



## FACTSHEET: SPECIAL DRAWING RIGHTS (SDR) OF THE IMF

### What is it?

The SDR is an artificial currency created by the IMF in 1969. SDRs are allocated to member countries and can be fully converted into international currencies so they serve as a supplement to the official foreign reserves of member countries.<sup>1</sup> Its value is based on a basket of key international currencies (U.S. dollar, euro, yen and pound sterling).<sup>2</sup> The U.S. dollar-value of the SDR is posted daily on the IMF's website (as of April 15, 2009, 1 USD = SDR 0.667878).

SDRs are allocated to member countries in proportion to their IMF "quotas" which are assigned by the IMF based broadly on the relative economic size of the member country and determine financial contributions as well as voting power within the IMF. Such an allocation provides each member with a costless asset on which interest is neither earned nor paid. However, to keep the total amount of SDR allocated to the IMF members constant at SDR 21.4 billion, a country in need of foreign currency must obtain it in exchange for their SDRs either through a voluntary exchange with another country's central bank or by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions. To facilitate this exchange or purchase, interest rates are charged (otherwise, a country has no incentive to obtain more SDRs than they are originally allocated). In other words, if a member's SDR holdings rise above its allocation, it earns interest on the excess; conversely, if it holds fewer SDRs than allocated (that is, drawn down on the SDRs to earn hard foreign currency), it pays interest on the shortfall.

Similarly to the SDR value calculations, the SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket currencies.<sup>3</sup> The average interest rate for SDRs over the last 20 years is about 4 to 5 percent.

The SDR also serves as the unit of account of the IMF and some other international organizations.<sup>4</sup>

### SDR allocation

SDRs are allocated to member countries in proportion to their IMF quotas<sup>5</sup>, but SDRs can be issued by the IMF only when 85 percent of the IMF membership agrees. Because the US has more than 15 percent of the quota, the US has a veto over issuance of SDRs. SDRs have been allocated just two times in the history of the IMF, the first allocation was distributed in 1970-72 and the second allocation was distributed in 1979-81 bringing the cumulative total of SDR allocations to SDR 21.4

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<sup>1</sup> The Special Drawing Right (SDR) was created by the IMF in 1969 to support the Bretton Woods fixed exchange rate system. A country participating in this system needed official reserves—government or central bank holdings of gold and widely accepted foreign currencies—that could be used to purchase the domestic currency in world foreign exchange markets, as required to maintain its exchange rate. But the international supply of two key reserve assets—gold and the U.S. dollar—proved inadequate for supporting the expansion of world trade and financial development that was taking place. Therefore, the international community decided to create a new international reserve asset under the auspices of the IMF. However, only a few years later, the Bretton Woods system collapsed and the major currencies shifted to a floating exchange rate regime. In addition, the growth in international capital markets facilitated borrowing by creditworthy governments. Both of these developments lessened the need for SDRs.

<sup>2</sup> The value of the SDR was initially defined as equivalent to 0.888671 grams of fine gold—which, at the time, was also equivalent to one U.S. dollar. After the collapse of the Bretton Woods system in 1973, however, the SDR was redefined as a basket of currencies, today consisting of the euro, Japanese yen, pound sterling, and U.S. dollar. It is calculated as the sum of specific amounts of the four currencies valued in U.S. dollars, on the basis of exchange rates quoted at noon each day in the London market.

<sup>3</sup> In addition to the interest paid and charged to members on their SDR holdings, SDR interest rate provides the basis for calculating the interest charged to members on regular (non-concessional) IMF loans.

<sup>4</sup> For example, the African Development Bank's "currency," Units of Amount (UA), is pegged to the SDR, and SDR is a basis for the international fees of the Universal Postal Union, responsible for the world-wide postal system.

<sup>5</sup> When a country joins the IMF, it is assigned an initial quota in the same range as the quotas of existing members that are broadly comparable in economic size and characteristics. The IMF uses a quota formula to guide the assessment of a member's relative position.

billion (around \$32 billion). More than one fifth of the IMF memberships have joined the institution after 1981 and have never received SDR allocations.

A special one-time allocation of SDRs was proposed and approved by the IMF board of governors in 1997. This allocation would double cumulative SDR allocations to SDR 42.8 billion. Its intent was to enable all members of the IMF to participate in the SDR system on an equitable basis including the countries who joined the IMF after 1981. This amendment has not yet gone into effect -- the U.S., with 16.75 percent of total votes, has yet to approve (through its Congress) the measure.

### The Financial Crisis and SDRs

Many commentators, including business figures such as George Soros and former US Treasury official Ted Truman, have proposed new SDR allocations as a method of combating the financial crisis. When the IMF issues SDRs, it is a straight forward increase in the global money supply, as the IMF essentially creates the SDR allocations out of nothing but the commitment of IMF member states. Some critics of this approach have said this would be inflationary, but others have countered that in a deflationary situation, SDR allocations could help maintain price stability.

### G20 Commitment on SDRs

*"We have agreed to support a general SDR allocation which will inject \$250 billion into the world economy and increase global liquidity [...], \$100 billion of which will go directly to emerging markets and developing countries."* (April 2, 2009 G20 Communiqué Annex "Declaration on delivering resources through the international financial institutions")

### SDRs and Africa

Since the IMF issued its SDR allocation in 1981, some African countries have drawn down their allocation in return for hard currency. Many countries have not replaced the principal amount that they they drew down and are therefore paying interest on this shortfall today. As of 31 January 2009, African countries have collectively withdrawn SDR823.4 million (or approximately \$1.23 billion) from their original allocations. (See Annex for further information on the status of each African country).

<b>African countries' use of SDR allocations (selected countries) (in SDRs)</b>			
	<b>Holdings</b>	<b>Allocations</b>	<b>Withdrawn</b>
<b>Nigeria</b>	769,739	157,155,000	<b>156,385,261</b>
<b>Congo, Democratic Republic of</b>	1,213,327	86,309,000	<b>85,095,673</b>
<b>Ghana</b>	290,350	62,983,000	<b>62,692,650</b>
<b>Zambia</b>	6,870,404	68,298,000	<b>61,427,596</b>
<b>Sudan</b>	0	52,192,000	<b>52,192,000</b>
<b>Cote d'Ivoire</b>	782,706	37,828,000	<b>37,045,294</b>
<b>Kenya</b>	1,983,695	36,990,000	<b>35,006,305</b>
<b>Tanzania</b>	121,260	31,372,000	<b>31,250,740</b>
<b>SSA total</b>	<b>360,940,384</b>	<b>1,133,906,800</b>	<b>823,419,112</b>

## Annex: Sub-Saharan Africa's SDR current holdings, allocations and withdrawals

Members	SDR Allocations and Holdings for all members as of January 31, 2009 (in SDRs)		Projected Payments (Obligations basis) to the IMF from February 01, 2009 to December 31, 2009 (in SDRs)		SDR Net charges (estimate)	
	SDR Holdings	SDR Allocations	Principal	Charges/Interest	SDR withdrawal	
Angola	186,978	0	0	0	-	-
Benin	45,908	9,409,000	0	137,868	9,363,092	64,353
Botswana	39,555,749	4,359,000	0	310	-	-
Burkina Faso	49,644	9,409,000	0	241,306	9,359,356	64,327
Burundi	95,077	13,697,000	2,640,000	468,573	13,601,923	93,486
Cameroon	2,960,272	24,462,600	0	241,775	21,502,328	147,786
Cape Verde	30,772	620,000	861,000	41,968	589,228	4,050
Central African Republic	41,889	9,325,000	1,624,000	257,446	9,283,131	63,803
Chad	60,226	9,409,000	6,126,000	172,942	9,348,774	64,254
Comoros	21,879	716,400	0	31,824	694,521	4,773
Congo, Democratic Republic of	1,213,327	86,309,000	94,673,334	2,539,998	85,095,673	584,863
Congo, Republic of	141,937	9,719,000	0	190,429	9,577,063	65,823
Cote d'Ivoire	782,706	37,828,000	11,708,000	1,820,037	37,045,294	254,612
Djibouti	2,540	1,178,000	2,453,400	59,994	1,175,460	8,079
Equatorial Guinea	460,136	5,812,000	0	37,203	5,351,864	36,783
Ethiopia	51,036	11,160,000	0	77,180	11,108,964	76,352
Gabon	302,346	14,091,000	0	101,340	13,788,654	94,769
Gambia, The	65,079	5,121,000	0	75,066	5,055,921	34,749
Ghana	290,350	62,983,000	0	962,578	62,692,650	430,887
Guinea	289,270	17,604,000	6,216,600	328,639	17,314,730	119,004
Guinea-Bissau	54,362	1,212,400	1,016,000	77,439	1,158,038	7,959
Kenya	1,983,695	36,990,000	11,720,000	1,037,422	35,006,305	240,598
Lesotho	3,943,248	3,739,000	3,500,000	86,902	-	-
Liberia	14,181,319	21,007,000	0	7,825,759	6,825,681	48,913
Madagascar	143,232	19,270,000	0	454,685	19,126,768	131,458
Malawi	52,077	10,975,000	0	480,803	10,922,923	75,073
Mali	53,652	15,912,000	0	240,017	15,858,348	108,994
Mauritania	86,016	9,719,000	0	118,531	9,632,984	66,207
Mauritius	18,822,997	15,744,000	0	1,118	-	-
Mozambique	67,490	0	0	48,700	-	-
Namibia	20,014	0	0	0	-	-
Niger	958,994	9,409,000	0	223,084	8,450,006	58,077
Nigeria	769,739	157,155,000	0	1,085,630	156,385,261	1,074,836
Rwanda	20,396,460	13,697,000	0	43,502	-	-
Sao Tome & Principe	18,965	620,000	0	16,550	601,035	4,131
Senegal	114,868	24,462,000	0	377,091	24,347,132	167,338
Seychelles	52,758	408,400	0	100,335	353,642	2,431
Sierra Leone	19,727,697	17,455,000	0	173,804	-	-
Somalia	0	13,697,000	0	760,987	13,697,000	94,139
South Africa	223,106,063	220,360,000	0	15,648	-	-
Sudan	0	52,192,000	0	1,728,695	52,192,000	358,716
Swaziland	2,552,644	6,432,000	0	27,109	3,879,356	26,663
Tanzania	121,280	31,372,000	0	273,133	31,250,740	214,788
Togo	81,988	10,975,000	0	231,842	10,893,012	74,868
Uganda	133,341	29,396,000	0	233,115	29,262,659	201,122
Zambia	6,870,404	68,298,000	0	736,655	61,427,596	422,192
Zimbabwe	0	10,200,000	0	510,391	10,200,000	70,105
<b>Total</b>	<b>360,940,384</b>	<b>1,133,906,800</b>	<b>142,538,334</b>	<b>24,695,223</b>	<b>823,419,112</b>	<b>5,659,360</b>

Source: Calculated from statistics from the IMF