

CAN THE SPECIAL DRAWING RIGHT (S.D.R.) BECOME AN ACCEPTABLE RESERVE CURRENCY OF THE INTERNATIONAL MONETARY FUND (I.M.F.) IN THE MIDST OF STRONG RESISTANCE BY DEVELOPED COUNTRIES CAPTAINED BY THE U.S.A.?: CRITICAL APPRAISAL

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Abstract

From the inception of International Monetary System (IMS) the system has been facing liquidity problem. Starting with the gold standard, the limited stock of gold could not cope with the increasing world trade. The introduction of the gold-exchange standard which included some key currencies as the American dollar, the British pound sterling, German mark, French franc and Swiss franc. This experiment did not meet the increasing world trade and with economic and political dominance of America, the IMS shifted to what in many circles became the "pure dollar system". As more developing countries joined the system and with the increasing dependency of the system on U.S. balance of payments deficit, the I.M.F. decided to introduce the Special Drawing Right (SDR) as a reserve currency.

Ever since its introduction, the SDR has met stiff resistance particularly by the U.S.A. This study has examined the potential of the SDR serving as a reserve asset which can serve the interest of all countries and free it from particular countries' political influence. The paper concludes that despite the resistance of the U.S. and its allies, as the economies of developing countries match those of the developed countries, the SDR stands a good chance of becoming an acceptable reserve currency of the Fund.

Key words: SDR; Reserve asset; Political influence; IMF

JEL Classification: N10, E42, F01, F33

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Introduction

At a time that the survival of the Special Drawing Right (SDR) as an international reserve asset is being threatened, it becomes useful to examine, the original purpose of the asset, and why its future is being threatened, and what this portends for both the dominant members and poor and weak developing members of the International Monetary System (IMS). In short, whose interest is being served by weakening the relevance of the SDR?

Principally, the Special Drawing Right (SDR) was to cater to the liquidity problem created by the inconvertibility of the dollar beginning in 1971. This problem was earlier predicted by Swamy¹ when he argued that since the stock of gold reserve was dwindling and since gold was linked to the US dollar, it was advisable

for the Fund to look for another unit of account (other than the US dollar/gold) to safeguard any dislocation in international trade to forestall the devaluation of the US dollar. This proposal was submitted by Swamy¹ to the Joint Economic Committee of the US Government in 1965. As a result of the work of the Group of Ten, the International Monetary Fund (Fund) in its meeting in Rio de Janeiro in 1967, approved the outline agreement of a facility based on SDR in the Fund². By nature of its structure, the SDR has come to be called "paper gold".

Some have argued that the decision to move away from the dollar as the international reserve currency has a lot to do with the faltering economic power of the U.S.A. That faltering power, together with the U.S. chronic balance-of-payments deficits which resulted in the

weakening of the dollar, fueled world hunger for a new international reserve asset³.

What is SDR and What it Does ?

The SDR is an international reserve asset created by the Fund to supplement the existing reserve assets. The primary purpose of creating the SDR was to create a balance in the participants' accounts in order to meet a need for a supplement to existing reserve assets, as and when such need arose. Further uses of the SDR were: to settle financial obligations; make loans of SDR at interest rates and maturities agreed between the parties; repayment of loans and payment of interest with SDR; as a security for the performance of financial obligations in either two ways: participants may pledge SDR which can be earmarked for the duration of the pledge by being recorded in a special register kept by the fund or participants may agree that SDR would be transferred as security for the performance of an obligation and that the SDR would be returned to the transferor when its obligation under the agreement had been fulfilled.

The SDR was to become the unit of account for all purposes of the Fund and could be used by others beyond the participants in the Special Drawing Rights Department and the General Resource Account of the Fund. Some of the member countries of the Fund decided to peg their currencies to the SDR and the SDR came to be used in a variety of ways including mutual agreements. According to Dale⁴, successful development of an SDR standard could solve many of the problems connected with the present dollar standard. It would permit us to abolish the latter's one-sided advantages and disadvantages for the U.S.A and would be making the world safe for a United States' external equilibrium. A statement by the Research and Policy Committee for Economic Development⁵ hailed the SDR as the only reserve asset that is based on a conscious management of international reserves tailored to the world's need for liquidity need and based on multilateral agreement; and for not creating confidence problems associated with gold or dollar. That was the thinking at that time even though some experts expressed skepticism on the effectiveness of the paper gold. Halm⁶ viewed the SDR as nothing "much more than a statistical gimmick". Carbaugh and Fan⁷ in their study identified some obstacles that would confront the successful implementation of the SDR to be "political, the process of distribution and transition".

International Monetary System

In discussing the SDR, it is important to examine briefly the body the currency was to serve. The Bretton Woods Conference (called the United Nations Monetary and Financial Conference) and held at Bretton Woods on **July 1 – 22, 1944**, provided the first formal arena where specific objectives regarding the International Monetary System were established. The problems experienced in the previous monetary systems provided the basis for the purposes and objectives of the new monetary system. In that Conference, two major institutions were created: the International Monetary Fund (IMF or Fund) and the International Bank for Reconstruction and Development (IBRD or World Bank). Membership in the World Bank requires membership in the IMF and they are both specialised agencies of the United Nations. The World Bank was given domain over long-term financing for nations in need while the Fund was to monitor exchange rates, provide short-term financing for balance of payments adjustments, provide a forum for discussion about international financial concerns and give technical assistance to member countries. Although these functions are still applicable today, however, the policies determining how they are carried out have been modified and amplified over time.

The Fund's legal authority is based on an International Treaty called the Articles of Agreement (Articles of the Agreement) which came into force on December 27, 1945 when 29 countries signed the Agreement. The Fund started financial operation on March 1, 1947. As world trade expanded so also has been the activities of the Fund and throughout the 1980s, the Fund played an increasingly larger role not only as "lender-of-last-resort", but also as mediator with debtor countries in relation to creditor nations and private banks.

Membership Qualifications

Any country may apply for membership to the IMF. The application will be considered first by the IMF's Executive Board. After its consideration, the Executive Board will submit a report to the Board of Governors of the IMF with recommendations in the form of a "Membership Resolution". These recommendations cover the amount of quota in the IMF, the form of payment of the subscription, and other customary terms and conditions of membership. After the Board of Governors has adopted the "Membership Resolution", the applicant

state needs to take the legal steps required under its own law to enable it to sign the IMF's Article of Agreement and to fulfil the obligations of IMF membership.

A member's quota in the IMF determines the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDR (see **Appendix: pages 11-15**). A member state cannot unilaterally increase its quota – increases must be approved by the Executive Board. For example, in 2001, China was prevented from increasing its quota as high as it wished, ensuring it remained at the level of the smallest G7 economy (Canada). Since then, its contribution has been allowed to be increased slightly further. As of 2006, participating nations were discussing changes to the voting formula, to increase equity.

Historical Evolution and Modalities for Operating the SDR

Initially, the value of the SDR was defined in terms of US dollar which in turn was defined in terms of an ounce of gold: \$35/oz until December 18, 1971; \$38/oz between December 18, 1971 and February 1, 1973; \$41.22/oz between February 12, 1973 and June 30, 1974. The SDR is an international reserve asset created by the International Monetary Fund (IMF or Fund) in 1969 and allocated to members to supplement existing reserve assets. It is the unit of account of the IMF and is used as a unit of account or as a basis for a unit of account by a number of other international and regional organisations and international conventions.

The Fund introduced on January 1, 1981, a new five-currency basket to be used to determine the value of the SDR and its interest rate. The SDR is defined in terms of a basket of major currencies used in international trade and finance. Between 1981 and 2000, the five currencies used were the US dollar, the Deutsche Mark, the French Franc, the Japanese Yen and the British Pound Sterling. With the emergence of the European Union in 2000, the Deutsche Mark and the French Franc were merged to now have four currencies in the basket^a (see **Table 1**).

The **Table** shows that US dollar continues to maintain a steady and dominant position reflecting the strength of the American economy. The euro has demonstrated a significant rally after the integration of

the European economy in 2000. The Japanese yen has had some edge over the British pound sterling except for the period 2006 - 2010 when the two currencies staled at par. The implication demonstrates the possible slow down in Japan's economic expansion.

Operational Modalities

The currency composition of the basket is adjustable every five years from January 1, 1986, by the Fund's Executive Board unless the Board decides otherwise. This policy of adjustment is meant to include the currencies of the five member countries of the Fund with the largest exports of goods and services during the five-year period preceding the revision. The revision for 1980 – 1984, was made on January 1, 1986. In 2000, with the emergence of the European Union the currencies of Germany and France were merged to have the euro.

Notably, on December 31, 1980, the Fund made the necessary calculations to convert the initial percentage weights into units of each of the five currencies in the new basket (by using London noon exchange rates averaged over the three months which ended December 31, 1980) as shown in **Table 1**. The set of currency units also satisfied the condition that the value of the SDR in terms of any currency on December 31, 1980 was to be the same under the valuation method in effect before and after the change to the five/four currency basket. One important technical change which the Fund made in implementing the new SDR basket was the decision to use the US dollar rate for the Japanese yen from the London market instead of Tokyo. All the exchange rates used for calculating the value of the SDR are now obtained from the London market. This makes it easier for those dealing in SDR-denominated deposits to replicate the SDR in the private market.

Uses of SDR

Members with a balance of payments need may use SDR to acquire foreign exchange in a transaction "with designation" – that is, one in which another member designated by the IMF provides freely usable currency in exchange for the SDR. The IMF may designate members to provide currencies in exchange for SDR on the basis of the strength of their balance of payments and reserve positions. A member's obligation to provide currency is limited to its holding of SDR not exceeding three times its net cumulative allocation, although the IMF and the member may agree on a higher limit.

TABLE 1
SDR VALUATION

January 1981 – December 1985			
ISO	Currency	Weight	Value
USD	US Dollar	42%	\$0.54
DEM	German Mark	19%	DM 0.460
JPY	Japanese Yen	13%	¥ 34.0
FRF	French Franc	13%	F 0.740
GBP	British Pound	13%	£ 0.0710

January 1986 – December 1990			
ISO	Currency	Weight	Value
USD	US Dollar	42%	\$0.45
DEM	German Mark	19%	DM 0.527
JPY	Japanese Yen	15%	¥ 33.4
FRF	French Franc	12%	F 1.020
GBP	British Pound	12%	£ 0.0893

January 1991 – December 1995			
ISO	Currency	Weight	Value
USD	US Dollar	40%	\$0.57
DEM	German Mark	21%	DM 0.453
JPY	Japanese Yen	17%	¥ 31.8
FRF	French Franc	11%	F 0.800
GBP	British Pound	11%	£ 0.0812

January 1996 – December 1998			
ISO	Currency	Weight	Value
USD	US Dollar	39%	\$0.58
DEM	German Mark	21%	DM 0.446
JPY	Japanese Yen	18%	¥ 27.2
FRF	French Franc	11%	F 0.813
GBP	British Pound	11%	£ 0.1050

January 1999 – December 2000			
ISO	Currency	Weight	Value
USD	US Dollar	39%	\$0.58
EUR	European Euros	32%	,0.3519
JPY	Japanese Yen	18%	¥ 27.2
GBP	British Pound	11%	£ 0.1050

January 2001 – December 2005			
ISO	Currency	Weight	Value
USD	US Dollar	44%	\$0.58
EUR	European Euros	31%	,0.4260
JPY	Japanese Yen	14%	¥ 21.0
GBP	British Pound	11%	£ 0.0984

Source: www.imf.org

In March 1980, the Fund expanded the list of additional ways in which SDR may be used by agreement among participants and other holders by adopting a decision to permit the use of SDR in donations (grants). By this agreement, SDR was to be freely transferred by agreement in transactions and operations that include purchases and sales of SDR, both spot and forward; loans; grants; swaps and pledges of SDR. The terms and conditions of individual operations can be set by agreement between the parties concerned, although the official (spot) valuation of the SDR must be observed in most cases.

In 1980, the Fund also prescribed eight institutions as "other holders" of SDR and authorised them to acquire, hold, and use SDR on uniform terms and conditions. The eight new holders were: the Andean Reserve Fund; Bogota; the Arab Monetary Fund; Abu Dhabi; the East Caribbean Currency Authority; St Kitts; the International Bank of Reconstruction and Development (the World Bank) and the International Development Association (IDA) Washington DC, the International Fund for Agricultural Development, Rome; the Nordic Investment Bank, Helsinki; and the Swiss National Bank, Zurich. The Bank for International Settlements, Basle, had earlier been prescribed as a holder.

Allocation Criteria

Having examined the uses of SDR, it is considered reinforcing to understand the factors which the Fund considers in the process of SDR allocation. One of the principal goals of the Fund is to facilitate the expansion and balanced growth of international trade which requires adequate levels of reserves. If therefore the Fund identifies a long-term global need for reserves, it can supplement existing assets through an allocation of SDR. The timing and size of such allocation are determined by the Board of Governors. The Fund has the authority to create unconditional liquidity by allocating SDR to all member countries in proportion to their quotas. A sum of SDR 4.1 billion was allocated on January 1, 1981 to the Fund's then existing 141 members. However, as at September, 1997, more than $\frac{1}{5}$ (one fifth) of the Fund member countries had never received on SDR allocation. This was so because those countries joined the Fund after the last SDR allocation in 1981. Unfortunately too, the Executive Board of the Fund has not been in broad agreement that the Fund should make a special one-time "equity" allocation of SDR to correct the unbalanced

distribution. In 1996/97, the Executive Board broadly agreed on the elements of a special one-time allocation but did not conclude its deliberations on the amount.

To bring the cumulative SDR allocations of all member countries to a uniform 29 per cent of quota, the Board of Governors adopted a resolution in September 1997 in favour of an amendment to the Fund's Articles of Agreement providing for a special one-time allocation of SDR 21.4 billion. That fourth amendment when approved, would double the level of cumulative SDR allocations. The proposed amendment needs to be approved by three-fifths ($\frac{3}{5}$) (110) of members having 85 per cent of the total voting power. As of mid-August 2002, 121 members having 73 per cent of the total voting power had agreed on the proposed amendment. The approval by the United States would put the amendment into effect. The reason for this can be deduced from the US reluctance to allow the SDR to compete seriously with the American dollar.

How the SDR Interest Rate is Determined

The SDR interest rate is the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF. The SDR interest rate which is adjusted weekly is a weighted average of interest rates on selected short-term domestic instruments in the markets of the currencies included in the SDR valuation basket and is posted each week on the IMF website. In the review of the method for determining the SDR interest rate, the Fund decided to continue to set the weekly interest rate on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. The Fund has however modified the representative interest rate for the euro, replacing the three-month Euribor (Euro Interbank Offered Rate) by the three-month Euripo rate. The interest rate on the three-month United States and United Kingdom Treasury bills, and on the Japanese Government thirteen week financing bills, continues to serve as the representative interest rates for the US dollar, pound sterling, and Japanese yen, respectively⁹.

SDR and Gold as Reserve Assets of the IMF

Amendments of the Articles of Agreement

The First amendment of the Articles of Agreement of the Fund in 1969 sought primarily to

address the fears of a shortage of international reserves by creating an artificial reserve asset known as the Special Drawing Right (SDR). The SDR as already discussed is a convertible interest bearing asset which is allocated to each member in proportion to its quota. While the SDR is only a paper asset created by the Fund, it is however underwritten by common undertakings that SDR will be honoured with equivalent reserve assets in trade and other transactions.

The Second amendment which took place in 1978 sought to abandon the official use of gold, engender cooperation among members regarding policies on reserves assets and to entrench the SDR as the principal reserve asset of all members. Since the second Amendment outflows of gold can only occur through outright sales.

The Third amendment which took place in 1992 empowered the IMF to suspend voting rights of members who were in breach of obligations under the Articles of Agreement.

The Fourth Amendment which was effected in 1997 addressed the "equity issue". The amendment was to replace an existing declaratory section of the Article XV and insert a new "Schedule M".

Provisions of Schedule M

- Provides authority and machinery to make a special one – off allocation of SDR 21.4 billion to raise the allocation/quotas ratio to a benchmark of 29.32 per cent based on the quota position of members as at September 1999 (and to double the amount of SDR previously allocated in 1970 to 1972 and 1978 to 1981.
- Provides that future members will receive an automatic allocation in an allocation/quotas ratio of 29.32 per cent adjusted for any increases in total quotas or allocations after 19 September, 1999.
- Provides a dispensation for the incorporation of Serbia/Montenegro and an exception under which allocations to members who have overdue obligations are held in escrow.
- Another important provision of the Fourth amendment is the power given to the Fund to cancel SDR. However so far there has been no case of any cancellations. While any member may withdraw from the Fund, so far, there has been no withdrawal.

IMF Policy on Gold Holdings

Gold played a central role in the IMF system until the collapse of the Bretton Woods system of fixed exchange rates in 1973. Since then, the role of gold in the IMF system has been reduced gradually. However, it is still an important asset in the reserve holdings of the Fund and of a number of countries (see **Table 2**).

The IMF policy on gold is governed by the following principles:

- As an undervalued asset held by the IMF, gold provides fundamental strength to its balance sheet. Any mobilisation of IMF gold should avoid weakening its overall financial position.
- The IMF should continue to hold a relatively large amount of gold among its assets, not only for prudential reasons, but also to meet unforeseen contingencies.
- The IMF has a systematic responsibility to avoid causing disruptions to the functioning of the gold market.
- Profits from any gold sales should be used whenever feasible to create an investment fund, of which only the income should be used.

How and When the IMF Used Gold

- Outflows of gold from the IMF holdings occurred under the original Articles of Agreement through sales of gold for currency and via payments of remuneration and interest.
- Since the Second Amendment of the Articles of Agreement, outflows of gold can only occur through outright sales. Key gold transactions have included:
 - Sales for replenishment (1957 – 70) to replenish its holdings of currencies.
 - The IMF gold to members in amounts roughly corresponding to those purchased between 1970 and 1971 from South Africa.
 - Investment in US Government securities (1956 – 72) to generate income to offset operational deficits. However, subsequent build-up of IMF reserves prompted the IMF to re-acquire the gold from the US government.
 - Through auctions and "restriction" sales, the IMF between 1976 and 1980 sold approximately one-third (50 million ounces) of its then existing gold

holdings following an agreement by its members to reduce the role of gold in the international monetary system. Half of the amount was sold in restriction to members at the then official price of SDR 35 per ounce while the other half was auctioned to the market to finance the Trust Fund which supported concessional lending by the IMF to low-income countries.

- Between 1999 and 2000, the Executive Board of the IMF authorised off-market transactions in gold up to 14 million ounces to help finance IMF

participation in the Heavily Indebted Poor Countries (HIPC) Initiative.

The Link Between Gold and the SDR

As Table 2 shows, between 1985 and 2006, the SDR maintained a steady level of between 74 per cent and 79 per cent with the highest level of 79.48 per cent recorded between 1990 and 1995. The implication is that the IMF has not jettisoned its position of limiting the role of SDR as a dominant reserve asset in its portfolio.

TABLE 2
HOLDINGS OF SDR AND GOLD AS RESERVE ASSETS IN THE IMF

Item	Period				
	1975 - 80	1980 - 85	1985 - 90	1990 - 95	1995 - 2006
Member countries					
Gold reserves	31,134.4	29,614.05	29,423.5	28,770.3	28,568.3
SDR Allocations	N.A	N.A	21,911.69	22,866.7	21,676.3
SDR as % of Gold	N.A	N.A	74.47	79.48	75.87

Note: N.A = Not Available

Source: www.imf/sdr-archives.org.

Politics of SDR

Implicit in the decision to create the SDR was the desire particularly by the Group of 77 to free the world's reserve currency from the domination of a particular country. According to Clark, Peter and Jacques¹⁰ SDR could meet growing demand for reserves at no cost while reducing systematic risk. Unfortunately, changes in the international monetary system have undermined the role envisaged for the SDR. One of such changes some have argued, is the sudden and almost limitless stock of dollars and other major currencies which countries in need of resources can either earn or borrow. This argument is a smokescreen and comes from the developed countries (particularly the U.S.A.) which have never hidden their opposition to the creation of the SDR. This argument is supported by the fact that **since the last allocation of SDR in 1981, there has been considerable resistance to additional allocation. This resistance dates back shortly after the first allocation in 1970/72, and this resistance has come from industrial countries.** According to Polak¹¹

some of the industrial countries consider the last allocation to be a political arrangement and not a logical extension of the SDR system. They continue to hold the view that by then (that is in the 1960s when the allocations were made) many of the changes in the international financial system had already become evident. A further reason for the resistance by industrial countries is that they now have ease of access to capital markets and no longer need the SDR system. This was not the case then. The author and other critics do agree that the loss of faith by these industrial countries in the SDR system stems mainly from their disenchantment over a system which they would not directly control in the same way as they control their domestic currencies. Following from this, others also argue that the industrialised countries may find awkward the idea of a single institution, the IMF, providing both conditional and unconditional credit in the form of SDR. Would this not leave them out in the credit-granting equation?

The reluctance by the industrialised countries led

by the U.S. to enhance the use of SDR in international transactions can further be illustrated. In the mid-1990s, industrial countries favoured a special SDR allocation to help channel resources to Russia and other countries that had been members of the former Soviet Union. In 1997, at the (World Bank/IMF) annual meeting in Hong Kong, the IMF Board of Governors finally endorsed the allocation but it is yet to be implemented because the US is yet to pass the necessary legislation. This again demonstrates the power of the controlling agents in international finance and commerce. This position is also confirmed by what has been stated before that by mid-August 2002, 73 per cent of the total voting power did agree on the proposed amendment to double the level of

cumulative SDR allocation, but the US is yet to put that amendment into effect.

Polak (ibid) is certainly not optimistic that the industrialised countries will lessen their resistance to the growth of the SDR. However, while SDR allocations are no longer favoured by most industrialised countries, they have recently received attention in non-official circles. For example, the **Zedillo Report***, prepared for the UN International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, advocates, among others, a resumption of SDR allocations, while **George Soros has put forward a proposal to use SDR to finance expanded foreign aid****. The proposals, far from

* The Zedillo Report

Ernesto Zedillo Ponce de Leon was President of Mexico from 1994 to 2000 and has come to be referred to as the "December Mistake" for having devalued the Mexican Peso as an economist. At one public meeting of the World Economic Forum, he came the term "Globaliphobic" to refer to globalisation detractors. The term was widely used in Mexico and was countered by globaliphiliaz.

Worried by the increasing level of poverty, high illiteracy rate (particularly among the low income countries), the increasing polarisation between the haves and the have-nots, the high infant mortality rate, the international community in September 2000, through the meeting of the U.N. General Assembly concluded on an historic note with the adoption of the Millennium Declaration under the chairman of Zedillo. The Declaration collectively committed their governments to work to free the world of extreme poverty. Towards this end, it endorsed the following International Development Goals for 2015, to cut in half the proportion of people living in extreme poverty, of those who are hungry and of those who lack access to safe drinking water, to achieve universal primary education and gender equality in education, to accomplish a three-fourths decline in maternal mortality and a two thirds decline in mortality among children under five, to halt and reverse the spread of HIV/AIDS and to provide special assistance to AIDS orphans, and to improve the lives of 100 million slum dwellers. The Millennium Declaration also highlighted the task of mobilising the financial resources needed to achieve the International Development Goals and more generally, to finance the development process of developing countries. The Conference and Summit on Financing for Development held in March 2002 agreed on the strategy for better resource mobilisation.

Major Recommendations of the Panel's Report

- Every developing country needs to set its economic fundamentals in order. No country can expect to achieve equitable growth or to meet International Development Goals unless it focuses on building effective domestic institutions and adopting sound policies.
- The World Trade Organisation should launch a Development Fund.
- The least developed countries need some immediate help in improving their position in the world trading system.

Members of the High-Level Panel on Financing for Development

The high-level panel was appointed by Secretary-General Kofi Annan on 15 December 2000 under the chairmanship of President Zedillo.

The other panel members are:

- Abdulatif Al-Hammad, President, Arab Fund for Economic Development, Kuwait.
- David Bryer, former Director of OXFAM, United Kingdom.
- Mary Chinery-Hesse, former Deputy Director-General of the International Labour Organisation.
- Jacques Delors, former Finance Minister of France and President of the European Commission.
- Rebecca Grynsban, former Costa Rican Vice-President.
- Alexander Y. Livshits, Chairman of Rossiyskiy Kredit Bank and former Russian Finance Minister.
- Majid Osman, former Finance Minister of Mozambique.
- Robert Rubin, former Secretary of the Treasury, United States.
- Manmohan Singh, former Minister of Finance, India.
- Masayoshi Son, President and CEO of Softbank Corporation.

** George Soros described by Gyorgy Schwatz as an American financial speculator, stock investor, philanthropist and political activist was born in Budapest Hungary on August 12, 1930. He is currently the chairman of Soros Fund Management and the Open Society Institute and former member of the Board of Directors of the Council on Foreign Relations. He is famously known for "breaking the Bank of England" on Black Wednesday in 1992. Former Federal Reserve Bank Chairman, Paul Volker wrote in 2003 in the forward of Soros' book, "The Alchemy of Finance thus:

George Soros has made his mark as an enormously successful speculator, wise enough to largely withdraw when still way ahead of the game. The bulk of his enormous winnings is now devoted to encouraging transitional and emerging nations to become "open societies", open not only in the sense of freedom of commerce but more important-tolerant of new ideas and different modes of thinking and behaviour".

being endorsed, were only given consideration. The question again is, how far can the developing countries go? The answer is obvious, very little if anywhere.

The future of the SDR, to my mind, seems to have been sealed (at least for now) by the outcome of the 1996 Seminar set up by the Interim Committee of the Fund to explore the future role of the SDR. The issues which the Interim Committee were to consider included: whether the global economy still benefited from the existence of SDR; whether the SDR would be enhanced by an allocation targeted at specific groups; whether the SDR could be redesigned to make it more attractive to private financial markets; and whether the SDR would ever become the principal reserve asset as mandated by the Fund's Articles of Agreement.

The outcome of that seminar reinforced the resistance to the SDR by the rich industrial countries which determine the fate of world finance, trade and commerce. They agreed that the SDR does not appear likely to become the principal reserve asset of the international monetary system, nor does it appear destined to evolve from an unconditional line of credit into a full-fledged world currency. They however reluctantly (perhaps sensing the position of the developing countries) recommended that the SDR should not be abolished because it possesses the ability to serve as a valuable "safety net" should be international monetary system run into serious difficulty. The Fund Ministers reiterated their call for a general allocation of SDR, which would assist in the recovery of the world economy and alleviate concerns about global deflation. They also urge those countries that have not done so to ratify promptly the equity SDR allocation under the Fourth Amendment of the IMF's Article of Agreement which was agreed to in 1998.

As cited earlier in this paper, a statement by the New York based Research and Policy Committee for Economic Development hailed the SDR as the only reserve asset that is based on a conscious management of international reserves tailored to the world's need for liquidity need and based on multilateral agreement devoid of confidence problems associated with gold or dollar. The value of the SDR by all standards is adjudged by the Fund itself to be more stable than that of any single currency in the basket which makes it a useful unit of account. Why is the same SDR being seen today by the same opinion leaders as incapable of meeting world

reserve requirements? If this is not politics one wonders what it is.

Implications for Policy

It is well known that developing countries have all along been marginalised in virtually all global fora. There is a strong suggestion even among certain industrialised nations that representations in global fora should be re-addressed to allow developing countries to have a great say in decision-making. The recent vacancies created in both the World Bank and IMF drew once again the attention of the world community to the need to reverse the status quo where the President of the World Bank has to be an American and the Managing Director of the IMF has to be an European. Writing on the two Britton Woods Institutions "Share World's Resources" Nigerian Tribute stated ...

both the World Bank and IMF criticise recipient governments for their lack of transparency, widespread corruption and undemocratic regimes, insisting on the reform of these aspects as a pre-condition to granting loans and debt relief. However, these same issues haunt the World Bank and IMF which are widely regarded as not transparent, undemocratic and unaccountable. Corruption within these organisations is rife and millions of dollars unaccounted for. Both institutions are based in Washington, USA and are owned by their 1984 members. The majority (40 per cent) of all votes are held by just 7 countries (G7). The U.S. holds the largest share at 18 per cent, which grants them the ability to veto policies that do not serve US interests. Votes are allocated according to financial strength (one dollar one vote) resulting in those financially powerful countries (and the commercial interests that influence them) determining the monetary, economic and development architecture of the global economy. Thus, the existing global economic system places developing countries squarely at the mercy of G7 foreign interests. The above statement well explains why the US and its allies are working hard to diminish the status of the SDR.

The Gold Standard System as it is well known, was "a defecto" British pound sterling system when Britain was the dominant economic power. The faltering of Britain as an economic superpower gave way to the emergence of the dollar which has held sway till today. For as long as it is possible, U.S.A. will discourage the emergence of any monetary system and indeed any unit of account that will sideline the American dollar as the global currency. It will take significant improvements in the economies of

developing countries to counter this American dominance and the cooperation of some developed countries to achieve this. The competitive nature of the Chinese and Japanese economies might also assist in this direction. Europe in the author's mind might not be too concerned about the well being of developing countries. It might be

long but as Africa, Latin and Southern American countries stabilise and control greater world trade and finance and exert comparative political power in the running of the affairs of the Britton Woods Institutions, the author sees the possibility of the resurgence of the SDR as a dominant currency in world trade and finance.

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APPENDIX
MEMBERSHIP QUOTAS AND VOTING WEIGHTS
INTERNATIONAL MONETARY FUND

Member	QUOTA		VOTES	
	Millions of SDRs	Percent of Total ¹	Number ²	Percent of Total ¹
Afghanistan, Islamic Republic of	161.9	0.07	1,869	0.08
Albania	48.7	0.02	737	0.03
Algeria ³	1,254.7	0.58	12,797	0.58
Angola	286.3	0.13	3,113	0.14
Antigua and Barbuda ³	13.5	0.01	385	0.02
Argentina ³	2,117.1	0.97	21,421	0.97
Armenia ³	92.0	0.04	1,170	0.05
Australia³	3,236.4	1.49	32,614	1.47
Austria ³	1,872.3	0.86	18,973	0.86
Azerbaijan, Republic of	160.9	0.07	1,859	0.08
Bahamas, The ³	130.3	0.06	1,553	0.07
Bahrain ³	135.0	0.06	1,600	0.07
Bangladesh ³	533.3	0.25	5,583	0.25
Barbados ³	67.5	0.03	925	0.04
Belarus ³	386.4	0.18	4,114	0.19
Belgium³	4,605.2	2.12	46,302	2.09
Belize ³	18.8	0.01	438	0.02
Benin ³	61.9	0.03	869	0.04
Bhutan ³	6.3	0.003	313	0.01
Bolivia ³	171.5	0.08	1,965	0.09
Bosnia and Herzegovina	169.1	0.08	1,941	0.09
Botswana ³	63.0	0.03	880	0.04
Brazil³	3,036.1	1.40	30,611	1.38
Brunei Darussalam ³	215.2	0.10	2,402	0.11
Bulgaria ³	640.2	0.29	6,652	0.30
Burkina Faso ³	60.2	0.03	852	0.04
Burundi	77.0	0.04	1,020	0.05
Cambodia ³	87.5	0.04	1,125	0.05
Cameroon ³	185.7	0.09	2,107	0.10
Canada ³	6,369.2	2.93	63,942	2.89
Cape Verde ³	9.6	0.004	346	0.02
Central African Republic ³	55.7	0.03	807	0.04
Chad ³	56.0	0.03	810	0.04
Chile ³	856.1	0.39	8,811	0.40
China³	8,090.1	3.72	81,151	3.66
Colombia ³	774.0	0.36	7,990	0.36
Comoros ³	8.9	0.004	339	0.02
Congo, Democratic Republic of the ³	533.0	0.25	5,580	0.25
Congo, Republic of ³	84.6	0.04	1,096	0.05

Member	QUOTA		VOTES	
	Millions of SDRs	Percent of Total ¹	Number ²	Percent of Total ¹
Costa Rica ³	164.1	0.08	1,891	0.09
Cote d'Ivoire ³	325.2	0.15	3,502	0.16
Croatia ³	365.1	0.17	3,901	0.18
Cyprus ³	139.6	0.06	1,646	0.07
Czech Republic ³	819.3	0.38	8,443	0.38
Denmark ³	1,642.8	0.76	16,678	0.75
Djibouti ³	15.9	0.01	409	0.02
Dominica ³	8.2	0.004	332	0.01
Dominican Republic ³	218.9	0.10	2,439	0.11
Ecuador ³	302.3	0.14	3,273	0.15
Egypt ³	943.7	0.43	9,687	0.44
El Salvador ³	171.3	0.08	1,963	0.09
Equatorial Guinea ³	32.6	0.02	576	0.03
Eritrea	15.9	0.01	409	0.02
Estonia ³	65.2	0.03	902	0.04
Ethiopia	133.7	0.06	1,587	0.07
Fiji ³	70.3	0.03	953	0.04
Finland ³	1,263.8	0.58	12,888	0.58
France ³	10,738.5	4.94	107,635	4.86
Gabon ³	154.3	0.07	1,793	0.08
Gambia, The ³	31.1	0.01	561	0.03
Georgia ³	150.3	0.07	1,753	0.08
Germany³	13,008.2	5.99	130,332	5.88
Ghana ³	369.0	0.17	3,940	0.18
Greece ³	823.0	0.38	8,480	0.38
Grenada ³	11.7	0.01	367	0.02
Guatemala ³	210.2	0.10	2,352	0.11
Guinea ³	107.1	0.05	1,321	0.06
Guinea-Bissau ³	14.2	0.01	392	0.02
Guyana ³	90.9	0.04	1,159	0.05
Haiti ³	81.9	0.04	1,069	0.05
Honduras ³	129.5	0.06	1,545	0.07
Hungary ³	1,038.4	0.48	10,634	0.48
Iceland ³	117.6	0.05	1,426	0.06
India³	4,158.2	1.91	41,832	1.89
Indonesia ³	2,079.3	0.96	21,043	0.95
Iran, Islamic Republic of ³	1,497.2	0.69	15,222	0.69
Iraq	1,188.4	0.55	12,134	0.55
Ireland	838.4	0.39	8,634	0.39
Israel ³	928.2	0.43	9,532	0.43

Member	QUOTA		VOTES	
	Millions of SDRs	Percent of Total ¹	Number ²	Percent of Total ¹
Italy ³	7,055.5	3.25	70,805	3.20
Jamaica ³	273.5	0.13	2,985	0.13
Japan³	13,312.8	6.13	133,378	6.02
Jordan ³	170.5	0.08	1,955	0.09
Kazakhstan ³	365.7	0.17	3,907	0.18
Kenya ³	271.4	0.12	2,964	0.13
Kiribati ³	5.6	0.003	306	0.01
Korea ³	2,927.3	1.35	29,523	1.33
Kuwait ³	1,381.1	0.64	14,061	0.63
Kyrgyz Republic ³	88.8	0.04	1,138	0.05
Lao People's Democratic Republic	52.9	0.02	779	0.04
Latvia ³	126.8	0.06	1,518	0.07
Lebanon ³	203.0	0.09	2,280	0.10
Lesotho ³	34.9	0.02	599	0.03
Liberia ¹	71.3	0.03	0	0.00
Libyan Arab Jamahiriya ³	1,123.7	0.52	11,487	0.52
Lithuania ³	144.2	0.07	1,692	0.08
Luxembourg ³	279.1	0.13	3,041	0.14
Macedonia, former Yugoslav Republic of ³	68.9	0.03	939	0.04
Madagascar ³	122.2	0.06	1,472	0.07
Malawi ³	69.4	0.03	944	0.04
Malaysia ³	1,486.6	0.68	15,116	0.68
Maldives	8.2	0.004	332	0.01
Mali ³	93.3	0.04	1,183	0.05
Malta ³	102.0	0.05	1,270	0.06
Marshall Islands ³	3.5	0.002	285	0.01
Mauritania ³	64.4	0.03	894	0.04
Mauritius ³	101.6	0.05	1,266	0.06
Mexico³	3,152.8	1.45	31,778	1.43
Micronesia, Federated States of ³	5.1	0.002	301	0.01
Moldova ³	123.2	0.06	1,482	0.07
Mongolia ³	51.1	0.02	761	0.03
Montenegro, Republic of ³	27.5	0.01	525	0.02
Morocco ³	588.2	0.27	6,132	0.28
Mozambique, Republic of	113.6	0.05	1,386	0.06
Myanmar	258.4	0.12	2,834	0.13
Namibia ³	136.5	0.06	1,615	0.07
Nepal ³	71.3	0.03	963	0.04
Netherlands ³	5,162.4	2.38	51,874	2.34

Member	QUOTA		VOTES	
	Millions of SDRs	Percent of Total ¹	Number ²	Percent of Total ¹
New Zealand ³	894.6	0.41	9,196	0.42
Nicaragua ³	130.0	0.06	1,550	0.07
Niger ³	65.8	0.03	908	0.04
Nigeria	1,753.2	0.81	17,782	0.80
Norway ³	1,671.7	0.77	16,967	0.77
Oman ³	194.0	0.09	2,190	0.10
Pakistan ³	1,033.7	0.48	10,587	0.48
Palau ³	3.1	0.001	281	0.01
Panama ³	206.6	0.10	2,316	0.10
Papua New Guinea ³	131.6	0.06	1,566	0.07
Paraguay ³	99.9	0.05	1,249	0.06
Peru ³	638.4	0.29	6,634	0.30
Philippines ³	879.9	0.40	9,049	0.41
Poland ³	1,369.0	0.63	13,940	0.63
Portugal ³	867.4	0.40	8,940	0.40
Qatar ³	263.8	0.12	2,888	0.13
Romania ³	1,030.2	0.47	10,552	0.48
Russian Federation³	5,945.4	2.74	59,704	2.70
Rwanda	80.1	0.04	1,051	0.05
St. Kitts and Nevis ³	8.9	0.004	339	0.02
St. Lucia ³	15.3	0.01	403	0.02
St. Vincent and the Grenadines ³	8.3	0.004	333	0.02
Samoa ³	11.6	0.01	366	0.02
San Marino ³	17.0	0.01	420	0.02
Sao Tome and Principe	7.4	0.003	324	0.01
Saudi Arabia³	6,985.5	3.21	70,105	3.17
Senegal ³	161.8	0.07	1,868	0.08
Serbia, Republic of	467.7	0.22	4,927	0.22
Seychelles ³	8.8	0.004	338	0.02
Sierra Leona ³	103.7	0.05	1,287	0.06
Singapore ³	862.5	0.40	8,875	0.40
Slovak Republic ³	357.5	0.16	3,825	0.17
Slovenia ³	231.7	0.11	2,567	0.12
Solomon Island ³	10.4	0.005	354	0.02
Somalia	44.2	0.02	692	0.03
South Africa ³	1,868.5	0.86	18,935	0.85
Spain ³	3,048.9	1.40	30,739	1.39
Sri Lanka ³	413.4	0.19	4,384	0.20
Sudan ³	169.7	0.08	1,947	0.09
Suriname ³	92.1	0.04	1,171	0.05

Member	QUOTA		VOTES	
	Millions of SDRs	Percent of Total ¹	Number ²	Percent of Total ¹
Swaziland ³	50.7	0.02	757	0.03
Sweden ³	2,395.5	1.10	24,205	1.09
Switzerland ³	3,458.5	1.59	34,835	1.57
Syrian Arab Republic	293.6	0.14	3,186	0.14
Tajikistan ³	87.0	0.04	1,120	0.05
Tanzania ³	198.9	0.09	2,239	0.10
Thailand ³	1,081.9	0.50	11,069	0.50
Timor-Leste ³	8.2	0.004	332	0.01
Togo ³	73.4	0.03	984	0.04
Tonga ³	6.9	0.003	319	0.01
Trinidad and Tobago ³	335.6	0.15	3,606	0.16
Tunisia ³	286.5	0.13	3,115	0.14
Turkey ³	1,191.3	0.55	12,163	0.55
Turkmenistan	75.2	0.03	1,002	0.05
Uganda ³	180.5	0.08	2,055	0.09
Ukraine ³	1,372.0	0.63	13,970	0.63
United Arab Emirates ³	611.7	0.28	6,367	0.29
Un.K. ³	10,738.5	4.94	107,635	4.86
U.S.A. ³	37,149.3	17.09	371,743	16.79
Uruguay ³	306.5	0.14	3,315	0.15
Uzbekistan ³	275.6	0.13	3,006	0.14
Vanuatu ³	17.0	0.01	420	0.02
Venezuela, Republica Bolivariana de ³	2,659.1	1.22	26,841	1.21
Vietnam ³	329.1	0.15	3,541	0.16
Yemen, Republic of ³	243.5	0.11	2,685	0.12
Zambia ³	489.1	0.23	5,141	0.23
Zimbabwe ⁵	353.4	0.16	0	0.00

Notes :

1 At the present time all 198 members are participants in the SDR department.

2 Voting power varies on certain matters pertaining to the General Department with use of the fund's resources in that department.

3 These countries have accepted the obligations of Article VIII, Sections 2, 3, 4 of the articles of agreement.

4 Liberia's voting rights were suspended effective March 5, 2003 pursuant to Article XXVI, Section 2(b) of the Articles of Agreement.

5 Zimbabwe's voting rights were suspended effective June 6, 2003 pursuant to Article XXVI, Section 2(b) of the Articles of Agreement.

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