



POLICY BRIEF

RECHANNELLING SDRs IN A RESPONSIBLE AND EFFICIENT WAY

The Case for Rerouting SDRs through Multilateral Development Banks

February 2022

Abstract

This Policy Brief argues that a sound and efficient way to rechannel excess SDRs allocated to high-income countries is through Multilateral Development Banks, which would facilitate maturity transformation to achieve broader policy objectives (e.g., around climate) and which would entail a more pragmatic perspective on SDRs' reserve-asset status.

Executive Summary

In 2021, as the world was still struggling with the pandemic-induced economic crisis, the international community decided to create the equivalent of USD 650 bn of liquidity in the form of International Monetary Fund (IMF) Special Drawing Rights (SDRs), responding to the need to “supplement existing reserve assets” (see article XVIII Articles of Agreement of the IMF).

The new SDR allocation featured three core objectives: 1/ offer additional reserve assets to countries with fragile balance of payments; 2/ relax countries’ budget constraints during the COVID pandemic, for instance to purchase vaccines; and 3/ help countries address longer-term climate challenges and digital transformation. **Together, these objectives suggest a fundamental shift in the raison d’être of SDRs since their creation in 1969** to supplement international liquidity at a time when both the U.S. Dollar and gold were viewed as imperfect reserve assets—not only because the 2021 allocation took place at a time of unprecedented global liquidity abundance, but also because of the broader set of policy objectives accompanying the allocation.

Each of the above objectives, however, face **key challenges in today’s SDR paradigm**:

1. the sheer size of the 2021 allocation has disproportionately benefited rich economies: the countries issuing international reserve currencies (USD, EUR...)¹, arguably the least in need of supplemental FX reserves, have received nearly 2/3 of the allocation and more than 10 times more than Africa alone. For this reason, the G20 committed to rechannel USD 100 bn of SDRs.
2. requires bringing monetary instruments (usually booked in central banks) into the budget process, which raises numerous issues.
3. requires some degree of maturity transformation, i.e. transforming a liquid asset into a longer-term investment.

In addition, SDRs have faced a series of longstanding challenges to their effective deployment in the international monetary system:

- their allocation formula is heavily biased towards high-income countries, blunting their impact
- they do not have a “life on their own”: they are an unconditional right to obtain hard currencies
- they are complex instruments, and not a transfer of net wealth. For example, they come with an obligation to send them back to the IMF should its members vote to cancel them (at an 85% supermajority)
- they had so far been issued in very small amounts as compared to the explosion of international money demand and supply since financial globalisation intensified in the 1990’s

Together, these challenges militate in favour of changes to SDR administration that would rechannel some of the “excess” SDRs allocated to high-income countries to countries that need them in a manner that meets the multiple policy objectives assigned to the new SDRs.

We argue in this Policy Brief that a pragmatic definition of SDRs’ reserve-asset status is necessary to make this allocation a policy success, and that the most effective way to rechannel SDRs to developing economies, beyond rerouting via the IMF itself, is to go through Multilateral Development Banks whose purpose is to do maturity transformation and whose capital structure could be considerably enhanced by the issuance of hybrid capital.

¹ United States Dollars, Euro

Introduction

The recent SDR allocation made by the IMF in August 2021 has three distinct characteristics:

- it is considerably larger than the previous ones put together
- it is not well-targeted: it is generous with those that do not need them and parsimonious with those that do need them
- it challenges the role of “reserve assets” and broadens the policy objectives associated with SDR allocations

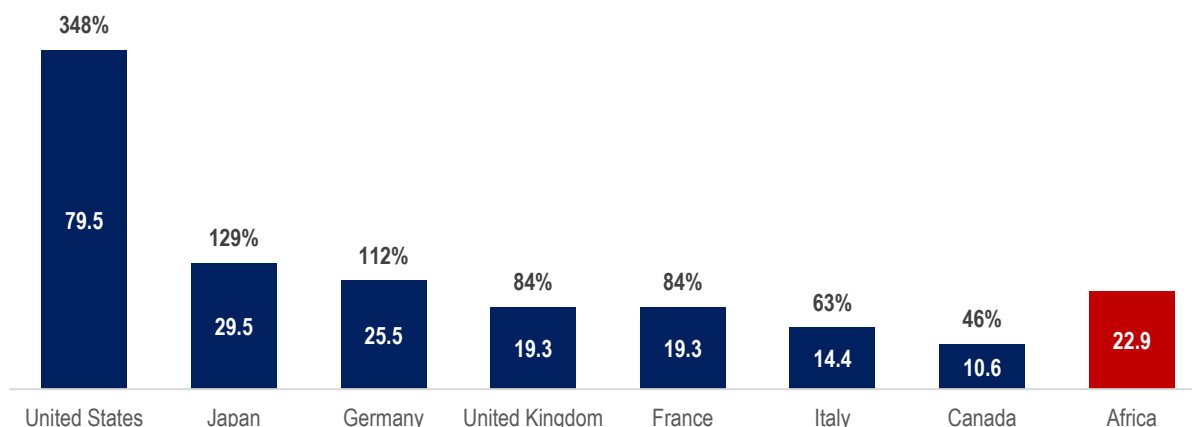
Here we explore each of these characteristics and their implications.

1. The 2021 SDR Allocation

The IMF in August 2021, as a response to the pandemic, issued the equivalent of USD 650 bn of Special Drawing Rights to its members to, consistent with Article XVIII of the IMF’s charter, “meet the long-term global need... [and] supplement existing reserve assets.”² That this allocation dwarfed all the previous allocations (more than two times the SDRs previously in circulation) was a sign that the international community needed to provide a ‘shot in the arm’ [Mrs Georgieva] to vulnerable countries.

When the case is made to issue SDRs (at an 85% majority of the membership), they are allocated according to a formula based itself on the Member quota formula, which overweighs GDP. As a result, those countries that do not need SDRs (for balance of payments purposes) receive a lot, while those countries that often need SDRs receive very little. The 2021 allocation was no exception: G7 countries were for instance allocated in 2021 almost 9 times what Africa, as a whole, received.

Chart 1 – General allocation received in August 2021 (in SDR bn and in % of Africa’s total allocation)



Source: authors, IMF

² SDRs were introduced at the end of the 1960s to supplement international reserves at a time when the U.S. Dollar, formally linked to Gold, was perceived as too abundant ('the Dollar glut'), leading many countries to exchange their Dollars for Gold whose supply was insufficient. In this way, SDRs serve as unconditional liquidity that can be used to obtain hard currencies such as Dollars or Euros and get balance of payments relief. They trade in a close circuit of central banks, reserve funds and other 'prescribed holders' (a handful of Multilateral Development Banks and other international organizations). IMF members instructed the Fund, back in the 1960's, with respect to which institutions should hold them: for most countries they are placed at the central bank; for some (3 out of the 7 countries of the G7, including the USA, the UK and Canada) they are placed in a special Treasury account.

2. The New Nature of SDRs

The need to “supplement existing reserve assets” is less acute in a world economy where there has never been more abundant international liquidity: levels of high-quality USD- or EUR-denominated debts have, for instance, never been higher, boosted by an increase of government debt overall. As a result, FX reserves managed by advanced market economies’ central banks—and those of several emerging market economies’—are worth several trillions of USD.

It follows that the August SDR allocation was driven not only by an overall need to supplement reserve assets and create liquidity in the world—especially as inflation risks have increased—but also by more specific and localised needs. Such needs are faced by low-income economies that often live under severe balance of payments constraints and need significant investment to address economic, social and climate challenges. To that end, in addition to offering additional reserve assets to countries with a fragile balance of payments, the new allocation has two incremental objectives:

1. help countries relax budget constraints in times of COVID, for instance to purchase vaccines; the IMF management has been very clear about the fact that this would be a legitimate use of SDRs.
2. help countries face climate challenges and digital transformation, arguably longer-term objectives than responding to balance of payments needs.

The objective 1/ raises several practical issues. As noted above, in most countries, SDRs are booked at the central bank. This means that if the government wants to use SDRs (or rather USD or EUR obtained in exchange of SDRs) for budget purposes, it needs to receive an advance from its central bank, which increases (domestic) public debt. This reflects the fact that SDRs are not *given* by the IMF and that there is a concomitant liability to the SDR Department (see below).

The objective 2/ (the focus of this Policy Brief) requires some degree of maturity transformation, i.e. transforming a liquid asset into a longer term investment. SDRs must be allowed to be used in a different way than being sequestered in the balance sheet of a central bank in wait of a future balance of payments crisis.

3. Core Changes Needed

Addressing the above challenges associated with both the distribution and the broader objectives of the 2021 SDR allocation requires two main sets of changes:

- SDRs must be redirected towards those countries that need them
- SDRs must help catalyse long-term investment while preserving reserve-asset status in some form

3.1 Rechannelling SDRs to countries in need

To rechannel SDRs from rich to poor countries, SDRs must be lent and not given away. The reason is that in exchange for unconditional liquidity via SDR allocations, IMF member countries commit to relinquishing SDRs to the Fund if member countries decide to cancel them. Therefore, SDRs represent an asset and a liability in the central bank’s or the Treasury fund’s books: giving SDRs away would create a hole in the balance sheet, requiring some recapitalisation.

Admittedly, the risk that 85% of the countries that have received such SDRs for free would vote to cancel them is low. It was always difficult to get a majority to issue them; it is nearly impossible to envisage an 85% majority to forego the benefits of having additional FX reserves and to cancel them. As such, this obligation to the IMF can be viewed as a perpetual debt.

Box 1 – IMF’s on-lending mechanisms

1. The existing Poverty Reduction and Growth Trust (PRGT)

IMF’s on-lending mechanism through which SDRs are already rechannelled is the Poverty Reduction and Growth Trust (PRGT). However attractive it may sound for practical reasons (the PRGT exists already and there is no need to set-up new institutional arrangements), this option is not optimal. The limitation of the PRGT-recycling is twofold: first, PRGT funding is subject to negotiated IMF programmes assorted with conditionality. In addition, the orders of magnitude do not fit. In 2020 and 2021, PRGT disbursements exceptionally amounted to SDR 4 bn. The increase was driven by the quick and efficient deployment of rapid credit financing (RCF), an IMF emergency assistance line easily available under financial stress. In 2022 and subsequent years, the IMF foresees a stabilization of the disbursement level at SDR 2 bn, mostly through regular ECF programs, with outstanding loans of c. USD 14 bn (IMF, 2021b).

2. The forthcoming Resilience and Sustainability Trust (RST)

The IMF proposed setting up a complementary mechanism which would cater to countries not eligible to the PRGT financing: the Resilience and Sustainability Trust (RST). The announced final target size for the RST is c. USD 50 bn, with an initial expected fundraising of c. USD 30 bn. The RST is expected to provide longer-term financing than traditional IMF macroeconomic assistance. The IMF Managing Director frequently mentioned that the RST would support specific policy objectives such as the fight against climate change, and that RST money would be put at use to buy vaccines. Other voices (Eichengreen, 2021) have called for the establishment of a dedicated fund defined around explicit uses of proceed (e.g., health, ESG³, green) that would be operationalised around easy-to-monitor conditions.

The RST option, however, suffers from some drawbacks. It will not be in a position to contribute directly to mitigation or adaptation finance, since the IMF does not finance projects. Hence, the facility is likely to mimic policy-based financing, a traditional tool of MDBs which allow them and recipient countries to establish together policy objectives, and unlock financing when milestones are met. As the IMF recently emphasized, RST financing will have to be part of a broader financing strategy “involving a mix of multilateral, bilateral official, and private financing” (IMF, 2022).

Critics argue that the RST should be provided under no IMF conditionality. After all, once they are allocated, SDRs are useable unconditionally. Any recycling mechanism should strive to preserve this feature of the allocation to the extent possible. Based on recent IMF communication, eligible IMF members will qualify to RST financing if they fulfil the following criteria: they commit to implement high-quality policy measures consistent with the RST’s purpose; there will be a concurrent financing or a non-financing IMF-supported program with appropriate macroeconomic policies to mitigate risks for borrowers and creditors; and the debt of the recipient country is sustainable and there is adequate capacity to repay the Fund (IMF, 2022).

³ Environmental, Social, and Governance

3.2 SDRs as long-term investment financing

In addition to replenishing FX reserves, SDRs must help in addressing the real investment challenges that low-income countries currently face: climate change, demographic pressures, digital transformation, and so on. This is underpinning the work on the new Resilience and Sustainability Trust created in January 2022 under the aegis of the IMF to recycle some of the SDRs (see Box 1).

Achieving this objective requires assuming maturity transformation, a function historically seen as outside the Fund's core remit. **The IMF has always been viewed by a large part of its membership (notably in Europe) as a monetary institution.** This is in contrast with the perceived mandate of development banks like the World Bank that are tasked with long-term development goals.

It also requires revisiting the **conservative/traditional approach that contends that SDRs must be available on demand to help countries face balance of payments needs as reserve assets.** This approach applies to those countries that are vulnerable to balance of payments problems (which is quite natural), but also to those countries that do not need SDRs. This means that excess SDRs cannot be rechannelled if there is a risk that the immediate availability of the transferred SDRs is diminished, unless other mechanisms (such as a collective liquidity insurance) are put in place to ensure permanent liquidity. It underlies the IMF-intermediated solutions of SDR rechanneling: the PRGT boosts the size of IMF programs with recycled SDRs and is *deemed* fully liquid for contributing countries; the RST entails more ambitious maturity transformation, triggering requests to put in place elaborate liquidity insurance mechanisms that reduce the amount of SDRs available for lending.

4. Reconsidering Reserve Assets

There is a strong case for reconsidering the axiomatic reserve asset definition that is used by some public institutions, mostly in Europe, to challenge, or restrain, the rechanneling of SDRs.

4.1 “Reserve asset” is a relative concept

First, **there is nothing absolute in the concept of a “reserve asset”** defined as a high credit quality and liquid asset—with liquidity meaning the ability to sell a security at once without affecting its price.

- Credit quality is largely a relative concept, and central banks across the world buy, in the context of their FX reserve management, a broad range of rated debt—including, for example, the public debt of Italy, Japan, the UK or the US for instance, which are rated Baa3, A1, Aa3 and Aaa respectively. There are 9 notches of credit rating difference between those bonds.
- Similarly, liquidity is state-contingent rather than absolute, as we learned during the Great Financial Crisis, and, according to regular surveys, central banks already keep in their stock of FX reserves many assets whose liquidity is lower (or much lower) than U.S. Treasuries: U.S. agency securities, covered bonds, green bonds, emerging market debt, and/or corporate bonds, for instance.

Therefore, a reserve asset does not have to be credit-solid like the Bund and liquid like U.S. Treasuries. Important differences among eligible reserve assets today indicate flexibility around rechanneling SDRs without implicating their reserve-asset status.

4.2 PRGT at the IMF: contingent not absolute liquidity

Second, loans by IMF member countries to the PRGT (Box 1) are universally viewed as retaining reserve asset status. Yet, in practice, the liquidity of such assets is contingent on the existence of a balance of payments crisis. In other words, only countries that face a balance of payments crisis, according to the IMF, can get their money back.

Therefore, **the asset (the claim on the PRGT) is liquid only to the extent the lender (a central bank) is illiquid in foreign currency.** This is far from the canonical definition of liquidity, and again suggests greater flexibility around rechannelling SDRs than traditionally envisioned.

4.3 Desired liquidity in central banks' FX reserves is a function of their size (and policy objectives)

Third, central banks traditionally segment their FX reserve portfolio primarily as a function of the size of such portfolio, and a **material share of SDRs today are held on central bank balance sheets with significant excess reserve assets—in other words, where rechannelling those SDRs into less liquid assets would not meaningfully impact overall reserve liquidity.**

Central banks hold FX reserve assets for many reasons: to face balance of payments tension if external financing falls short of current account needs; to protect against “sudden [capital flow] stops” with attendant financial stability risks; to lend credibility to a currency peg; to intervene in the market to prevent disorderly market conditions (G7); and to generate revenues. In managing these assets, they usually follow three key principles, liquidity, security and return, whose respective importance is a function of the size of the portfolio.

While it makes sense for a low-income central bank vulnerable to balance of payments crises to keep its FX reserves in highly liquid instruments, central banks with FX reserves well in excess of what they deem necessary for balance of payments purposes are under no such constraint. They can have a portion of their portfolio invested in more remunerative and less liquid assets. This is, for example, what happened in countries in Asia and the Middle East that had accumulated FX reserves well in excess of what was needed to sustain a currency peg: the reserves were transferred to a Sovereign Wealth Fund which invests taking some liquidity and credit risk.

Table 1 illustrates the point. When the SDR allocation is analysed from the two standpoints of income/capita and exchange rate regime, it appears that rich countries have received the bulk of the allocated SDRs (67%) while they predominantly have a free-floating currency, and that low-income countries have received comparatively little (1%) while they have non-floating exchange rate regimes requiring FX reserves.

Table 1 - 2021 SDR General allocation breakdown by income level and exchange rate regime
(in USDm)⁴

	<u>High-income</u>	<u>Upper middle-income</u>	<u>Lower middle-income</u>	<u>Low-income</u>
Floating	391,161.9	71,607.2	31,393.0	1,328.6
%	62%	11%	5%	0%
Non-floating	33,590.1	61,868.2	32,177.4	7,234.9
%	5%	10%	5%	1%

Source: authors, IMF

The situation is especially odd for those countries (or monetary zones) that issue an international reserve currency—that is, a currency used by others as a unit of account, a means of payment, and a store of value. These countries do not need to accumulate other reserve assets to face balance of payments tensions, either because they do not face difficulties in issuing debt *in their own currency*, or because raising interest rates is considerably more powerful than buying one’s currency on the FX market to forestall market pressure.

Of those countries or zones (United States, United Kingdom, Japan, Switzerland, Eurozone), there are two groups:

- the United States, which had “only” USD eq. 134 bn of reserves at year-end 2020; they received USD eq. 111 bn in SDRs.
- the others, which have accumulated Reserve Assets mainly to avoid an appreciation of their currency (Japan at USD 1,344 bn before receiving USD 41 bn more, Switzerland at USD 1,020 bn before receiving USD 8 bn more), and/or merely to provide revenues (UK at USD 161 bn before receiving USD 27 bn, Germany at USD 64 bn before receiving USD 36 bn, France at USD 76 bn before receiving USD 27 bn)⁵.

Therefore, while low-income countries received very little, the SDR allocation provided many high-income countries’ central banks with international reserves coming on top of an abundant stock whose main objective is often to generate revenues.

4.4 A more pragmatic definition of reserve assets would also allow high-income countries’ central banks to meet their climate pledges

Within the Network for Greening the Financial System, central bankers and regulators emphasized their appetite to further mobilize capital to mitigate climate change and encourage the development of green finance. A technical publication recently stressed the “need for national and multilateral development banks to strengthen their support to mobilize capital towards green investment projects, particularly in developing and emerging markets” (NGFS, 2021).

⁴ Excludes Venezuela, which is not classified in an income category.

⁵ See appendix.

A rechanneling of SDRs to multilateral institutions and other selected prescribed holders could effectively contribute to this goal. This would require taking a more pragmatic definition of what a reserve asset is for central banks that have FX reserves considerably above their policy targets (face balance of payments pressures in an orderly way, defend a currency peg), and when the alternative is to keep SDRs on the shelves, unused.

In conclusion, **there is a need to use excess SDRs in a way that meets the demand of developing economies, even if this requires a pragmatic interpretation of what a reserve asset is.** It would be odd in the end if high income countries which, by their own confession, do not need such SDRs, would not be able to lend them to low-income countries that need them, because of concerns around addressing a hypothetical future balance of payments crisis.

5. Promising Vector for Rechanneling SDRs: Multilateral Development Banks

The most effective way to rechannel SDRs, beyond rerouting via the IMF itself, is through Multilateral Development Banks (MDBs) whose purpose is to achieve maturity transformation and whose capital structure could be considerably enhanced by the issuance of hybrid capital, possibly denominated in SDR.⁶ This would allow SDR 100 to produce SDR 300 to 400 of investment on the ground.

MDBs are natural candidates for an SDR rechanneling given the policy objectives underlying the SDR general allocation. MDBs' mission is indeed to support development and to supply global public goods. In doing this, and because of their long-term financing at affordable term, they *de facto* mitigate shocks. As unregulated banking entities, MDBs have (a lot of) equity, borrow on capital markets, and lend resources at affordable or concessional rates to their borrowing members. Some MDBs, in fact, are already prescribed holders of SDRs⁷ and can therefore use or borrow SDRs; the African Development Bank Group is even using the SDR as a currency of accounting. Moreover, even if their mandates do not explicitly foresee a countercyclical role, MDBs are often requested to increase their financial support in crisis time. In its virtual meeting held on April 15th, 2020, G20 Finance Ministers and Central Bank Governors explicitly called on the World Bank and Regional development Banks to swiftly implement the response package previously adopted by their respective Boards (G20, 2020).

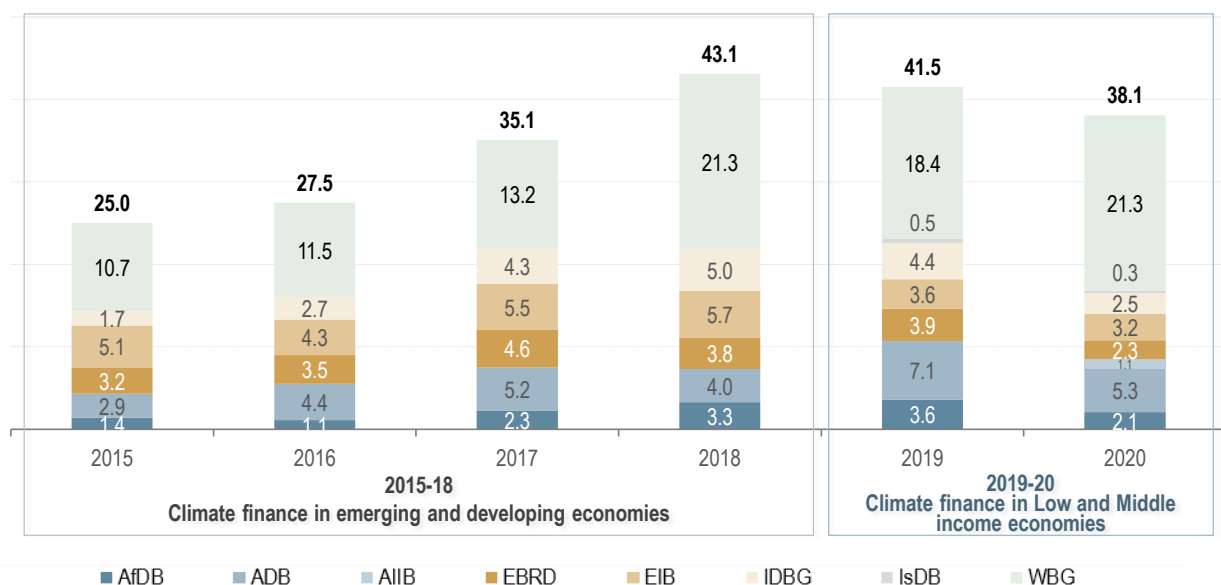
Additionally, in recent years, MDBs have been increasingly active on the fight against climate change, on top of other policy priorities such as the financing of infrastructures, gender equality, or the financing of social safety nets for the most vulnerable. Over the 2016-2020 period, MDBs committed USD 185 bn of

⁶ MDBs (World Bank, African Development Bank, Inter-American Development Bank, European Bank for Reconstruction and Development Bank, Asian Development Bank, European Investment Bank, West African Development Bank, Islamic Development Bank, International Fund for Agricultural Development, etc.) are international organizations established under an international treaty and structured as banks.

⁷ There are currently 15 prescribed holders: four central banks (European Central Bank, Bank of Central African States, Central Bank of West African States, and Eastern Caribbean Central Bank); three intergovernmental monetary institutions (Bank for International Settlements, Latin American Reserve Fund, and Arab Monetary Fund); and eight development institutions (African Development Bank, African Development Fund, Asian Development Bank, International Bank for Reconstruction and Development and the International Development Association, Islamic Development Bank, Nordic Investment Bank, and International Fund for Agricultural Development).
Source: IMF.

climate finance to low- and middle- income economies⁸. **In addition to international funds such as the Green Climate Fund or the Global Environment Facility (see Box 2), they are a key pillar of the international financial architecture aiming at financing both mitigation and adaptation projects, thus contributing to reaching global goals such as the ones enshrined in the 2015 Paris Agreement to maintain temperature rise well below 2°C (UN, 2015).** Most of the AAA rated MDBs recently announced that they would align all their operations on the Paris Agreement.

Chart 2 - MDB's climate finance commitments (2015-2020, USD bn)



Source: AfDB et al (2021)

However, despite the urgency and their motivation, MDBs struggled to maintain their level of climate lending in time of financial stress⁹. While the last Intergovernmental Panel on Climate Change (IPCC) report points to a worsening of the climate change impact and an accumulation of risks, especially for developing countries, MDB climate finance decreased by USD 3.5 bn in 2020 compared to 2019 (see Chart 2).

Furthermore, MDBs, being banks, are not simple lending facilities. They conservatively leverage their equity and can multiply the impact of one SDR invested by 3 to 4. This unique feature makes them able to provide an efficient SDR rerouting mechanisms, with multiplier effects. To the extent that recapitalising them right away with SDRs would be viewed as a bridge too far with respect to the reserve status imperative—even with a softer definition—solutions through hybrid, deeply subordinated, debt should be (and are being) actively contemplated. This would allow to invest SDRs in a junior fixed income product issued by an MDB, whose equity features would allow some leveraging. The investment risk would be

⁸ See the 2020 Joint Report on Multilateral Development Bank Climate Finance. Reporting institutions under this report are the WBG, IsDB, IDBG, EIB, EBRD, AfDB, ADB, NDB and AfDB.

⁹ During the covid crisis, some MDBs faced difficulties to increase their lending. The deterioration of credit rating in many borrowing members added further capital constraints on those institutions. When sufficient capital buffer was not in place, the worsening of the economic environment made it difficult for MDBs to further leverage their equity without putting at risk their credit rating.

relatively limited given that such banks are generally 5 to 10 times less leveraged than Basel-regulated commercial banks.

Box 2 – Redirecting SDRs towards Green and Climate oriented funds

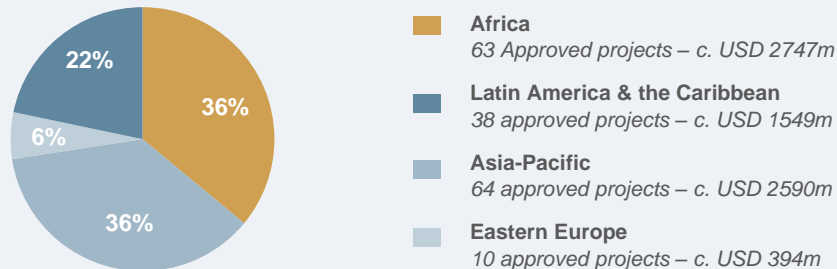
As the climate and environmental crises were further worsening, and amid concerns that developing countries would have to pay a significant cost to adapt to climate change, several international funds were set up in the last decades. The purpose of those funds is to provide long term capital and grants to developing countries, in order to support climate and environmental dedicated actions. Their mandates often relate to specific UN protocols or conventions, such as the Montreal Protocol or the UN Framework convention on climate change (UNFCCC).

The Green Climate Fund (GCF) is one of the most prominent funds whose action is fully committed to the fight against climate change. Established in Cancun in 2010, the GCF serves as a financial mechanism of the UNFCCC and the Paris Agreement, with a mandate to support developing countries in their climate-resilient pathways. Since it made its first investment decision in 2015, the GCF's balance sheet has known an impressive growth, with more than USD 10 bn worth investments. To date, the GCF is the biggest full-fledged climate fund and the one using the most sophisticated investment products.

In its Initial Resource Mobilisation (IRM)¹, GCF raised USD 10.3 bn in pledges, of which USD 8.3 bn were confirmed through unconditional contribution arrangements. In October 2019, the Fund undertook a First Replenishment process² (GCF-1) in which additional USD 10 bn of cumulative pledges were made.

The GCF provides loans, grants, guarantees and other financial instruments to its accredited entities and targets the most efficient programs. It maintains a geographical balance in its investments while ensuring a strong focus on vulnerable countries especially in Africa.

Geographical Footprint of GCF Portfolio (as of March 2021)



According to GCF estimates, as of January 2022, the committed funding will allow to avoid the emission of CO₂ equivalent emissions of up to 2.0 bn tonnes over the lifetime of funded projects¹⁰.

In 2020, it provided a record USD 2.1 bn of funding on its own balance sheet through 37 projects, mobilizing USD 2.8 bn in co-financing (GCF, 2021).

The GCF, along with some other international green funds, could be entitled to receive SDRs and benefit from a prescribed holder status. Nevertheless, SDRs should not be mobilized at the expense of other concessional financing mechanisms. They could be used as a complementary funding mechanism and would specifically help developing countries' institutions cope with longer-term climate change challenges, very much in line with the objectives underpinning the IMF 2021 SDR General allocation.

¹⁰See <https://www.greenclimate.fund/projects/dashboard>

Conclusion

The allocation of SDRs has been a powerful manifestation of international solidarity, but their distribution today is underweighted in developing countries that need additional support and liquidity. Therefore, it is imperative to rechannel SDRs from countries that do not need them to those countries that need them.

Doing so requires broadening two core features of SDRs: the closed circuit in which they circulate and the historically narrow conception of their reserve-asset definition and status.

The most effective way to rechannel the excess SDRs is to invest them into MDBs who: (i) are prescribed holders; (ii) can leverage their balance-sheet (if conservatively); and (iii) can undertake maturity transformation to finance long-term projects around the climate transition and other areas.

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Appendix

Country	FX reserves before allocation (USDm, end- 2020) ¹¹	SDR allocation (USDm) ¹²	% increase	FX regime ¹³
High-income countries				
Andorra	-	110.1	-	No separate legal tender
Antigua and Barbuda	221.8	26.7	12%	Currency board
Australia	39,152.0	8,767.2	22%	Free floating
Austria	13,415.9	5,245.1	39%	Free floating
Bahamas, The	2,382.1	243.3	10%	Conventional peg
Bahrain	2,239.4	526.9	24%	Conventional peg
Barbados	772.1*	126.1	16%	Conventional peg
Belgium	19,470.4	8,551.7	44%	Free floating
Brunei Darussalam	3,721.3	401.9	11%	Currency board
Canada	90,428.1	14,705.4	16%	Free floating
Chile	39,151.2	2,326.8	6%	Floating
Croatia	23,253.8	957.0	4%	Stabilized arrangement
Cyprus	392.0	405.3	103%	Free floating
Czech Republic	165,540.6	2,908.3	2%	Free floating
Denmark	68,777.2	4,588.0	7%	Conventional peg
Estonia	1,981.8	325.0	16%	Free floating
Finland	10,492.0	3,215.7	31%	Free floating
France	76,114.1	26,886.1	35%	Free floating
Germany	63,969.3	35,529.2	56%	Free floating
Greece	5,006.0	3,240.1	65%	Free floating
Hungary	39,433.7	2,587.9	7%	Floating
Iceland	6,298.7	429.2	7%	Floating
Ireland	7,098.1	4,602.1	65%	Free floating
Israel	173,292.1	2,562.4	1%	Floating
Italy	61,613.8	20,102.7	33%	Free floating
Japan	1,344,283.3	41,113.3	3%	Free floating
Korea, Rep.	437,112.6	11,448.9	3%	Floating
Kuwait	48,117.2	2,579.2	5%	Other managed arrangement
Latvia	4,884.9	443.3	9%	Free floating
Lithuania	4,492.9	589.1	13%	Free floating
Luxembourg	981.0	1,763.2	180%	Free floating
Malta	928.5	224.5	24%	Free floating
Nauru	-	3.8	-	No separate legal tender
Netherlands	16,733.8	11,654.1	70%	Free floating
New Zealand	13,733.3	1,670.3	12%	Floating
Norway	75,258.8	5,008.6	7%	Free floating
Oman	15,006.1	726.2	5%	Conventional peg
Palau	-	6.5	-	No separate legal tender
Poland	140,316.3	5,463.2	4%	Free floating
Portugal	6,199.3	2,748.1	44%	Free floating
Qatar	37,524.6	980.6	3%	Conventional peg
San Marino	781.8	65.7	8%	No separate legal tender
Saudi Arabia	453,208.2	13,329.8	3%	Conventional peg
Seychelles	559.7	30.5	5%	Floating
Singapore	362,088.2	5,191.6	1%	Crawl-like arrangement
Slovak Republic	7,416.7	1,335.3	18%	Free floating
Slovenia	1,118.2	782.3	70%	Free floating
Spain	64,167.6	12,719.9	20%	Free floating

¹¹ Excludes gold, current USDm, end-2020 (unless otherwise mentioned). Source: World Bank database.

¹² SDR/USD interest rate as of 31 January 2022. Source: IMF.

¹³ IMF, 2021a

Country	FX reserves before allocation (USDm, end- 2020) ¹¹	SDR allocation (USDm) ¹²	% increase	FX regime ¹³
St. Kitts and Nevis	362.7	16.7	5%	Currency board
Sweden	50,616.5	5,909.5	12%	Free floating
Switzerland	1,020,171.6	7,698.4	1%	Floating
Trinidad and Tobago	6,835.7	626.7	9%	Stabilized arrangement
United Arab Emirates	103,199.2	3,083.1	3%	Conventional peg
United Kingdom	161,188.4	26,886.1	17%	Free floating
United States	133,849.1	110,710.8	83%	Free floating
Uruguay	16,244.2	572.4	4%	Floating
Total high-income countries		424,751.9		
Upper middle-income countries				
Albania	4,647.2	185.8	4%	Floating
Argentina	35,650.0	4,251.7	12%	Other managed arrangement
Armenia	2,615.5	171.7	7%	Stabilized arrangement
Azerbaijan	7,633.6	522.5	7%	Stabilized arrangement
Belarus	4,426.9	909.1	21%	Floating
Bosnia and Herzegovina	8,525.6	353.8	4%	Currency board
Botswana	4,940.9	263.0	5%	Crawling peg
Brazil	351,518.5	14,729.6	4%	Floating
Bulgaria	35,377.6	1,195.7	3%	Currency board
China	3,238,782.4	40,662.9	1%	Other managed arrangement
Colombia	58,247.8	2,727.3	5%	Floating
Costa Rica	7,231.5	492.8	7%	Crawl-like arrangement
Dominica	176.6	15.3	9%	Currency board
Dominican Republic	10,810.2	636.9	6%	Crawl-like arrangement
Ecuador	5,235.9	930.7	18%	No separate legal tender
Equatorial Guinea	40.8*	210.2	515%	Conventional peg
Fiji	1,041.8*	131.2	13%	Conventional peg
Gabon	1,372.0*	288.1	21%	Conventional peg
Georgia	3,913.3	280.7	7%	Floating
Grenada	293.3	21.9	7%	Currency board
Guatemala	18,044.5	571.7	3%	Stabilized arrangement
Guyana	680.6	242.4	36%	Stabilized arrangement
Iraq	48,562.1	2,219.5	5%	Conventional peg
Jamaica	3,938.0	510.8	13%	Floating
Jordan	-	457.6	-	Conventional peg
Kazakhstan	12,056.1	1,545.3	13%	Floating
Kosovo	1,095.4	110.2	10%	No separate legal tender
Lebanon	25,000.7	845.1	3%	Stabilized arrangement
Libya	78,952.3*	2,098.5	3%	Conventional peg
Malaysia	105,280.0	4,847.3	5%	Floating
Maldives	994.6	28.3	3%	Stabilized arrangement
Marshall Islands	-	6.5	-	No separate legal tender
Mauritius	6,535.0	189.7	3%	Floating
Mexico	191,769.3	11,889.1	6%	Free floating
Moldova	3,779.1	230.1	6%	Floating
Montenegro	2,134.8	80.7	4%	No separate legal tender
Namibia	2,171.2	255.0	12%	Conventional peg
North Macedonia	3,707.3	187.2	5%	Stabilized arrangement
Panama	9,613.8	502.6	5%	No separate legal tender
Paraguay	8,704.2	268.6	3%	Crawl-like arrangement
Peru	72,670.9	1,780.2	2%	Floating
Romania	45,888.9	2,416.3	5%	Crawl-like arrangement
Russian Federation	457,017.6	17,213.0	4%	Free floating
Serbia	14,419.2	873.5	6%	Stabilized arrangement
South Africa	47,387.4	4,070.1	9%	Floating

Country	FX reserves before allocation (USDm, end- 2020) ¹¹	SDR allocation (USDm) ¹²	% increase	FX regime ¹³
St. Lucia	231.4	28.5	12%	Currency board
St. Vincent and the Grenadines	205.2	15.6	8%	Currency board
Suriname	496.0	171.9	35%	Stabilized arrangement
Thailand	248,743.5	4,284.6	2%	Floating
Tonga	298.9	18.4	6%	Other managed arrangement
Turkey	49,958.3	6,214.4	12%	Floating
Turkmenistan	-	318.3	-	Conventional peg
Tuvalu	-	3.3	-	No separate legal tender
Total upper middle- income countries		133,475.5		
Lower-middle income countries				
Algeria	48,882.1	2,614.5	5%	Crawl-like arrangement
Angola	13,782.0	987.3	7%	Other managed arrangement
Bangladesh	42,322.4	1,422.8	3%	Crawl-like arrangement
Belize	348.1	35.6	10%	Conventional peg
Benin	<i>Part of WAMU</i>	165.2	-	Conventional peg
Bhutan	1,506.5	27.3	2%	Conventional peg
Bolivia	2,662.4	320.2	12%	Stabilized arrangement
Cabo Verde	674.6	31.6	5%	Conventional peg
Cambodia	18,563.8	233.4	1%	Crawl-like arrangement
Cameroon	3,459.3**	368.1	11%	Conventional peg
Comoros	293.2	23.8	8%	Conventional peg
Congo, Rep.	988.3*	216.1	22%	Conventional peg
Cote d'Ivoire	<i>Part of WAMU</i>	867.6	-	Conventional peg
Djibouti	686.3	42.4	6%	Currency board
Egypt, Arab Rep.	34,094.9	2,717.5	8%	Crawl-like arrangement
El Salvador	2,999.4	383.2	13%	No separate legal tender
Eswatini	545.6	104.7	19%	Conventional peg
Ghana	7,352.7	984.4	13%	Floating
Haiti	2,296.3**	218.5	10%	Crawl-like arrangement
Honduras	8,096.5	333.2	4%	Crawling peg
India	549,086.9	17,494.1	3%	Floating
Indonesia	131,139.0	6,200.8	5%	Floating
Iran, Islamic Rep.	-	4,758.4	-	Stabilized arrangement
Kenya	8,296.1	724.0	9%	Other managed arrangement
Kiribati	-	14.9	-	No separate legal tender
Kyrgyz Republic	1,791.8	236.9	13%	Stabilized arrangement
Lao PDR	1,392.6	141.1	10%	Crawl-like arrangement
Lesotho	774.1*	93.1	12%	Conventional peg
Mauritania	1,493.2	171.7	11%	Crawl-like arrangement
Micronesia, Fed. Sts.	451.9	9.6	2%	No separate legal tender
Mongolia	4,049.3	96.5	2%	Crawl-like arrangement
Morocco	34,653.0	1,193.0	3%	Stabilized arrangement
Myanmar	7,228.1	689.3	10%	Other managed arrangement
Nepal	11,076.7	209.3	2%	Conventional peg
Nicaragua	3,211.9	346.8	11%	Crawling peg
Nigeria	36,729.6	3,274.2	9%	Stabilized arrangement
Pakistan	14,591.7	2,709.2	19%	Other managed arrangement
Papua New Guinea	2,243.0*	351.1	16%	Crawl-like arrangement
Philippines	98,512.1	2,725.1	3%	Floating
Samoa	277.1	21.6	8%	Conventional peg
Sao Tome and Principe	75.3	19.8	26%	Conventional peg
Senegal	<i>Part of WAMU</i>	431.7	-	Conventional peg
Solomon Islands	661.0	27.7	4%	Conventional peg
Sri Lanka	5,256.7	772.2	15%	Stabilized arrangement

Country	FX reserves before allocation (USDm, end- 2020) ¹¹	SDR allocation (USDm) ¹²	% increase	FX regime ¹³
Tajikistan	519.6*	232.1	45%	Stabilized arrangement
Tanzania	5,049.6**	530.7	11%	Stabilized arrangement
Timor-Leste	656.5	34.1	5%	No separate legal tender
Tunisia	9,394.6	727.2	8%	Crawl-like arrangement
Ukraine	27,549.0	2,683.6	10%	Floating
Uzbekistan	14,687.3	735.3	5%	Crawl-like arrangement
Vanuatu	613.6	31.7	5%	Other managed arrangement
Vietnam	94,833.6	1,538.2	2%	Stabilized arrangement
Zambia	1,203.4	1,304.9	108%	Floating
Zimbabwe	31.9	942.8	2955%	Other managed arrangement
Total lower middle- income countries		63,570.4		
Low-income countries				
Afghanistan	8,419.5	431.9	5%	Other managed arrangement
Burkina Faso	<i>Part of WAMU</i>	160.6	-	Conventional peg
Burundi	88.5	205.4	232%	Crawl-like arrangement
Central African Republic	350.3*	148.6	42%	Conventional peg
Chad	310.0*	187.1	60%	Conventional peg
Congo, Dem. Rep.	747.7	1,422.0	190%	Crawl-like arrangement
Eritrea	191.7*	21.2	11%	Conventional peg
Ethiopia	3,046.1	401.1	13%	Crawl-like arrangement
Gambia, The	387.0	83.0	21%	Other managed arrangement
Guinea	1,245.3	285.7	23%	Crawl-like arrangement
Guinea-Bissau	<i>Part of WAMU</i>	37.9	-	Conventional peg
Liberia	538.5	344.7	64%	Crawl-like arrangement
Madagascar	1,980.8	326.0	16%	Floating
Malawi	575.0	185.1	32%	Stabilized arrangement
Mali	<i>Part of WAMU</i>	248.9	-	Conventional peg
Mozambique	3,852.2	303.1	8%	Floating
Niger	<i>Part of WAMU</i>	175.5	-	Conventional peg
Rwanda	1,806.1	213.6	12%	Crawl-like arrangement
Sierra Leone	707.7	276.7	39%	Other managed arrangement
Somalia	-	218.0	-	Free floating
South Sudan	183.6	328.2	179%	Crawl-like arrangement
Sudan	-	840.6	-	Stabilized arrangement
Syrian Arab Republic	-	391.6	-	Other managed arrangement
Togo	<i>Part of WAMU</i>	195.8	-	Conventional peg
Uganda	3,358.5**	481.6	14%	Floating
Yemen, Rep.	-	649.7	-	Stabilized arrangement
Total low-income countries		8,563.5		
Not classified				
Venezuela, RB	-	4,965.9	-	Other managed arrangement

Part of WAMU: Part of the West-African Monetary Union
(USDm 21,843 total reserves excl. gold, current USD at end-Dec 2020)

* 2019 data

** 2018 data

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