



BEYOND CRISES

The future of Special Drawing Rights as a source of development and climate finance

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The allocation of Special Drawing Rights (SDRs) during the COVID-19 pandemic has generated considerable interest in using SDRs as a tool for development and climate finance. This policy brief argues that the monetary logic that underpins SDRs justifies regular allocations of at least \$200 billion a year, and more than doubling the share of low- and middle-income countries. Once allocated, governments can use SDRs in multiple ways, including to fund some development or climate projects. The brief also discusses reforms to deepen the SDR system in the interest of all countries.

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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Cover photo: Growing up, Chhorvy and Kneoun used to be able to catch fish from their doorstep. Since being forcibly relocated due to dam construction, they now have to take the boat for 10km to reach waters for fish. Credit: Patrick Moran/Oxfam.

SUMMARY

Since 2020 the world has been rocked by multiple crises: the COVID-19 pandemic, climate breakdown, wars and their economic shocks and aftershocks. This reversed global inequality trends, with the rich world pulling away from the Global South for the first time in a quarter of a century. At the same time, humanity is failing to tackle the existential threat of climate catastrophe.

The financing gap to tackle these challenges is enormous: low- and middle-income countries (excluding China) need up to US\$4 trillion of additional investment a year.

Special Drawing Rights (SDRs) can fill a significant proportion of this gap. The exceptional SDR allocation during COVID-19 showed that this can be a vital way to boost the finances of low- and middle-income nations. Their widespread use for emergency government spending generated considerable interest in the potential for SDRs to be an instrument of much-needed development and climate finance.

This policy brief recommends annual SDR allocations of at least US\$200bn, additional to exceptional allocations in crises, and the distribution of a greater share of all allocations to the Global South. It explains the monetary logic that underpins these recommendations.

Once allocated to low- and middle-income countries, SDRs can be used in a variety of ways, including being held in reserve, used to pay down debt, or transferred to the government for general budget support or specific development and climate priorities.

All these uses can bring tremendous benefits to the Global South. Given that rich nations have little use for SDRs, they should facilitate these benefits by rechannelling their own SDRs to the Global South through multilateral development banks, at no cost.

Such regular SDR allocations and rechannelling of rich countries' allocations would be a concrete step towards mitigating inequality between countries that is built on historical power imbalances. It would also raise significant additional revenue that can be invested to reduce inequality within low- and middle-income countries, as well as to tackle the climate crisis.

This policy brief also discusses reforms of the SDR system that could create demand for SDRs and increase their importance in the international monetary system, to the benefit of all countries, but particularly those in the Global South.