

# Open Letter to G20 Finance Ministers, Central Bank Governors and the IMF:

## Civil Society Organizations Call for Issuance of More SDRs and Fairer Distribution

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Developing countries continue to suffer the health, social and economic impacts of COVID. Lagging access to vaccines and limited economic policy tools to support their people and livelihoods threaten to prolong the crisis and deepen its long-term scars. In 2024, more than 40% of developing countries will still have income below their 2019 levels. Developing countries' debt burden rose by 9 percentage points in the first year of the pandemic, the fastest increase in three decades.

The war in Ukraine brought suffering and deprivation to its people and a refugee crisis. It also adds challenges in all developing countries through food and fuel price inflation, higher costs of finance and the repercussion of cuts and uncertainty in global economic growth, affecting once more the most vulnerable people.

Early last year we called for an allocation of IMF Special Drawing Rights in the amount of \$3 trillion. Last August, the IMF allocated \$650 billion. SDRs received, without conditions and additional debt burdens, soon became the most impactful tool developing countries effectively accessed amidst insufficient support for crisis response. From vaccine purchases, to investments in health and social protection, to providing much-needed stimulus in fiscally-constrained economies, SDRs continue to prove their value as a lifeline to alleviate pandemic crisis effects. At least 99 low- and middle-income countries have used \$104 billion SDRs since the August 2021 allocation. Many of these countries rushed to use some or all of their SDRs within weeks of the allocation. Paraguay passed legislation months before the allocation in order to be able to quickly use them. The Sri Lankan government regretted the fact that SDRs had not been issued at the start of the pandemic.

However, because of the rules governing their distribution, more than \$400 billion in SDRs went to advanced economies that do not need them. To put this amount in perspective, as of March 2022, all developing countries' debt owed to the IMF amounts to \$151 billion, equivalent to 38% of advanced economies' newly-received SDRs.

We appreciate the innovative decision to create mechanisms for rechanneling as a way to maximize the stock of SDRs deployed in developing countries. However, these mechanisms still fall far too short of the rechanneling principles laid out by CSOs in timely fashion, which demand that channeling options maintain original characteristics of SDRs: coming at no cost and with no conditionality for the recipients.

We urge you to consider the following measures to further respond to the current crisis and promote inclusive recoveries with long-term, sustainable development and better crisis preparedness:

1. A new allocation of SDRs
  - Allocate an additional \$2.5 trillion SDRs, as is warranted by the continuation of the pandemic and additional economic shocks.
  - Take steps to reform the criteria for distributing SDRs, currently based on an inequitable quota system, to focus on needs and vulnerabilities of recipients.
  - Agree on triggers for future allocation based on needs triggered by emergent global crises.
2. A fair and speedy SDR rechanneling from advanced to developing countries
  - Urgently expand the collective commitment and accelerate pledges to rechannel advanced economies' SDRs without imposing policy conditions.
  - Advance options to enable multilateral development banks, and other current and potential prescribed holders, to act as rechanneling vehicles. While legal and technical obstacles have been placed in the way of some of these options, none of them is beyond solution with the right combination of leadership, political will, and ingenuity.
  - Create options that apply SDRs to cancellation of developing country debt to the IMF and other prescribed holders.
  - Make the options funded by newly-received SDRs accessible to all middle-income vulnerable countries by adding vulnerability criteria to the income-based ones.

3. Incorporate key features in approach to IMF rechanneling vehicles, including the proposed Resilience and Sustainability Trust:

- Delink eligibility for the RST from having another IMF program, prioritize country ownership and transparency, and refrain from tying financing to harmful policy conditionalities, particularly those focused on fiscal consolidation.

- Provide the highest grant element possible, including by capping interest rates at affordable levels for developing countries, and zero-interest lending for low-income countries.

- Ensure flexibility in its use to respond to current and future crises including climate and future pandemics so as to facilitate demand in line with developing country needs.

- Institutionalize cooperation with specialized international institutions that have relevant expertise such as UNFCCC Secretariat, WHO and UNESCO, to co-determine policy and criteria together with the IMF. Before implementing the RST, the IMF should convene a consultative discussion including a broad range of stakeholders to ensure it contributes to a fair recovery that supports climate justice and tackles economic and gender inequalities.

We support these measures as additional, not a substitute, to others needed to expand fiscal space in developing countries, such as meeting ODA and climate finance targets and the urgent implementation of deep debt relief and restructuring.

We stand ready to work with you on the examination of all these measures, and in their implementation, and ask that you create proper channels for ongoing consultation on them with civil society at all levels.

Sincerely,

African Forum and Network on Debt and Development

Bretton Woods Project

Caritas Africa

Center for Economic and Policy Research

Christian Aid

European Network on Debt and Development

Financial Transparency Coalition

Global Call to Action against Poverty - GCAP

Global Policy Forum

Initiative for Social and Economic Rights - Uganda

Jubilee Debt Campaign -UK

Latin American Network for Economic and Social Rights -LATINDADD

Recourse

Social Justice in Global Development

Third World Network

World Economy, Ecology and Development

Action Aid International