

SDRs and the global health financing gap : what are we waiting for ?

Because of the hefty tightening of health financing driven especially by the reduction of Official Development Assistance, the world is facing a health emergency at the complete opposite of what would be needed to properly implement the lessons from COVID-19. The same club of donor countries, however, also controls Special Drawing Rights (SDRs), which represent a strong and essential instrument to address the crucial needs of developing countries, including for their health budget.

As the WHO starkly warns, it's no longer a question of if a new pandemic will hit, but when. As the 4th international conference on Financing for development opens in Sevilla, the time is therefore critical to work towards a more efficient utilization of SDRs . Let's stop beating around the bush and ensure they are put to good use to effectively address pressing health financing needs.

Inequitable distribution of SDRs

In the Summer 2021, amidst the Covid-19 pandemic crisis, the Board of the International Monetary Fund (IMF), led by the world's high income countries, decided to issue US\$650 billion worth of SDRs to help countries of the world cope with the massive economic impact of the crisis. According to IMF rules, the SDRs are distributed based on IMF quotas and so the biggest recipients were countries from the Global North with the largest economies. Thus, while over 43% of the US\$650 billion were allocated to G7 countries, only 3% were to low-income countries where these SDRs would have been the most needed.

Correction of unfairness shouldn't be voluntary

To correct this severe inequity, during the 2021 Summit, under the presidency of Italy, the G20 committed to reallocate US\$100 billion of their own SDRs to the most vulnerable countries. These transfers were welcomed as they could be done without worsening the debt burden of neither the donor nor the recipient country which is essential during times of important budget constraints.

Following this pledge several countries announced voluntary re-channelling of the SDRs that were allocated to them. France was among the leading countries on this issue and announced redirecting 40% of its SDRs. The portion varied among richer countries and the US\$100 billion target was announced to be reached by Kristalina Gueorgieva, IMF Managing Director, during the June 2023 Summit for a new global financing pact where the Paris Pact for the People and the Planet (4P) was adopted. But the disparity in quotas is so large despite this reallocation the imbalance remains striking.

If all G7 countries committed to this level of reallocation of 40%, an additional US\$43 billion worth of SDRs could be made available for the most vulnerable countries instead of sitting as unnecessary and unused reserve assets. In addition, tracking this promise is complicated as there is an important lack of transparency of these reallocations but 4 years since the promise many countries are not on track to deliver on their commitments.

Flawed design of channels

On top of these missing billions, the channels designed to the SDRs reallocation were not fit for purpose. The Poverty Reduction and Growth Trust (PRGT), that preexisted the extraordinary issuance of SDR, quickly appeared too narrow in scope to address the polycrisis shock. Therefore, another trust fund attached to the IMF was created: the Resilience and Sustainability Trust (RST).

Although the trend is leaning towards stronger decentralisation, having the two key reallocation mechanisms attached to the IMF was questioned and many actors advocated for Regional Development Banks to also be able to handle SDRs reallocation and complement with a more tailored approach based on their greater knowledge of the contexts and their ability to leverage more funding capital markets through hybrid capital schemes. Donor countries did not support this third avenue.

Inequitable distribution of SDRs A missed opportunity to advance financing for pandemic preparedness and response

The RST was launched to build vulnerable countries' resilience to external shocks, and has two main pillars embedded in its mandate: Climate and Pandemic preparedness. Yet, and despite being designed in the aftermath of the Covid-19 crisis, to this day no countries were supported by the RST to improve their pandemic preparedness.

Health and climate are strongly interconnected and the threats they represent are as certain. The World Health Assembly this year adopted the Pandemic treaty promoting the One Health approach and acknowledged the impact of climate changes on global health and it is capital not to pit one against the other and on the contrary ensure resilience covers the two dimensions.

Close to US\$47 billion were pledged to the RST and a little over US\$10 billion were already approved to support vulnerable countries leaving more than US\$30 billion available to increase pandemic preparedness and the adaptation of health systems to climate changes. In the midst of a solidarity crisis where traditional ODA donors are slashing their budgets and causing a massive decrease in health financing, this could be a game changer that we can't afford to miss. We know that the current pandemics could get away from our control and that new ones will emerge. We built a system to address a pandemic and its consequences, let's not wait for the next one to use it appropriately. Let's provide low-income countries, especially those suffering from deep cuts in development assistance the technical accompaniment they require to avail themselves of the existing funding.

The way forward

- ◆ Ensure that pandemic preparedness is not forgotten in the use of reallocated SDRs
- ◆ Correct the imbalance in IMF quotas to offer stronger support to vulnerable countries
- ◆ Monitor the reallocation promises so SDRs can benefit those who most need it
- ◆ Reallocate SDRs to Regional Development Banks

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