

# #GameChangers - Results Canada

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On Special Drawing Rights...we don't need them. So, they need to be put to use.

— Justin Trudeau, Prime Minister of Canada

In August 2021, at a time when the world was still perilously in the grip of COVID-19, a little-known instrument for international economic cooperation made headlines. As low-income countries waited for their first round of COVID-19 vaccines, the International Monetary Fund (IMF) – the lender of last resort for the world – readied a shot in the arm for the global economy. Its governors approved a plan to issue \$650 billion worth of funds in an international currency called Special Drawing Rights (SDRs), which low- and middle-income countries could use to buy vaccines, finance health care commodities, and pay down debt.

Most of the special issuance went to wealthier countries, so, two years after this historic decision – the largest SDR allocation in the history of the IMF – low-income countries continue to be pushed to the brink by multiple crises they did not cause, with the heaviest financial burden falling on those who can afford it least. This, while billions of dollars in SDRs continue to lie unused by rich countries, including Canada.

## what are Special Drawing Rights (SDRs)?

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- The International Monetary Fund (IMF) lends resources when countries have exhausted all other avenues to keep the bare minimum of basic services operating. On an exceptional basis, it can issue a special international currency called Special Drawing Rights (SDRs), to help countries deal with global economic shocks like a pandemic.
- Countries receive SDRs based on the size of their economies. Canada, for instance, received CA\$19 billion in SDRs of the US\$650 billion issued by the IMF in 2021 to help countries recover from the COVID-19 pandemic. In comparison, the 54 countries on the African continent got CAD\$42 billion – just twice the allocation Canada received for 36 times the population.
- Canada is highly unlikely to use its SDRs as our international reserves are already very well stocked. Low-income countries, on the other hand, need this international currency to deal with climate change, pandemics, and other longer-term issues.
- In October 2021, the G20 countries (including Canada) promised to recycle \$100 billion of SDRs from members to vulnerable countries, a commitment reiterated by the G7 Leaders at their last meeting in May 2023. The IMF set up two channels for countries to recycle their SDRs – the Poverty Reduction and Growth Facility (PRGT) and the Resilience and Sustainability Trust.

- Most donor countries have re-directed a portion of their SDRs towards low-income countries. While Canada has re-directed 40% of its SDRs (at no cost to the taxpayer) more than half was loaned to Ukraine.

While the World Health Organization may have declared that COVID-19 is no longer a global health emergency, the direct and indirect impacts of the pandemic continue to be felt by countries, who were the most impacted and least supported. These are now exacerbated by a series of severe and mutually reinforcing shocks, from the war in Ukraine to climate emergencies and surging inflation. Low- and middle-income countries have become more indebted because of the multiple crises, with little ability to repay.

According to the IMF, more than 60 countries have been identified as being in moderate to high risk of debt distress or already in outright debt distress. Several countries such as Zimbabwe, Somalia, and Grenada, are already in default, and scores of others urgently need debt relief to ward off economic collapse and sharp increase in poverty. Meanwhile, domestic resources, private investment, and other critical international financing flows have declined to lower income countries. Canada, for instance, cut its international aid in Budget 2023 by 15% compared to last year.

As the debt mounts up, this in turn means even less funding available to low-income countries for responding to climate disasters, building up resilience to future disasters, and for spending on other critical issues like education and health care. This puts the world further off target to achieve the Sustainable Development Goals.

### **countries in debt distress and what this means to development**

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- During COVID-19, many low- and middle-income countries had to borrow from high-income countries, multilateral lenders like the World Bank and IMF, and private creditors, because revenue from their taxes was down due to reduced business activities. Increasing interest rates mean this debt is carrying a higher and higher cost.
- An estimated 36 countries are in debt distress or at high risk of it — more than twice as many as in 2015. Almost 60% of the world's lowest-income countries were already in debt distress or at moderate or high risk of it before the start of Russia's war in Ukraine. Rising interest rates have made things worse.
- In Ghana, for example, by the end of 2022, debt servicing was consuming as much as 70-100% of national revenues, forcing the government to suspend debt payments and effectively default on its external debt.
- The debt crisis comes at a time when food insecurity and inflation are rampant and low- and middle-income countries are also being disproportionately affected by climate-related disasters, which are growing in strength and frequency.
- 574 million people, or around 7% of world's population, will still be living on less than \$2.15 a day in 2030 if the International Financing Institutions continue with a business-as-usual attitude.

While Canada has rechannelled up to 40% of its SDRs, 56% of these have been loaned to Ukraine, and only 18% of the total went to Africa, Asia, or Latin America and the Caribbean. This is much lower than the commitments made by a majority of rich countries. We can and should do more. As Prime Minister Trudeau said himself, we do not need the SDRs, so they need to be put to good use to strengthen health systems and combat poverty in low- and middle-income countries and help them be better prepared for future pandemics and other emergencies. This was reinforced in the recent communiqué by G7 Leaders, which includes Canada.

Prime Minister Trudeau also reaffirmed Canada's dedication to supporting the global economic recovery from the pandemic, including through inclusive and transparent debt relief measures and innovative financing. An initial step that can be taken is to make sure that countries facing a pandemic or a climate-related disaster are allowed to postpone repayment of debt until it has had the time to deal with its emergency. Such allowances are called debt suspension clauses.

Canada's participation in the upcoming Summit for a New Global Financial Pact in Paris in June presents a crucial opportunity to fulfill these promises and to lay the groundwork for systemic change.

### **Summit for a New Global Financial Pact: towards more commitments to meet the 2030 Goals**

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- In November 2022, at the G20 Summit, French President Emmanuel Macron announced that France would host an international conference aimed at building a new contract between high-income and middle- and low-income countries to address climate change, pandemic preparedness, and the global crises.
- The Summit builds on the Bridgetown Initiative, spearheaded by Prime Minister of Barbados Mia Mottley, aimed to facilitate access to international financing for the countries most vulnerable to climate change to enable them to better respond to climate challenges. The idea is to shake up the status quo and completely reform much of how development finance has worked in the past.

The scale and speed of the economic impact of COVID-19 on low- and middle-income countries was dramatic, triggering the worst global economic downturn since the Great Depression of the 1930s in a matter of months. The acceleration of climate change and rising temperatures make the incidence of outbreaks and pandemic threats even more likely in the near future. What is needed now is a breakthrough in international solidarity and a bold move to restart the global economy and build back better. Given that the world's financial system hasn't had a refresh since the 1940s, the international community is at a moment of reckoning. We can either fail together to meet the challenges of our time, or rise together to invest in and be **#GameChangers2030**.

**The ask:** At the Summit for a New Global Financial Pact, Canada must reaffirm its commitment to supporting an inclusive global economic recovery post the COVID-19 pandemic by increasing rechanneling of its SDRs to low- and middle-income countries in Africa, Asia, Latin America and the Caribbean from 18% to 40%. In addition, Canada must champion the inclusion of natural disaster and pandemic debt suspension clauses in all new loans to low- and middle-income countries.

## latest campaign news

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### #WorldWeNeed campaign

On April 26th, Anita Vandenbeld, Parliamentary Secretary to the Minister of International Development, announced CA\$100 million over five years to the Coalition for Epidemic Preparedness Innovations (CEPI), a global partnership that aims to reduce the time taken to develop vaccines for disease threats to just 100 days. Since the outbreak of COVID-19, Results Canada volunteers have been advocating for Canada to be a champion in pandemic preparedness and response by investing in lifesaving initiatives like CEPI.

## story

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### The IMF in Barbados



*Photo credit: Photo: UNDP/Zaimis Olmos*

Barbados, an island country in the Caribbean, was hit hard by the COVID-19 pandemic, grounding tourism - its main industry - and stalling economic activity and increasing unemployment. It is also one of the Caribbean's most vulnerable nations to climate change. In 2021, its public sector debt was equal to 150.3% of its Gross Domestic Product (GDP). Supported by several international financial institutions, including the IMF and the SDRs rechanneled from richer countries, Barbados has received unprecedented financing to tackle climate change and other sustainability challenges. It has also been able to scale up public spending on everything from reinforcing homes, reducing unemployment, to restoring coral reefs, which help protect coastlines from storms. [Read more.](#)

## resources

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Watch this short video and listen to this podcast:



Watch Video At: [https://youtu.be/p1m99AihU\\_A](https://youtu.be/p1m99AihU_A)

## key dates

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June 5: [World Environment Day](#)

June 20: [World Refugee Day](#)

June 21: [National Indigenous Peoples Day](#)

June 22-23: [Summit for a New Global Financing Pact in Paris](#)

Check out our full [key dates calendar](#).

## key words

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SDRs

IMF

Development financing

Climate financing

Multilateral Development Banks

## hashtags

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#GameChangers2030

#FreeTheFunds

#GlobalFinancialPact Summit

#FundTheFuture

#WorldBank

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#DevelopmentFinancing

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