, thus freeing up sterling to be transferred to the National Loans Fund, then to the Consolidated Fund, and then on to mechanisms to tackle the pandemic and climate change.

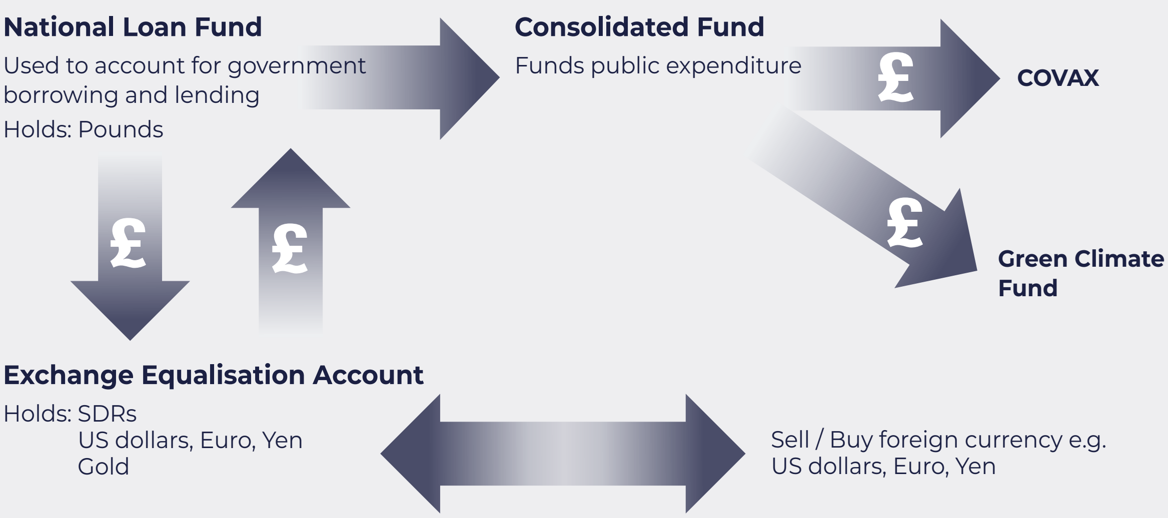
As explained in the EEA Annual report 2019/2020: "if a policy decision is taken to reduce the assets of the EEA, the sterling excess raised via sale of foreign currency assets would be paid to the NLF, at the direction of the Treasury".[37]

It is in this way that the UK government could decide[38] to use the equivalent of the UK's SDRs received in August (which will be held in the Exchange Equalisation Account) to take the following steps (see Figure 4):

1. EEA sells a portion of its foreign currency holdings for pounds sterling.
2. EEA transfers pounds sterling to the National Loans Fund[39],
3. The National Loans Fund would then be in a position to make transfers to the Consolidated Fund in pounds sterling which could then make contributions to entities such as COVAX and the Green Climate Fund.

FIGURE 4: Transfers of funds from the EEA to COVAX and the Green Climate Fund via the Consolidated Fund

Source: Authors based on *EEA Annual Report 2020*



The role of the EEA is as a "fund ready to be used, when necessary, to regulate the exchange value of sterling, and therefore the mechanism through which any UK government exchange rate intervention would be conducted".[40] As the Treasury explains this is mainly a precautionary measure to react if needed: "foreign currency reserves are held on a precautionary basis to meet any change in exchange rate policy in the future, if required, or in the event of any unexpected shocks, it has no long-term expenditure trends".[41] According to the same report, "No foreign exchange intervention was undertaken by the government in the foreign exchange market during the year. The last intervention was the coordinated G7 yen intervention of March 2011".

The UK's reserves are in a healthy state. The UK government has finished a round of funding to augment the EEA in 2020. Between 2008 and 2020 the government injected £72 billion into the reserves, held in the EEA, mainly in response to the financial crisis.[42] This contributed to seeing the gross reserves increase from £52 billion (£29 billion net) in July 2009,[43] to their position in April 2021 where the UK's gross official reserves were around £126 million (net official reserves were around £64 billion[44]). With the SDR issuance in August the UK will receive around £19 billion worth of SDRs which will further increase the gross reserves.

This means the UK government could argue[45] that it was in a position to make transfers to COVAX and climate change focused funds as it would still be in a position where it was able to use the EEA to meet its objectives such as the "capability to intervene in the foreign exchange market if required".[46]

If the situation arose whereby the government wanted to use the EEA to smooth over movements in the currency markets in relation to Sterling (which is how the EEA has been used since being created in 1932[47]) but felt it needed to increase its holdings of foreign currencies to do so it would have the option of exchanging new SDRs received in August 2021 for US$, Euros or Yen. After all, this is what SDRs are designed for, as a claim on foreign currency.[48] This would meet both the requirements set by the G20 when it tasked the IMF to look into recycling: that SDRs are used innovatively whilst retaining their reserve asset characteristic.

The Center for Global Development concludes: "If the UK were to donate to support LICs – either directly or through a special purpose health or climate fund – this would likely require budgetary approval. But this external donation would in a real sense be costless. The donation would not have taken place without the SDR allocation, it would not add to government debt, and it would not affect domestic demand. Thus, there would be a strong case for this spending to be added to the existing budget."[49]

For the UK to be able to do this would mean thinking outside the box and would require a government decision to do so.

Ultimately, transferring the equivalent in Sterling or another currency to vaccine and climate change focused mechanisms is a political decision about how a country allocates its national budget and how it responds to pressing global issues.

Conclusion

With the SDRs it receives in August the UK has a special opportunity to use this moment to tackle global problems.

In other donor countries there will be unique political dynamics and restrictions due to legislation on the relationship between the Ministry of Finance and the Central Bank (and the degree to which it is independent) on whether SDRs can be lent or donated. Like in the UK these technical obstacles can be overcome through political solutions. This is a crisis moment[50] which requires the legislation, rules and norms on how SDRs are perceived and used to be updated to the new reality.

The G20 and IMF agreement on a new SDR issuance is in effect the international community agreeing that countries will have an increased ability to call on foreign exchange, to draw on the reserves of others.

It will take time for each G7 country to resolve issues related to its national legislation and political dynamics which is why these conversations need to start now, both at national level and in international fora such as the G7, G20 and at the IMF.

The UK should take the lead in pushing forward creative solutions at the G7 to maximise the SDRs donor nations will receive in August. At the same time, it should not wait for anyone. It should be bold and act unilaterally if necessary.

Acknowledgments

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References

1. *Global Britain in a Competitive Age: The Integrated Review of Security, Defence, Development and Foreign Policy* (2021)

   In May 2021 COP26 President Alok Sharma *indicated* that SDRs should be used to support sustainable recoveries.

2. *G7 Climate and Environment Ministers' Meeting Communiqué* (2021)

3. *International Climate Finance Plan, Holland and Knight* (2021)

4. *Proposed legislation on Special Drawing Rights, House of Representatives* (2021)

5. *Reuters (2021) reported* that "Mark Bowman, the British Treasury's director general of international finance said there was a debate about "recycling options" for SDRs, including discussions about whether the IMF could design new instruments beyond the PRGT."

6. In *her remarks* to a Vatican convened event in May 2021 US Secretary Janet Yellen said: "Major economies like the United States are also currently exploring options for rechanneling a portion of our own SDRs to further boost this financing effort."

7. Rajiv J. Shah, *The choice for rich nations: Help vaccinate the developing world, or face a prolonged pandemic*, *Fortune* (2021)

8. The UK could consider contributing more than £9.5 billion worth of the SDRs it receives in August 2021. We are aware that whilst countries do not need to hold a required amount of SDRs (a decision taken in 1981) that the UK is one of the 32 countries which have said to the IMF they will hold around half of their SDRs to be part of voluntary SDR trading arrangements (VTAs) - the IMF also has the designation mechanism at its disposal if necessary. See Page 5 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

9. *Statement by the Chancellor on the International Monetary Fund's Poverty Reduction and Growth Trust* (2020)

10. *More aid needed for poor countries to avoid deeper crisis - U.S. Treasury official, Reuters* (2021)

    There have long calls for the SDRs to be considered as an additional form of development finance. See Barry Herman *What You Really Need to Know about the SDR and How to Make it Work for Multilateral Financing of Developing Countries* (2020)

11. **Improvements to COVAX**

    CAFOD is part of the People's Vaccine Alliance who have called on COVAX to:

    1) Be transparent about decision-making,

    2) Publish the deals it makes with pharmaceutical companies,

    3) Meaningfully involve developing country governments and civil society in decision-making,

    4) Ensure maximum production of vaccine doses by pushing pharmaceutical companies and research institutions to share the science, technology and know-how behind their vaccines with the WHO COVID-19 Technology Access Pool (C-TAP),

    5) Secure low and transparent vaccine prices,

    6) Ensure equitable distribution of doses according to the WHO's equitable allocation framework.

    More information see *People's Vaccine Alliance FAQ*

    Improvements to the Green Climate Fund

    In 2019 the International Development Committee recommended the UK government "should work with the GCF Board to improve efficiency in decision-making and enable better access to finance by lower capacity countries and organisations, so that finance channelled through the GCF can be truly transformational." *IDC report on UK aid for combating climate change* (2019)

    There are a range of issues which need addressing. More funding needs to be accessible and locally led. An insufficient amount goes to adaptation and there could be more focus on energy access.

    CAFOD is part of the CIDSE network who have called on the Green Climate Fund to direct climate finance as grants with a specific focus on local stakeholders and vulnerable communities. More information see *Improving civil society's limited access to the green climate fund, CIDSE* (2021)

    Due to these issues on access to the GCF the Adaptation Fund could be another option as it provides Direct Access. See *Climate Adaptation Finance: Direct Access* (2020)

12. *92 low- and middle-income economies eligible to get access to COVID-19 vaccines through Gavi COVAX AMC*

13. *The Gavi COVAX AMC Explained*

14. The Green Climate Fund operates a range of financing instruments including grants, concessional loans and guarantees. See *About the Green Climate Fund* and *Green Climate Fund Project Portfolio*

15. Jayati Ghosh, *Europe could make good use of a new SDR allocation, Social Europe* (2021)

16. "We reaffirm our commitment to the collective developed country climate finance goal to jointly mobilise US$100 billion annually by 2020 through to 2025 from a wide variety of sources, and welcome the commitments already made by some of the G7 to increase climate finance and look forward to new commitments from others well ahead of COP26 in Glasgow" *G7 Ministers of Environment, Climate and Energy communique 21 May 2021*

17. *Macron Summit on the Financing of African Economies* (2021)

18. David Andrews, *Financing a Possible Expansion of the IMF's Support for LICs*, Center for Global Development (2021)

19. David Andrews et al, *Three Ways New SDRs Can Support the IMF's Lending to Low-income Countries*, Center for Global Development (2021)

20. See footnote 8 in David Andrews, *How Might an SDR Allocation Be Better Tailored to Support Low-Income Countries?* Center for Global Development (2021)

21. *Exchange Equalisation Account Act 1979*

22. See Page 2 David Andrews, *Can Special Drawing Rights Be Recycled to Where They Are Needed at No Budgetary Cost?* Center for Global Development (2021)

23. See Page 3 David Andrews, *Can Special Drawing Rights Be Recycled to Where They Are Needed at No Budgetary Cost?* Center for Global Development (2021)

24. See Page 4 David Andrews, *Can Special Drawing Rights Be Recycled to Where They Are Needed at No Budgetary Cost?* Center for Global Development (2021)

25. See Page 13 of *SDR Allocation in the Eighth Basic Period—Basic Considerations*, IMF (2001)

26. "Proposals to link SDR allocations to the provision of development finance predate the establishment of the SDR system itself. Absent a change in the Articles, however, it is not possible for the Fund to allocate SDRs on this basis. Nevertheless, there is nothing to prevent countries from voluntarily agreeing to transfer SDRs to other countries or prescribed holders for reasons of their own choosing. A variation on this theme was proposed recently by George Soros, the financier and philanthropist. The mechanics

of the Soros proposal are similar to earlier proposals involving a post-allocation redistribution of SDRs through quasi independent trust funds. The redistributed SDRs would be directed not only to individual countries, however, but also toward the provision of global public goods (such HIV/AIDS programs)."

See Page 13 of *SDR Allocation in the Eighth Basic Period—Basic Considerations*, IMF (2001)

27. "Most countries have held onto their SDRs as part of their reserves to use in case of crises, although 16 countries, mostly developing countries, sold some of their increased holdings for hard currency in the four months after the 2009 allocation (compared to 7 countries in the previous 3 years). Sales of SDRs for currencies again became less frequent and in smaller amounts after that, although some low-income countries had sold almost half their allocations by 2015. Countries also made payments to the Fund itself in SDRs, not only developing country repayments of Fund loans and some of the reserve-currency portions of quota increases, but a number of countries transferred SDRs to the PRGT, which, as discussed below, subsidizes lending to low-income countries" See Barry Herman *What You Really Need to Know about the SDR and How to Make it Work for Multilateral Financing of Developing Countries* (2020)

28. See Page 9 *Management of the Official Reserves*, Treasury (2020)

29. See Page 3 David Andrews, *Can Special Drawing Rights Be Recycled to Where They Are Needed at No Budgetary Cost?* Center for Global Development (2021)

30. See Page 32 *Proposal for a General Allocation of SDRs*, IMF (2009)

31. As the Centre for Global Development notes: if a "donation of SDRs would result in an imbalance, with liabilities exceeding assets. And if restoring this balance entails an additional budgetary cost, why not simply finance a donation through the budget and not link this to the SDR allocation?"

    See Page 2 David Andrews, *Can Special Drawing Rights Be Recycled to Where They Are Needed at No Budgetary Cost?* Center for Global Development (2021)

32. As Centre for Global Development explain: "the increase in reserves provided by an SDR allocation is fungible, so that the SDRs themselves do not need to be used for a country to benefit from the flexibility provided by an allocation. In this context, the key point is that countries could, in principle, place existing reserve assets up to the value of their SDR allocations in the new fund rather than placing SDRs. Their total reserve holdings before and after the allocation would then be the same; only the composition of their reserves would have changed."

    David Andrews, *How Might an SDR Allocation Be Better Tailored to Support Low-Income Countries?* Center for Global Development (2021)

33. *Exchange Equalisation Account Act 1979*

34. See Page 3 and Page 8 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

35. "The Exchange Equalization Account (EEA), which is controlled by the Treasury, holds the UK's reserves of gold, foreign currency assets, and SDRs. Combined with the UK's Reserve Tranche Position (RTP) at the IMF and other lending to the IMF under the New Arrangements to Borrow (NAB), these assets make up the UK's "the Official Reserves." The RTP and NAB loans are held in the National Loans Fund (NLF) for which separate accounts are published by the Treasury."

    See Page 3 David Andrews, *Can Special Drawing Rights Be Recycled to Where They Are Needed at No Budgetary Cost?* Center for Global Development (2021)

36. See Section 2 *Exchange Equalisation Account Act 1979*

37. See Page 37 *Exchange Equalisation Account: report and accounts 2019-2*0 (2020)

38. This would likely require updating the annual Service Level Agreement between the Treasury and the Bank (which covers the parameters within which the reserves are managed) to agree, if necessary, on new benchmarks and Key Performance Indicators for the level of reserves and how they are held (and how liquid they are). For example, it would be necessary to agree on updating the "the programme for financing the reserves, covering the New Loan Fund''s foreign currency borrowing and sterling financing from the New Loan Fund". The terms of the Service Level Agreement can be reviewed during the year at the Bank's or the Treasury's request.

    See Page 11 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

39. See Page 38 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

40. See Page 3 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

41. See Page 13 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

42. See Page 2 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

43. See Page 2 *UK Official holdings of international reserves*, Treasury (2010)

44. See Page 1 *Statistical Release: UK official holdings of international reserves – April 2021, Treasury*

45. Especially given that "the reserves are not held in order to make a profit".

    See Page 16 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

46. See Page 4 *Exchange Equalisation Account: report and accounts 2019-20* (2020)

47. *The Exchange Equalisation Account: its origins and development*, BoE (1968)

48. For SDRs to retain their value as a reserve asset there has to be the potential for them to be used which is why the IMF has the option of forcing exchange to happen through its designation mechanism.

49. See Page 4 David Andrews, *Can Special Drawing Rights Be Recycled to Where They Are Needed at No Budgetary Cost?* Center for Global Development (2021)

50. Christine Allen, *Pope Francis is clear on climate change – will Alok Sharma listen?* The Tablet (2021)