



Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Resource Library

2-20-2002

Special Drawing Rights for the Provision of Public Goods on a Global Scale

George Soros

<https://elischolar.library.yale.edu/ypfs-documents2/4847>

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact ypfs@yale.edu.

"Special Drawing Rights for the Provision of Public Goods on a Global Scale"

George Soros (Soros Fund Management, LLC)

February 20, 2002

Remarks at the roundtable on "New Proposals on Financing for Development"

Let me start by reading paragraph 44 of the draft communiqué from the Monterrey conference: "We recognize the value of exploring innovative sources of finance provided that those sources do not unduly burden developing countries. In that regard, we agree to study, in the appropriate forums, the results of the analysis requested from the Secretary-General on possible innovative sources of finance, noting the proposal to use special drawing rights allocations for development purposes. We consider that any assessment of special drawing rights allocations must respect the International Monetary Fund's Articles of Agreement and the established rules of procedure of the Fund, which requires taking into account the global need for liquidity at the international level." Behind this rather obscure language lies a concrete proposal to use SDRs for the provision of public goods on a global scale. Developing countries would add their SDR allocations to their monetary reserves; developed countries would donate them for international assistance.

As you know, SDRs are like credit lines that the IMF issues to its members according to a quota. It takes the form of an interest-bearing instrument that the member countries can convert into hard currency if they so desire. When they receive their allocation, they have to pay interest on the SDRs they receive; but as long as they hold their allocations in the form of SDRs, they receive the same amount of interest as they have to pay, so the transaction is a wash. It is only when they put their SDRs to use, either by converting them into hard currency, like dollars, or giving them away in the form of SDRs that they have to start paying interest, net.

The purpose of the proposal is not to avoid the budgetary process in providing international assistance; donations of SDRs would have to go through the budget process and be scored as expenditures at an appropriate time. There is no free lunch.

The purpose is to provide a mechanism for equitable burden sharing, proper coordination, and better delivery. International assistance as it is currently administered suffers from a number of shortcomings. Most ODA goes through intergovernmental channels; there is something wrong with channeling the distribution of aid through governments when the general thrust is to reduce

governmental interference in the economy. The administration of aid is excessively bureaucratic and generally speaking the interests of the donors come first, those of the recipients second. Moreover, there is no proper coordination among donors. Anybody who has participated in donor conferences knows that it is a very inefficient process.

I am in the international assistance business. I give away nearly \$500m a year. I am more aware than most people of the pitfalls. I have seen, particularly in the Balkans, how ineffective donor conferences are. The mechanism I am proposing is not perfect - nothing is - and it would not eliminate all of the shortcomings of international assistance, but it would be a great improvement over what we have now.

I propose that the IMF should set up an independent jury of eminent personalities- independent of the IMF and of the governments that appoint them. The jury would recommend which projects should qualify for donations; but the jury would not be in charge of actually allocating the funds; that function would remain with the donors. The donor countries would be presented with a menu from which they can choose and the menu would be properly prepared. A jury of eminent persons would take a personal interest in the quality of the projects they approve and there would be a separate body to audit and evaluate the projects so that the donors would have all the information they need to make their allocations. There would be a market-like interaction between donors and projects with checks and balances and quality control.

Proposals would be invited not only from governments and multilaterals but also from NGOs and public-private partnerships. For instance, I sponsored the preparation of a global plan to stop TB with the cooperation of the World Bank, WHO, the governments and the private sector. Altogether some 150 entities have signed off on it. It calls for spending \$9.3 billion over 5 years, of which the 22 affected countries would put up \$4.8 billion; SDR donations could be used to cover the financing gap of \$4.5 billion. This would fit in perfectly with the global fund for fighting infectious diseases because TB and AIDS are closely related and fighting them requires the same infrastructure.

As you know, current spending on international assistance is woefully inadequate to meet the UN's Millennium targets. Developed countries spend only 1/4 of 1% of their GNP and the US spends less than one tenth of one percent. It is the US that drags down the global average. That is because foreign aid has a terrible reputation in the US. Public opinion research shows that people think that we spend ten to fifty times more than we do and they would be willing to spend more if they felt the money was well spent.

My proposal relates to a special issue of SDRs that has already been authorized by the IMF in 1997 and approved by 72% of the membership; all it needs is the approval of the US Congress to attain the 85% supermajority that is necessary to make the issue effective. The special issue amounts to about \$27 billion, of which about \$18 billion would be donated. This would be a one-time donation. It falls far short of the \$50 billion annually that the Zedillo report recommends and the British government advocates but it has one great advantage: it can be implemented almost immediately and by showing that the money is well spent it would pave the way to larger contributions later.

The proposal that President Bush could take to Monterrey is that he will ask Congress to approve the 1997 special issue on the condition that the rich countries agree to donate their SDRs to a trust fund that would be used for the provision of public goods on a global scale. In the first instance the public goods would consist of public health, education and the strengthening of legal systems. The global fund for fighting infectious diseases like AIDS would be a case in point.

This would give President Bush a powerful message to deliver when he goes to Monterrey and it would make the Monterrey Conference a resounding success. Without it, the conference is likely to be a disappointment.

The SDR donations scheme would not replace existing bilateral or multilateral assistance, but be additional to it. That is because it fills a need that the existing arrangements by their very nature cannot meet. Bilateral assistance is not properly coordinated, exactly because donors insist on keeping it bilateral. And multilateral institutions like the World Bank are obliged by their constitution to operate through intergovernmental channels. As you know the bulk of the Bank's capital consists of sovereign guarantees, which allow the Bank to borrow in the market with a triple A rating. But the Bank cannot call on the guarantees. This puts the Bank into a straightjacket as far as its lending operations are concerned. It has a little more leeway to the extent it is in a position to make grants and under the leadership of Jim Wolfensohn the Bank has put that leeway to good use.

The US government is now insisting, in my opinion rightly, that the IDA branch of the Bank should use grants rather than loans to a greater extent. The Europeans resist that proposal because they are afraid that it is a backdoor way of downsizing the Bank and, in light of the Meltzer Report they have grounds for concern. The disagreement has not been resolved and it currently overshadows the preparations for the Monterrey Conference. By proposing the SDR donations scheme the Bush administration could lay the European fears to rest, and the disagreement would dissolve into thin air.

The SDR donations scheme would be exempt from the limitations that afflict the existing arrangements for international assistance. It takes the form of grants, not loans, and it need not go through governmental channels. It could use local governments and NGOs and it could foster public-private partnerships. It would be particularly useful in countries with repressive, corrupt or inept governments.

The donations scheme would be tried out, in the first instance, in implementing the special issue already authorized by the IMF in 1997. If the trial is successful, the scheme could be scaled up. Whether the scaling up should take the form of annual issues of SDRs is an open question. There are arguments for and against. I am for it and so is Joe Stiglitz. I will leave it to him to make the case for. There are two points I want to make here. One is that whatever the case against using SDRs may be, it does not apply to the one-time issue already approved by the IMF. The other point is that whatever form the scaling up takes—SDRs, debt forgiveness or simply cash—it would need a coordination mechanism similar to the one I have outlined here.

The SDR donation scheme has only one drawback: it is complicated and difficult to understand. It combines two forms of assistance. One, developing countries receive an addition to their foreign currency reserves. That is as close to a free lunch as you can get; it is free as long as you don't eat it. Two, developed countries donate their allotments for the provision of public goods like health, education and the rule of law, on a global scale. Could there be a better combination? The IMF authorizes the issue of SDRs if there is a global need for liquidity. The developing countries have such a need and the need is becoming more acute as the reverse flow of capital from emerging markets persists.

The developed countries do not need additional monetary reserves because they can borrow from the financial markets but they do need to increase their contribution to global welfare. By donating their SDR allocations both needs can be met.

I hope I have convinced you and you will help me convince President Bush that he should take the lead and propose the SDR donation scheme in Monterrey. This is especially appropriate at the present moment in history. We cannot be successful in fighting terrorism unless we also attack that other axis of evil: poverty, disease and ignorance.