SDRs, Complex Injustice and Lessons for the Future: SDR experience in the Arab region amid Covid-19

By Beesan Kassab

Economic journalist with Mada Masr

ARAB WATCH COALITION

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Introduction:

At a time the global civil society is calling on the International Monetary fund (IMF) to make a new allocation of Special Drawing Rights (SDRs), following economic crises that ravaged the world, already in April, 130 civil society organizations urged[1] the IMF to proceed to a new issuance of at least 650 billion USD of debt-free SDRs. The present paper looks into the most recent SDR allocation of 2021 to draw lessons from the experience of Arab countries in particular.

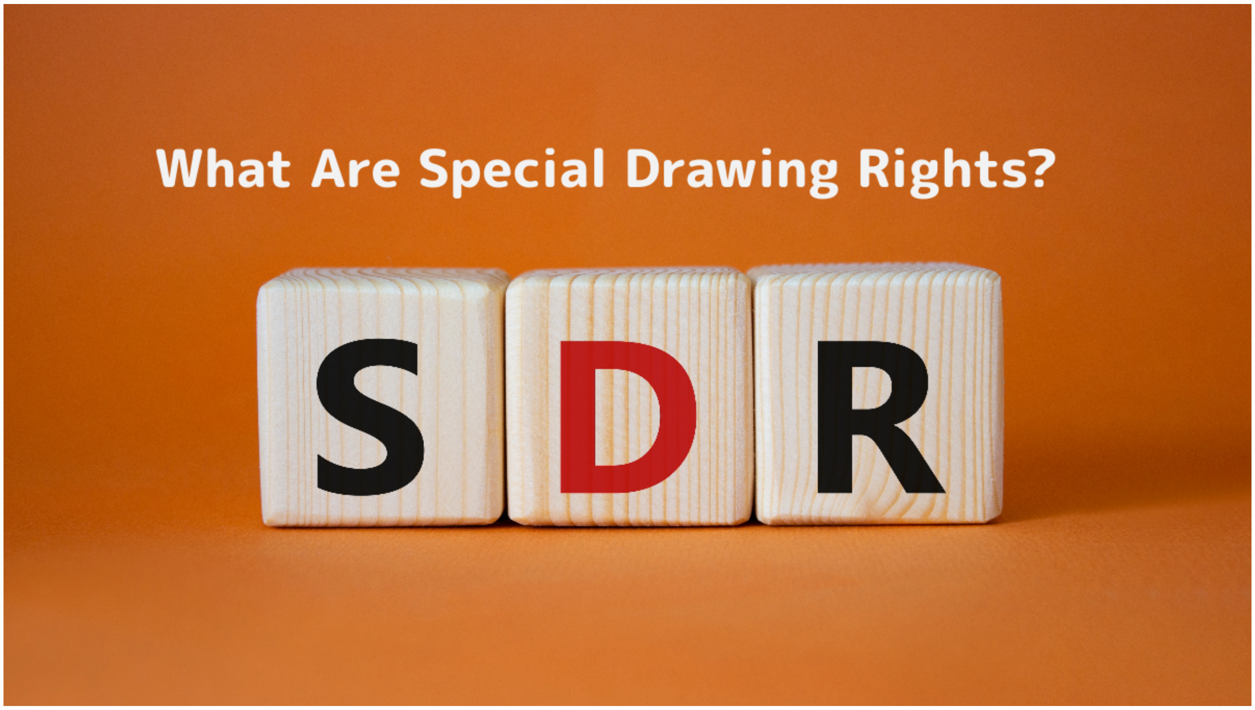
The paper also examines the experience of Arab countries in dealing with the SDRs they received from the IMF in 2021 while drawing on the input of civil society activists in several Arab nations concerning general conditions in their societies.

Overall, feedbacks from surveyed activists showed a tendency among Arab governments to use their SDRs- received in the wake of the Covid-19 outbreak- on various public spending patterns. They also said SDRs have been partly spent on paying external debt instead of gearing it towards meeting the urgent needs of the health sector and social protection amid the pandemic. This strikes a core contradiction with the logic governing SDR allocations.

The survey also raised the lack of transparency and disclosure standards by governments regarding SDR spending.

The experience of Arab states with SDRs is placed in a global context marked by an unfair distribution. This is due to the fact that SDR allocations are distributed in proportion to countries' participation in the IMF capital. Poorer countries end up receiving a very small chunk of SDRs. In the Arab region in particular, oil-rich Saudi Arabia took the lion's share compared with needy countries like Yemen.

[1] More Than 130 Organizations Around The World Urge The IMF To Release A New Issuance Of SDRs To Render Global Crisis Relief
https://arabwatchcoalition.org/2022/10/06/more-than-130-organizations-around-the-world-urge-the-imf-to-release-a-new-issuance-of-sdrs-to-render-global-crisis-relief/



Two years ago, the IMF announced an exceptionally large allocation of SDRs to “boost global liquidity” and mitigate the disastrous impact of Covid-19 pandemic.

The IMF created SDRs as a supplementary international reserve asset in 1969. SDRs are not a currency but rather an asset that can be exchanged into a currency. To sell all or a part of its SDRs, a state should find a buyer in a voluntary exchange process in which the IMF plays the role of an intermediary.

Therefore, SDRs are not widely used as a global foreign exchange reserve asset by states, because its use is limited to the IMF and its member states as well as a very limited number of organizations. SDRs are also used as a unit of account by the IMF and other organizations.

SDRs are not a currency per se, but a 'reserve currency', the value of which is determined by a basket of the five freely and most traded currencies: the US dollar, Euro, Yuan, Yen and the Pound Sterling.

Absence of fair distribution

Since 1969, the IMF has made four public and one private SDR issuance. SDRs distribution was in proportion to a country's quota in the IMF's capital. The issuance that took place in August 2021 was the largest ever made by the IMF when it allocated 650 billion dollars.

The SDR allocation of 2021 was higher than the inflow of foreign direct investments to developing countries in 2020, according to the United Nations Economic and Social Commission for Western Asia (ESCWA).

Following this issuance, the IMF tripled global liquidity from 290 billion USD to 940 billion, with the goal of boosting growth and recovery from the Covid-19 pandemic.

Prior to this allocation, the IMF had rounds of talks with representatives of civil society, including the Arab Watch Coalition and 11 other organizations, in which the Fund advocated an intervention in response to the heavy repercussions of the pandemic and defended the pressing need for a new SDR allocation.

Despite the apparent large-scale SDR allocation in 2021, it was still below the demands of civil society during talks with the IMF. "We- as civil society representatives- were calling for an allocation of at least 3 trillion dollars," said Shereen Talaat, adding "In general, the allocations were not enough for most vulnerable countries due to the method followed in distributing SDRs."

The way SDRs were distributed meant that the allocation was extremely far from being fair.

According to the allocation decision, all countries benefited from SDRs not according to the scale of impact they suffered but rather according to their quota in the Fund. Hence, advanced states received 60% of the August 2021 SDRs, while developing nations obtained 40%. The 46 least-developed nations received 2.4% only.

According to the IMF itself[2], the decision was based on the distribution of allocations equal to approximately 95.84% of quotas.

In contrast, high-income nations had the lion's share or 434 billion dollars, with the group of seven alone obtaining 2/3 of the SDR allocation. Lower-middle income countries,

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[2] Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319

home to 43% of the global population, received 65 billion dollars, equivalent to 10% of overall SDRs in 2021.

By geographic distribution, Europe and central Asia took the largest chunk, while Sub-Saharan Africa received 23 billion dollars, or 5.3%, of 2021 SDR allocation.

This clearly shows the unfair character inherent to a distribution based on quotas in the Fund, according to Talaat. "This method can in no way be considered a successful response to the pandemic," she said.

The share of the Arab region in the total SDR allocation was $37.3 billion, equivalent to $85 per capita, four times less than the per capita share in North America ($350) and three times less than the European and central Asian per capita share ($266).

The discrepancies between a distribution based on quotas and the actual needs of each state for funds was also reflected in the Arab region. Saudi Arabia obtained the region's SDRs lion's share totaling $7.13 billion, compared with $24 million for the Comoros. Saudi Arabia and the UAE together received the total amount that went to all other Arab countries combined.

Meanwhile, the 15 low- and middle-income Arab countries received $15 billion, that is, only 10% more than Saudi Arabia.

"During its discussions with the IMF, the civil society did not call for adopting specific methods for distribution. However, we see the need for using new distribution methods in new SDR allocations," said Talaat.

The cases of vulnerable countries facing exceptional circumstances, such as Lebanon, Yemen and Syria, show the scale of the unfair distribution.

In Syria, for instance, 80% of the people are poor. Yet, the war-stricken country received $390 million only, representing a very tiny fraction of its material and economic losses due to a war that lasted over a decade[3].

As for Lebanon, a country facing unprecedented extreme economic risks, it only received $865 million, amounting to 2% of its depleting reserves.

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[3] Special Drawing Rights and Arab Countries: Financing for Development in the Era of COVID-19 and Beyond https://www.unescwa.org/sites/default/files/pubs/pdf/financing-development-era-covid-19-beyond-english.pdf

Voices from the Arab World

Speaking to the Arab Watch Coalition, Farah Al Shami, a senior fellow at the Arab Reform Initiative and director of the initiative's social protection program, said "the Lebanese government failed to announce receipt of the SDRs at the time, although the Fund's director Kristalina Georgieva and the IMF team in Lebanon said in the media and in multiple statements in summer 2021 (that is few weeks after the Fund announced its SDR issuance) that the Lebanese had the right to know how these funds will be spent, stressing that it was equally important to spend them on structural areas to help the Lebanese people overcome the crisis."

"However, the IMF did not link the allocations to any conditions on how they should be spent because it is a sovereign matter to be decided by the Lebanese alone. The Fund did not also impose the setting up of transparent mechanism of accountability although it knew the scale of the rampant corruption within the Lebanese state which has a very complex economy that cannot be dealt with without conditions, rules and standards," Al Shami said.

She also added that "the political authorities in Lebanon failed to inform whether the received SDRs will be injected in the government budget or the central bank, in a context marked by a great monetary crisis that is still biting and raising concern about the ability of the central bank to manage such funds with integrity without being used to pay the state's debt to banks and without forcing the latter depositors money in return. Or without central bank governor Riad Salameh taking the SDRs in dollar and disbursing them in the form of social support to the Lebanese in lower value of the Lira, which has been depreciating steadily against foreign currencies, as the governor did previously with World Bank development funds."

According to Al Shami "many civil society activists tried to communicate with the government to obtain information about its plans for the SDRs spending and management. But their attempts were lacking because of many reasons. First, the Lebanese civil society lost hope in authorities in terms of disclosure and sharing data. They have failed to cooperate especially when asked about financial resources which they often treat as a political matter or a red line. Such decisions are often taken by high authorities, therefore the officials civil society activists have access to are often unauthorized or unable to speak. Second, SDRs are considered a technical and unusual issue for many civil society activists…Save a few members of the elite who are endowed with technical skills and knowledge to understand the issue and its repercussions and who are able to make an informed stand and act accordingly."

Al Shami's feedback is consistent with the conclusions of a research paper released by Oxfam on SDRs investments in the Middle East and North Africa which stated that

“Civil society at the national levels had little awareness and preparedness for SDRs, and in most countries there was no advocacy when SDRs were distributed.”

According to Al Shami the civil society mostly depends on the media, especially economic news outlets. She added that SDRs at first was a new issue and the independent economy reporters —whose numbers are limited, particularly when considering those untethered from governmental influence and not aligned with neoliberal human rights perspectives—in Lebanon have only acquired the necessary awareness recently after it was too late.

From another perspective, Al Shami does not believe the government has applied the minimum transparency standards regarding how SDR should be spent. “This also applies to previous SDR allocations and their remainder. The most recent allocation has been the second of their kind since 2000. In 2009, the IMF issued SDR that Lebanon used without upholding the standards of transparency, but a remainder was only used recently, despite the crises suffered by Lebanon. No plan was announced regarding these reserves.”

She noted, however, that some rumors have circulated on the spending of the recent SDRs citing subsidy policies notably those targeting wheat and energy. This has never succeeded in Lebanon and were never progressive or fairly distributed on the needy- especially those targeting wheat and energy. “This raised concern among experts and activists because previous SDRs were also squandered on subsidies and also because subsidies policies have neither been successful or progressive in Lebanon nor fairly distributed on the needy. The recent crisis offers the biggest evidence as subsidies were marred by monopolies on foodstuff, energy and medicine, resulting in shortages, smuggling and stockpiling…”

She also recalled the adoption of a rationing card which raised concerns due to the control over it by an unpopular central bank in the onset of the monetary and financial crisis. The controversy also stemmed from the social support form taken by the card instead of social insurance, emptying the measure of efficiency and sustainability in achieving social protection goals hoped for by citizens, besides the lack of a unified national social register and the standards required for the most needy and vulnerable beneficiaries. At the end, after the bank spent 70% of allocations, Lebanese discovered too late how the SDRs were spent as data became available to the public, she added.

“In March and April 2023, documented information spread that "out of the $1.139 billion worth of SDRs that Lebanon obtained in September 2021, about $747 million had been spent until the end of January 2023. The ministerial council took no clear decisions about this spending. The bulk of decisions were made unilaterally by Prime Minister Najib Mikati. As a result, most of these allocations were squandered without any planning or priorities," she said. Nearly a year and a half later, only $392 million remains in the SDR value. The government spent- by unilateral decisions of Mikati himself or with the knowledge of Finance Minister Youssef Khalil and some ministers or decisions taken in the Council of Ministers- about $ 747 million, equivalent to 70% of the total amount, most of which was spent to cover consumption expenditures that cannot be justified or whose efficiency cannot be determined.

Al Shami mentioned a table released by the Ministry of Finance on January 27, which showed that medicine subsidies consumed $243.7 million of SDRs. She explained that the share of medicines is likely to increase after the Ministry of Health requested additional funds of $25 million per month over three months, equivalent to $75 million. Electricity utility, Electricité du Liban, received $223.4 million, $121.3 million was spent on wheat supply, $13.2 million to cover special expenses for issuing passports, $683,000 in legal fees for the Ministry of Justice, $34.9 million for SDR charges, and $109.8 million listed by the Finance Ministry in the "loans" category without any further explanation.

"It should be noted that Khalil had previously proposed at a ministerial council on April 14, 2022, the use of SDRs to pay international dues owed by Lebanon, most of which are loans by Arab and international funds and institutions. The minister was asked on that day to provide a list of these loans, and he was tasked with negotiating debt rescheduling with the lenders. It was also decided to grant the finance a treasury advance to pay some of these dues. However, Khalil did not submit any list and did not comply with the council's decision, but asked the central bank governor to use SDRs for debt payment, due to the illegality of exchanging the allocations into Lira. Salameh quickly agreed to his request," explains Al Shami.

Prior to the allocation of SDRs, the Arab Reform Initiative had published a report by Al Shami warning against the unfair or irrational spending of the allocations by the Lebanese authority.

In the same report published in July 2021, Al-Shami warned that "SDRs will not provide sufficient resources to help revive the Lebanese economy from its continued decline or respond to the [coronavirus] pandemic as needed, but are likely to be vulnerable to corruption regardless of what form it turns into. Either they are taken over or exploited for clientelist purposes."

As for Yemen, a country that suffers from the fallout of a war that has been ongoing since 2014, it has only received $660 million, representing 70% of its foreign currency reserves at the time.

Indeed, the Yemeni government, or rather the Central Bank in Aden, has explained how it will use the SDRs, according to Sami Mohammed Qassem, head of the political science department at the Faculty of Economics at the University of Aden. He explaining that "the process of allocating SDRs originally [to Yemen] was accompanied by the requirement to use them within the auction system that the IMF stipulated for the Central Bank in Aden to apply to control exchange rates in Yemen as part of monetary reforms, which is funded and supervised by the IMF in partnership with US firm Sigma".

As a further explanation, Sami Mohammed said, "Yemen had obtained a set of loans and grants before 2015, but because of the war, the withdrawal of these loans and grants stopped. The financing of many projects halted as well, but after 2017, the World Bank began to refinance projects putting the 2020/2021 deadline, after which it will stop financing if the recognized government and the Central Bank in Aden do not implement a set of conditions- mentioned above- in addition to other conditions such as starting to pay debt. The government and the central bank were not aware of the debt, because the DMFAS software existed in Sana'a, so the first thing they asked for was to restart the DMFAS program and train employees on it."

DMFAS is a software managing public debt and is used by both the central bank, finance ministry and the planning ministry with the aim to monitor the amount of debt and installments as well as payment deadlines. The software was used prior to the war, but the coup and the transfer of the bank to Aden stopped it. Sigma has included this software in its training and rehabilitation program.

Concerning how transparent the government was, Mohammed believes that "the government is not directly related to the issue, but rather the central bank, and this is one of the conditions of the International Monetary Fund. The central bank has cooperated greatly with researchers and the media to explain it to the public," adding, "I personally was involved in preparing and equipping a workshop tasked with responding to the inquiries sent by specialists to the Central Bank of Yemen in Aden and the American company Sigma, as an independent party within the economic association (a civil society organization specializing in economic issues in which Sami Mohammed is Director of Activities)."

Sigma is an American company tasked by the IMF to rehabilitate the Yemeni Central Bank of Yemen in Aden and train its employees, especially after the transfer of its headquarters from Sana'a to Aden. The company is still operating in the rehabilitation process of the Central Bank in Aden," Sami explains.

According to Sami, "the Central Bank of Aden upheld to a great extent the standards of transparency in announcing weekly auctions of hard currency, which include the SDRs value in addition to other dollar resources obtained by the Central Bank from other sources (export activities and other financial revenues)." Nevertheless, Sami believes that some inquiries remain with regard to those who win the auctions, as the bank is satisfied with announcing the amount of money in dollars after and before the auction, but it does not announce who won the auctions, although it said that a request can be submitted to it to provide details, adding that auctions are digitally managed.

Mohamed Sami also noted that "despite the great need for projects in areas controlled by the internationally recognized government and despite the lack of funding, using SDRs to cover reserves in hard currency was the right necessary action at that time, especially after the tremendous collapse of the local currency (the dollar moved from 215 riyals in 2015 to 1700 riyals in 2021 - before it fell to 1200 riyals currently as a result of the measures taken by the Central Bank), especially since the value of SDRs were not high enough to make a big difference in the economy if they were spent on other areas." "I fully agree with directing SDRs to be used by the Central Bank in Aden," Sami added.

Concerning Tunisia, "authorities failed to directly announce receipt of its SDRs share," according to Amine Bouzaiene, former director of Tunisia's budget monitoring NGO, an offshoot of Al Bawsala.

Speaking to the Arab Watch Coalition, Bouzaiene explained that "what happened at the time – in September 2021 – was the issuance by the President of the Republic of a decree law [in the absence of the legislative authority] providing for the transfer of a part of SDRs destined for Tunisia – from IMF – from the Central Bank to the Ministry of Finance."

The absence of the legislative authority is due to the decision of Tunisian President Kais Saied in July, the same year, to suspend the parliament and dismiss the prime minister, which the democratic forces considered as a coup and a violation of the constitution.

"Neither the law not other text included disclosures regarding the fate of the amount received by the Ministry of Finance, not even the resources that remained in the possession of the Central Bank of Tunisia," Bouziane explained, adding, "The government did not respond to requests for disclosure sent by the Al Bawsala NGO demanding that it adhere to transparency standards regarding the announcement of SDRs fate and aspects relating to their spending, and to take into account the social aspect in their spending, especially in light of the fact that they came condition-free from the IMF, unlike the traditional conditionality of the Fund, which includes, as is known, includes neoliberal terms in exchange for agreeing to lend."

Alaa Talbi, executive director of the Tunisian Forum for Economic and Social Rights, agreed with this point of view. Speaking with AWC, he stressed that the pandemic has particularly exposed the scale of class disparity in the education sector in particular, due to the inability of the majority of students to access the technological equipment that would allow them to continue distance learning during the pandemic-related lockdown measures. For this reason, Talbi believes that earmarking a part of the SDRs received by Tunisia to support education could have bridged a part of the large class gap in education unveiled by the pandemic.

In Morocco, the real problem with respect to SDR spending was more about transparency considerations and the allocations of the spending, according to Samir Samri[4], a member of the executive board of the Youth for Youth association. "Central Bank governor has only raised SDRs once in 2021, announcing the allocation by the IMF of $1.2 billion in SDRs in a media statement, in which he also announced that SDRs will be used freely and a part of it would be injected in the state's budget according as needed," he said, adding "for this reason, it is so far not clear how this allocation would be spent."

Samri explained that Morocco's experience in addressing the repercussions of the coronavirus outbreak included heavy social spending to enhance social protection to alleviate damages suffered by vulnerable social groups and the unemployed. This spending included unemployment stipends benefiting different affected groups, including drivers. "It is likely that SDRs obtained by Morocco have been incorporated into this spending in the form of a contribution to the special fund to address the Covid-19 pandemic ... But generally, we do not have information whether the SDRs have been spent on social protection in general or not and how they were spent in detail, as the average citizen does not know the source of the funds that were directed to these social expenditures."

Omar Ghannam[5], director of the Social Justice Platform in Egypt, said the Egyptian experience did not include any announcement from the government to the public about SDRs, but in general what was allocated to Egypt was very little, almost half the average monthly Egyptian export revenue.

Ghannam did not try to communicate with the Egyptian government because the platform's actions do not include communicating with the government, "but what became clear from reviewing the monthly report issued by the Central Bank and the quarterly report on the external situation of Egypt is that Egyptian authorities kept its SDR allocations in their IMF account, most likely to avoid spending accrued interests on them, but in return they used the corresponding foreign currencies."

"It was clear from looking at the evolution of foreign exchange reserves at the time that the government used SDRs in practice to avoid a decrease in foreign exchange reserves and paid from the corresponding foreign currencies a part of its foreign debt and interest installments," Ghannam explained.

In Jordan, "the receipt of SDRs was disclosed in the media through a brief official statement," said Ahmad Awad[6], founder and director of the Phenix Center for Economic and Informatics Studies in Jordan.

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[4] Interview with Samir Samri, a member of the executive board of the Youth for Youth association.
[5] Interview with Omar Ghannam, director of the Social Justice Platform in Egypt.
[6] Interview with Ahmad Awad, founder and director of the Phenix Center for Economic and Informatics Studies in Jordan.

In fact, the announcement was linked to the disclosure of a dispute between the Central Bank and the government represented by the Ministry of Finance over Jordan’s SDRs, he said, explaining that "the Central Bank interpreted an article in its Law as granting it the right to retain SDRs. The article included the description of the Central Bank's mission as maintaining monetary stability, one of the objectives of allocating special drawing rights." The Ministry of Finance interpreted the article as a justification for transferring SDRs in its favor."

Awad added that the Ministry of Finance arguments were based on the need to earmark SDRs to public spending to cut the fiscal deficit and pay the state’s debt dues. He added that "the two parties resorted to the Bureau of Interpretation of Laws – which acts as a judicial body – that interpreted the matter in favor of the Ministry of Finance in the end."

“The state has not revealed any information or details beyond the official announcement of the decision of the Bureau of Interpretation of Laws,” Awad said, adding, "We [at Phoenix] were able to find some information with difficulty and with the help of intermediaries from economic journalists, because the government refused to deal with us directly, as it does not trust the center or me personally, which is in fact because it only wants to hear the echo of its voice."

On the other hand, "as a researcher, I contacted the head of the Bureau of Interpretation of Laws, who provided me with the documents of the detailed decision to transfer the amounts from the Central Bank to the Ministry of Finance. What was published in the newspapers did not reveal anything about the details of the decision. However, the information we obtained shows that the Central Bank was aware reserves were at risk amid a decline in foreign investment, remittances and exports. The central bank also felt a great danger because of the decline of reserves that are key for supporting the value of the Jordanian currency."

"The government was advocating the opposite. It considered that the central bank has other monetary instruments through which it could act, and that priority should be given to cut the fiscal deficit, especially in light of the needs relating to debt repayment," Awad said.

However, as soon as the decision of the Bureau of Interpretation of Laws was issued, information about Jordan’s SDRs was cut off and the government did not disclose its fate, Awad explained, adding, "Then I turned to members of parliament and the Financial and Economic Committee in particular to try to obtain details about SDRs, and it turned out in the end that they were placed in the public treasury like any other revenue and were not given any special treatment or allocated to specific expenditures."

At the same time, "I was trying to communicate with the Ministry of Finance to verify the accuracy of this information, but officials there refused to communicate, until I was able to communicate by chance with the head of the Special Drawing Rights Unit at the Ministry of Finance," Awad said, explaining that "I have already confirmed the accuracy of this information, especially since sources in the Central Bank also confirmed the validity of this information."

Meanwhile, “I was trying to communicate with the Finance Ministry to verify the accuracy of the obtained details, but officials there refused to engage with me, until I was able to communicate by chance with the head of the SDRs unit at the Ministry of Finance," Awad said, adding that "I have already confirmed the accuracy, especially since sources in the Central Bank also validated the validity of that information."

Awad fiercely criticized this approach saying “the goal was that allocations should be used to bolster health and social expenditures in order to respond to the impact of the Covid-19 pandemic, without which the SDRs would not have been allocated in the first place.”

“Governments should in principle disclose the fate and uses of SDRs. Giving governments a free hand to act with no accountability is controversial because spending in the Arab World is mostly directed to areas that do not enjoy a consensus among the people, such as security and military sectors,” he said, warning that leaving governments unchecked in their use of SDRs would lead to more spending on such areas.

Between obfuscation and directing SDRs to current spending…would conditionality offer a solution?

The cases mentioned above may indicate the need for some conditionality for the disbursement of SDRs in light of the tendency of Arab governments in general to direct these allocations to current expenditures, without creating a developmental impact or offering spending justification.

Shereen Talaat believes “the Arab region has witnessed large-scale blackout on the issue of SDRs allocations. The media itself did not address the matter in a significant way, especially since governments in general in the region did not issue official statements announcing the obtention of the allocations, as well as their fate and ways to direct them." "We [the Arab Watch Coalition] were searching almost in vain for data in newspapers," she said.

"According to available data, what we have found regarding the way SDRs are spent in the Arab World indicates that the generally repeated pattern shows that only a small amount was earmarked to non-current social spending. The general trend was to allocate most of those resources to cover debt," Shereen said, adding, "For example, directing those resources to budget service implied directing a large percentage of the SDR allocations to debt service because the budget itself dedicated a large amount to debt."

"SDRs should not even have been spent on vaccine procurement. Vaccine supply should have been the responsibility of the international community according to a solidarity-based approach. This is another aspect highlighting that responsibility transcends governments of Arab and developing countries to include the entire international system," Talaat said.

"A large part of the SDRs should have been used as unemployment benefits to mitigate labour market losses due to the virus outbreak, especially in the informal sector that suffered closures that extended on average to six months, during which protection did not cover all those who lost their jobs."

Moreover, "the IMF itself did not give us information," Talaat said, adding, "We asked the IMF to urge governments not to spend SDR allocations on debt repayment and direct them instead to the health sector, in light of the coronavirus outbreak, but the IMF believed that this contradicted the policy SDRs’ unconditionality."

In this respect, she pointed out to the “big governance issue in the region in general in terms of transparency policies and citizen engagement. Therefore, the IMF has responsibility to ensure democracy and transparency are upheld. Otherwise, SDRs allocation would only support authoritarianism.”

"But on the other hand, this seems controversial because asking the IMF to assume that responsibility could mean that Civil society, which has always rejected conditionality in IMF loans, has become a supporter of conditionality through the SDR allocations portal, and this could explain why the civil society, when negotiating with the IMF on the allocation of SDRs, did not address conditions for spending these allocations," Talaat added.

According to Talaat, the IMF's intervention in this context was practically limited to a general framework taking the form of a guidance note that in practice carries only broad headlines and criteria. "This general framework does not represent conditions. It vaguely raised social spending and included general language on transparency and the advocacy of consultation with civil society, which did not happen in most cases," she said.

In fact, the guidance note issued in August 2021[7] was addressed not to the authorities in the countries but to the IMF staff themselves to assess the macroeconomic implications of SDRs allocations at the country level in terms of statistical and accounting processing, general macroeconomic implications and advice, debt sustainability analysis, transparency and accountability, reserve management and implications on IMF-supported programs.

The memorandum emphasizes that "member countries can use their new SDRs allocations unconditionally," she said, noting that "member countries have a great degree of freedom in the way they manage their SDRs, including the degree of central bank involvements in managing them and whether the budget can use them directly to support their needs."

With regard to transparency, the IMF relies on criteria on authorities' disclosure to the IMF as well as the Fund's own disclosure obligation. It, however, failed to make any reference to the authorities' responsibility for the disclosure to their people.

On how to spend, the note explains that "the most pressing policy priority at the time of issuing this guidance note is to counter the COVID-19 pandemic worldwide. Countries will have to address the policy challenges posed by the pandemic to avoid chronic economic scars, including those resulting from a surge in poverty," in addition to other loose criteria centered on concepts, such as a solid recovery that is inclusive and sustainable or green recovery, for example.

[7] Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319

The need for new SDR allocations governed by new rules

The absence of SDR spending rules in 2021 is sparking debate over the implications of the issuance of a new SDR batch in response to the calls of civil society organizations.

In this context, in a study on SDR spending in a number of countries in the Arab world, Oxfam recommended the "civil society to campaign for a legislation on future SDR issuances, and demand that SDRs be invested to maximize strategic impacts."

It may now seem clear that the world is going through a more severe economic crisis, against the backdrop of the repercussions of the Russian invasion of Ukraine in particular, which Arab countries bore disproportionately. A new SDR issuances seems out of hand for now after the previous one was emptied of its content, despite the demands of civil society for the need to implement a new allocation.

For example, the list of the world's countries with most expensive food inflation includes two Arab states: Lebanon, which ranked first in the world, 350%, and Egypt, which came in sixth place, 59%, according to an updated note on global food security issued by the World Bank[8].

Shereen Talaat,[9] considers that "despite the need for a new SDRs allocation in a context marked by a much deeper crisis worse than the repercussions of the Covid-19 pandemic- which has greatly affected our food security in the Arab region in particular- in addition to the effects of climate change, it is the intransigence of the Fund's Board of Directors that hinders responding to civil society demands."

"More than a year ago, after the outbreak of the war in Ukraine, we met with three civil society organizations in the IMF to discuss this demand, but from the first moment the rejection was clear for reasons related to the lack of IMF resources as well as the Fund’s fear of a debt crisis that would trigger its bankruptcy in the event that countries default on repaying debts," Talaat explained, adding, "This unwillingness reminds us of the fact that decisions are made in the Fund's Board of Directors and the control of major powers in its decisions".

The voting within the IMF depends on the quota system. Each member has a number of basic votes (the number of basic votes per member is equal to 5.502% of the total votes), plus an additional vote per 100,000 SDRs of the member's quota.

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[8] 1 June 2023, The World Bank, Food Security Update https://thedocs.worldbank.org/en/doc/40ebbf38f5a6b68bfc11e5273e1405d4-0090012022/related/Food-Security-Update-LXXXVI-June-1-2023.pdf

[9] Interview with Shereen Talaat, former Co-Director of the Arab Watch Coalition

"One of the main reasons for this intransigence is the fear of the Western major powers that their traditional adversaries – China and Russia – will benefit from any new SDRs allocation," adds Talaat, explaining that "this is what we were told informally."

But the reforms demanded by civil society would override these considerations, according to Shereen, who explained, "In fact, the SDR distribution system needs to be revisited in a way that goes beyond the distributive imbalance that marred the previous process [in 2021] and therefore the major powers on both sides – the Western camp on the one hand and Russia and China on the other – are not supposed to be the first to benefit from the distribution we aspire to."

In this respect, the dilemma according to Shereen is that voting on this change and on the allocation in the first place should be subject primarily to the approval of the large, rich countries with the greatest voting power, "while the smaller countries that need the new allocation, including the Arab world, have little to voting influence... On the other hand, all the other policies proposed to counter the crisis are in fact new crises caused by austerity policies and debt."

Remarkably, the same reason why major powers refused to allow a new SDRs allocation was also the reason why the approval of previous allocations in 2021 was delayed for more than 17 months after the World Health Organization officially declared the coronavirus outbreak a pandemic. Preventing Venezuela from new resources was one of the main reasons for this delay, according to the guide[10] issued by the Latin Network for Economic and Social Rights.

[10] Handbook for the use of Special Drawing Rights SDRs for Fiscal Purposes, https://www.latindadd.org/wp-content/uploads/2021/08/Handbook-for-the-use-of-SDRs-for-Fiscal_Purposes.pdf

Findings and conclusions:

- There is an almost unanimity among activists who have spoken about their countries' experiences on the near utter absence of transparency regarding SDRs management by Arab governments. This issue recalls into question the role of the IMF in imposing conditions geared to ensure transparency, notably in terms of disclosure to the public. Meanwhile, this undertaking is controversial in light of the rhetoric adopted by the global civil society against IMF conditionality. However, conditionality in this context is linked to democracy and transparency and not austerity. This is a matter that should be discussed by the global civil society, notably the question on how far should the IMF intervene to ensure transparency in revealing SDRs spendings in the future;

- The tendency among some Arab countries to incorporate SDR allocations in public budgets to cut fiscal deficit and pay debt instead of earmarking them to social protection and the health sector to counter Covid-19, is not only linked to austerity concerns but rather to foreign debt constraints. For this reason, one of the main ways to help counter future global crises lie in canceling foreign debt owed by countries of the global south or those not included in the category of newly industrialized countries, or at least those whose debt is owned by international financial institutions in addition to debt owed bilaterally in which the creditor is often a country of the North. Such debt cancellation would help fend off downgrades in the credit ratings of the global south if they default on debt payment;

- In light of the above, it is noteworthy to mention that the awareness of the civil society in the Arab region is weak as far as the 2021 SDR issue is concerned. This is partly due to the technical character of the issue, in addition to the lack of a conditionality with an impact on the daily conditions of citizens, unlike IMF loans which has often been linked to harsh conditions that affected people's lives and thus attracted large attention to its terms while triggered civil society campaigns;

- It is not expected that any future allocations to the countries of the South in general and the Arab countries in particular will have a tangible impact on spending on social protection and welfare in general as long as SDR allocations are based on IMF quotas. This automatically means tiny shares for the region from SDR issuances as was the case with previous experiences. For this reason, the global civil society has better- over the next few months preceding the fall meetings of the IMF and the World Bank - campaign for a fairer distribution system that excludes countries of the north. In this respect, it is necessary to remember that SDRs allow for the acquisition of hard currencies to enable payments of external dues and the import of basic goods. Therefore, the global civil society should put forward alternative rules governing SDR allocation in order to mobilize support. In this connection, it is recommended to correlate allocations inversely to international reserves.