BU Global Development Policy Center
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- **Summary:** setting up a redistributive mechanism within the IMF where nations could voluntarily on-lend SDRs for use by developing countries would alleviate the main concerns that the US has voiced to new SDR allocations. Such a Trust could be set up
    - a) without a new allocation for starters and/or
    - b) alongside a new allocation which would be optimal. Currently the IMF has only approved $77 billion and full participation in DSSI would be just over $12 billion, the repo facility and swaps reach very few emerging market and developing countries.
- **Mechanisms:** The United States continues to be under pressure to support a new SDR allocation. While their official position is yet to change, there are signs that the U.S. may warm.
    - **Officially, the US still voices five general objections** to a new allocation:
        1. The SDRs will support nations that the US is at odds with and may even have sanctions with.
        2. SDR allocations do not come with conditionality and we may be encouraging profligacy
        3. With SDR allocations more SDRs flow to countries that don't need/use them than to those that do need them.
        4. Smaller constituencies are also concerned that new SDR allocations would be lend support to the notion that SDRs should form more of the center of the global monetary system and therefore dethrone dollar hegemony, and
        5. That a new SDR allocation would increase inflationary pressures in the world economy.
- Each of these issues could be addressed with the establishment of a Trust within the IMF where countries that would not deploy existing or new SDRs could on-lend them to developing countries. This could be done with or without a new allocation of SDRS. Indeed, the argument could be made to set the mechanism up now so that it is shovel ready when/if a new allocation comes. There is precedent here. The Poverty Relief and Growth Trust (PRGT) within the IMF is partly financed by voluntary contributions of SDRs (by Japan, China, UK, and France at the equivalent of $8b). To take the three arguments then:
    - Like the PRGT, the SDRs in the Trust would be made available to countries upon request—and like any other program require a board vote. Thus, if the IMF membership (or the one country with veto power) thought that a particular

country was unfit to receive the SDRs they could reject the request—**nullifying the argument about handing SDRs to countries the US is in conflict with etc.**
  - If the board thought a country didn't have the capacity to use the new SDRs in an efficient manner they could choose to have it go through one of its programs –as the PGRT is---rather than be a condition free allocation**—thus nullifying the no-conditionality concern.**
  - And, by definition, the creation of a redistributive mechanism **nullifies the concern that the SDRs will go to the wrong countries.** Indeed, those countries can actually make money by on-lending those SDRs.
  - and allow nations who contribute their SDRs to the **Trust to earn returns while helping poorer countries.**
  - The less serious concerns about supplanting the dollar and inflation are coming more from fringe voices in Congress, but those voices do have ears in the Trump treasury. Of course, even trillions in SDR would not impact the dollar, but likely bolster it, and in terms of inflation we are yet to see rampant inflation after over 11 trillion in AE stimulus and expansionary monetary policy.

- **Political Economy Issues:**
  - A redistributive mechanism alone, would require an IMF board vote and would likely be hard for the U.S. to veto with the arguments just made articulated.
  - A new allocation would require a board vote only, with no need to change AoA—as long as it is established that there is a 'global need for additional reserve assets'. Indeed, could have a new allocation and create a trust at the same time.
  - Another option would be that the US could agree to a new allocation that came with a redistributive trust mechanism.
    - If a new allocation is above roughly $680billion (US quota) then it would need an act of Congress. Less than that amount it would need to simply notify and consult Congress. A new allocation of less than $680 b is thus more likely in an election year. But, the 'New Arrangements to Borrow (NAB)' re-allocations to the IMF were slipped into the first stimulus package and went un-noticed.
    - If the US decided to participate in the voluntary redistribution fund (it wouldn't have to) then the amount that the US on-lends to the Trust is a budgetary allocation and thus needs Congressional authorization.
  - Even if the US simply allowed a) a redistributive mechanism and b) a new SDR allocation but decided not to (or was stopped by Congress) to contribute to the mechanism it would still play a vital role—given that most SDRs when used would likely be swapped for dollars, the US will be the 'dealer' and provide those funds.

In sum:

An optimal solution is to create a new allocation alongside a Redistributive Trust Mechanism. PRGT and CCRT are useful but would restrict to some members in need. A new allocation would give an injection of fresh non-conditional liquidity, the redistributive mechanism could supplement that finance and have procedures to buffer some of the US concerns. The US would not have to participate as a donator or on-lender if the Executive Branch or the Congress didn’t want to, but would play a key role as dealer for the SDR use.