

MEMORANDUM

DATE: May 26, 2023
TO: Anjoulie Woodhead, Communications and Outreach Director
FROM: JP Gutierrez
SUBJECT: SDR Memo Assignment

Overview

An Overview on what SDRs are and why they are important in low to middle income countries.

Summary

According to Latinndadd, Special Drawing Rights (SDRs) are a reserve asset created through international political agreements. UN members, as well as IMF members, determine the creation of the SDRs. SDRs are then assigned to each of the member's central banks. SDRs have a close connection to Latin America and developing countries because the SDR was conceived within the United Nations Conference on Trade and Development (UNCTAD) by the Argentine Raúl Prebisch. Despite this, the distribution of these SDRs favor rich countries since distribution correlates to the voting power in the IMF. Rich countries usually get $\frac{2}{3}$ of the distribution of the entire SDR insurance. This is seen as a problem by many people because the countries that truly need it are not receiving it. In *African Catholic Bishops Urge G7 Action on Debt, Bank Reform and Aid to Navigate Africa Crises*, the African Catholic Bishops state "It is. . . essential to rethink Special Drawing Rights as an instrument of finance, and re channel a significant portion of those held by wealthy countries to Africa". These catholic bishops believe that there needs to be change and a better way to distribute SDRs to developing countries, like in Africa. Even so, the SDRs received by developing countries are being put to use to alleviate crises. For example in 2010, 107 developing countries used SDRs to help meet their financial needs.

Additionally, the reason SDRs are so important for developing countries is because countries effectively use them to receive or exchange them for any of the currencies that make up the SDR basket. So this means developing countries can trade their SDRs in exchange for a certain currency, like the US Dollar, in order to fund projects in their country. Moreover, due to US dollar hegemony, the US can issue money at an unlimited amount without harming its currency. Developing countries do not have unlimited access to the dollar, which is called monetary triage. SDRs can help developing countries with access to the dollar.

Attachments

<https://www.latindadd.org/2020/07/08/latin-america-needs-access-to-resources-without-generating-debt-issuance-of-special-drawing-rights/>

<https://www.jubileusa.org/press>