Strengthening SDR Channeling and Reforming IMF Quotas

To: International Organizations Division, International Bureau, Ministry of Finance, Japan

We would like to express our gratitude to the Ministry of Finance in Japan for its ongoing efforts to support the global financial safety net and assist developing countries.

Now, ahead of the World Bank and IMF Annual Meetings to be held in Bangkok in October, we would like to make a proposal regarding Special Drawing Rights (SDRs) and would appreciate your consideration.

Before presenting our recommendations, we would like to say a few words about the current global situation.

First, today, developing countries are facing a 'poly-crisis', including a deepening debt crisis, due to various factors that have emerged since the COVID-19 pandemic. Second, meanwhile, as aid from developed countries and others through ODA has been cut to what could be described as 'historic' levels, requests for assistance from the World Bank and the IMF have surged dramatically. Third, however, since the core funding for both institutions comes from ODA provided by developed countries and other high-income countries —which consists primarily of grant funds derived from donor countries' tax revenues— it is difficult to secure further increases. Consequently, attention is now focused on the approximately $640 billion worth of SDRs that lie dormant in developed and other high-income countries.

In 2021, to address the international liquidity crisis caused by the COVID-19 pandemic -and particularly to aid developing countries that lacked resilience — the IMF allocated SDRs worth $650 billion to its member countries, which literally served as a godsend for developing countries. The IMF further requested that high-income countries channel a portion of this allocation to developing countries. The Japanese government was the first to respond, channeling 40 percent (equivalent to 2 trillion yen!), a move that earned international acclaim. Furthermore, the Japanese government supports more proactive uses of SDRs, such as their utilization as 'hybrid capital securities' for multilateral development banks (MDBs) such as the African Development Bank.

POLICY RECOMMENDATIONS

While we commend the Japanese government's proactive stance on SDR policy overall, we offer the following four recommendations to further strengthen its efforts.

1. **To dramatically increase aid through the Poverty Reduction and Growth Trust (PRGT), why not call on the Executive Board to make concentrated contributions of SDRs to either the Deposit and Investment Account (DIA) or the Long-Term Investment Account (LTIA)?**

While the PRGT originally provided interest-free loans, limitations on interest subsidization eventually necessitated measures such as the introduction of some interest-bearing loans. Ideally, SDRs could be contributed directly to the General Subsidy Account (GSA); however, since that is difficult, the proposed approach—albeit indirect—involves contributing SDRs to the DIA or LTIA and using the investment income generated to fund interest subsidies. As this is an action that can be taken by even a single country, why not call upon the membership broadly to adopt this practice?

2. **Depending on the difference between the cumulative SDR allocation and the amount held, if the amount held is greater, a country receives interest (SDRi); if it is less, it pays interest. Generally, the former applies to high-income countries, such as developed countries, that have no immediate need to use SDRs, while the latter applies to developing countries that do need to use them. This situation creates a dynamic in which developing countries appear to be bearing a penalty, and some form of corrective action is necessary. Why not call on a portion of the hundreds of millions of dollars in annual interest income received by high-income countries to pool and channel it into the PRGT's subsidy account? Doing so could dramatically increase PRGT lending.**

Incidentally, looking at Japan's case, the cumulative SDR allocation amounts to approximately 41.83 billion SDR, while its holdings total approximately 44.45 billion SDR. Multiplying the difference of approximately 2.63 billion SDR by the SDR interest rate of 2.904% yields annual interest income of approximately 76.37 million SDR (about 17.2 billion yen). So, what would be the total interest income for the G7 (excluding France) and China? It would amount to approximately 376 million SDRs (about 80 to 85 billion yen).

Currently, the IMF is attempting to generate interest subsidies from the General Resource Account (GRA) through an intermediate account called the Interim Placement Administered Account (IPAA). Could we establish a similar scheme to utilize the excess interest earned by high-income countries? This would require the approval of 90 percent of the countries with excess reserves, but the scheme involves investing the funds held in an interim account while awaiting that approval and using the investment returns to fund the interest subsidies.

3. **In 2024, the IMF Executive Board approved contributions to 'hybrid capital securities' issued by MDBs as a third scheme for utilizing SDRs. The Japanese government was quick to endorse this initiative, but unfortunately, other countries have not followed suit. Why not the Japanese government call on other IMF member countries to establish a coalition of like-minded countries to promote hybrid capital (through the use of SDRs) to break this impasse?**

As seen in the massive flooding triggered by glacier collapse in Nepal in August 2026, climate change measures cannot wait, nor can increased capital for MDBs, which are the cornerstone of regional climate action. It is said that if hybrid capital utilizing SDRs is realized, it will, above all, enable fundraising with 3 to 4 times leverage using that capital as a base. The IMF has stated that it will allow hybrid capital up to a limit of 15 billion SDRs (approximately $20 billion); even this would enable the raising of approximately $80 billion, significantly expanding the lending environment. Above all, this would dramatically expand the scope for SDR re-channeling.

Incidentally, following the IMF's 2021 SDR allocation equivalent to $650 billion, the IMF instructed high-income countries to channel $100 billion to developing countries; however, only about 55% of this $100 billion is actually used for lending (the remainder goes into reserve accounts). To begin with, the $100 billion channeling initiative itself represents only one-sixth of the utilization of dormant SDRs. While this SDR allocation is valuable, if it is to serve as one of the cornerstones of the Global Financial Safety Net (GFSN), isn't leaving such a massive amount of funds dormant truly inefficient and the height of waste?

4. **Discussions are currently underway regarding IMF quota and governance reforms, and the Japanese government has maintained that**

it will 'further examine the issue of delinking quotas and access' (*1) in order to support low-income and vulnerable countries. At the recent World Bank and IMF Spring Meetings in April 2026, the IMFC approved the Diliya Guiding Principles on Quota and Governance Reform as guidelines for the reform discussions. These principles include the statement that "adjustments to quota shares should be made in conjunction with other considerations that member countries deem appropriate" (*2), suggesting that progress may be made depending on the outcome of future discussions. Therefore, why not call on the IMF Executive Board for the Japanese government to take this a step further and ensure that access, including SDR allocations, is tailored to meet member countries' needs?

*1 - Japan's Statement Fifty-Second Meeting of the IMFC
https://www.mof.go.jp/english/policy/international_policy/imf/imfc/imfc_20251017_1.pdf

*2 - Chair's Statement Fifty-Third Meeting of the IMFC
https://www.mof.go.jp/english/policy/international_policy/imf/imfc/ChairsStatement.pdf

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Thirty-one (31) Japanese NGOs active in the fields of development, the environment, and human rights, have formed the ***Japan CSO Network for Just and Equitable Finance for Sustainable Development****, in short,* ***JFF Network****, in April 2024.*

The Development and Climate Change Finance Advocacy Project*, implemented by JFF network, submitted policy recommendations regarding* ***Special Drawing Rights (SDRs)*** *to the Ministry of Finance in Japan on September 8, 2026. This initiative was led by the* ***Forum for Global Solidarity Tax****, a member organization of the project as well as the JFF Network.*

For any questions or comments regarding these recommendations, contact us at janic-advocacy@janic.org