

Rechannelling special drawing rights for food security and sustainable food systems

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Summary

Investing in a sustainable transformation of food systems and achieving SDG2 by 2030 will require an additional \$350 billion annually. Rechannelling the special drawing rights (SDRs) issued by the International Monetary Fund (IMF) could help fill this large financial gap. It is an opportunity, using existing resources (over \$108 billion worth of SDRs have been pledged), to contribute to food security and sustainable food systems, especially in low- and middle-income countries, whose investments are constrained by limited fiscal space and high debt vulnerability.

This brief provides insights on different options for rechannelling SDRs for food, outlining the limitations of the IMF mechanisms; the advantages of a hybrid capital proposal that the African Development Bank and others put forward; and the benefits of engaging development financial institutions that have a primary focus on food security issues.

Given the continued food crises worldwide and the negligible rate of disbursement of the \$100 billion after two years of the SDR issuance, the responsibility lies at the political level to make faster progress beyond the technical debates on different instruments for SDR rechannelling. The Italian G7 presidency, in particular, could provide high-level political support for food

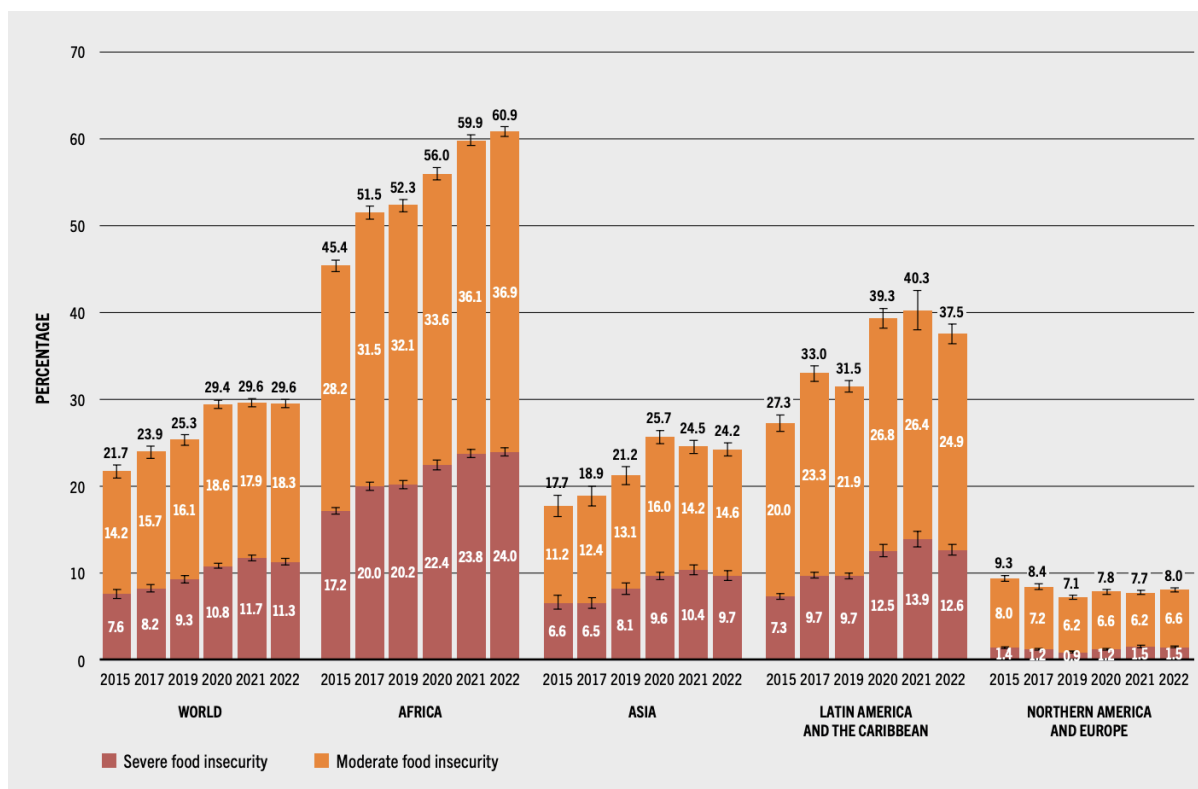
security and encourage global leaders to launch a formal process to explore how to rechannel SDRs for food within and beyond IMF channels. The work of the Brazilian presidency of the G20 and its proposed Global Alliance against Hunger and Poverty could go in the same direction to ensure a united front against the food security crises.

1. Pressing needs to mobilise resources for food security and sustainability

The UN Food Systems Summit +2 in Rome, the International Monetary Fund (IMF) / World Bank (WB) Annual Meetings in Marrakech, the G20 Summit in New Delhi and most recently, the COP28 called for greater efforts to be devoted to public, private and public-private investments for enhanced food security and more resilient and sustainable food systems (SFS), including through greater coherence and synergies between policies and investments across climate and food systems. COP28 in particular marked a significant milestone for the food and climate nexus with its UAE Leaders Declaration on Sustainable Agriculture, Resilient Food Systems and Climate Action calling for scaled-up financial and technical support for adaptation and resilience, and committing world leaders to speed up the integration of agriculture and food systems into the climate action agenda.

However, more than declarations and commitments, concrete investments are needed to face the current staggering challenges: in 2022 alone, about 800 million people worldwide faced hunger (+ 120 million compared to 2019), highlighting the immense challenge in achieving Sustainable Development Goal (SDG) 2 to end hunger, especially in Africa (Figure 1). Investing in the transformation of food systems is projected to require [an additional USD 350 billion annually by 2030¹](#) – including to help several low- and middle-income countries, in particular, to finance their food security plans, given their limited fiscal space and high debt vulnerability ([UN Global Report on Food Crises 2023](#)).

Figure 1: Food insecurity growing globally, especially in Africa



Source: From FAO, 2023. FAOSTAT: Suite of Food Security Indicators

2. Why look at SDR rechanneling for food security

To bolster the global economy and help countries weather the COVID-19 pandemic's economic shocks, the International Monetary Fund (IMF) issued the equivalent of \$650 billion in special drawing rights (SDRs) in August 2021. The SDR allocation is based on the IMF's quota of each country, which broadly reflects their economic size. As a result, the bulk of the SDRs allocation went to more advanced economies, while more vulnerable and poorer countries were facing the most acute financing needs.

To address this imbalance, G20 countries collectively committed to rechannel \$100 billion worth of SDRs to these poorer and more vulnerable countries. But progress has been slow and undermined by both technical and political issues. This also came out clearly during the 2024 Spring Meetings, where (once more)

global leaders failed to agree on approving alternative options that could foster SDRs rechannelling for food.





Yet, the rechannelling of the SDRs represents a unique opportunity to contribute to increased food security and sustainable food systems (Rampa et. al 2023), not the least due to their size (\$100 billion) – in a context where official development assistance tends to decrease or stagnate at best – as recently acknowledged for instance by the Chair of the Committee on World Food Security during the 2024 FAO regional ministerial conferences.

3. Options to rechannel SDRs for food security

A. IMF mechanisms

So far, SDRs rechannelling commitments have only been made under the IMF mechanisms, that is the Poverty Reduction and Growth Facility (PRGT), which provides financial support focusing primarily on addressing the balance of payment needs, and the Resilience and Sustainability Trust (RST), which provides conditional loans to developing economies related to COVID-19 recovery and climate action (Table 1).²

Table 1: High-level overview comparing IMF SDRs rechannelling mechanisms

	RST	PGRT
SDR Reserve Status preserved		
SDRs lent to countries		
Leverage effect	Slightly less than 1:1 Relies partly on the provision of additional grants	Slightly less than 1:1 Relies partly on the provision of additional grants

Funding target (current pledges as of 31/03/2024)	\$44 billion \$42.3 billion	\$ 17 billion (\$ 3.1 billion)
SDRs lending countries' cost	None	None
Investments focus	COVID-19 recovery and climate action	Balance of payment

However, and despite IMF's efforts, the reality is sobering: out of the \$100 billion commitment, and although [\\$108.15 billion has been pledged](#), by January 2024, only over \$570 million was disbursed under the RST for nine countries (out of the 18 that requested RST support) ([ONE 2024, Plant and Camps Adrogué 2023](#)).

Several issues affect SDR rechanneling through the PGRT and RST including the [conditionality approach, strict eligibility criteria, slow process and limited absorption capacity](#), and limited leverage (less than 1:1). In addition, the RST and PGRT can only rechannel up to \$ 61 billion, leaving a remaining \$ 47.15 billion of rechannelled SDRs virtually blocked (Paduano and Maret 2023). Last but not least, none of these funds are targeting specifically food security and sustainable food systems, which have emerged in the last few years as key global priorities.

In order to address some of the issues mentioned above (including the leverage effect and lack of food security focus), two concrete options could be considered on the way forward to boost the implementation of the RST and leverage its resources:

1. **The conditionalities of the RST could be adapted to include explicitly a mandate on food security** as part of the mid-term review process that will start in 2024. Enlarging the scope of the RST to food security could trigger additional demand from partner countries and boost its implementation on the ground. A partnership with institutions with a focus on food security (e.g. FAO, IFAD etc.) could be envisaged, following the model of the IMF-World Bank coordination framework in the context of the current RST.
2. **Countries benefiting from rechannelled SDRs could consider using them not necessarily or exclusively as budget support, but rather as a means to attract MDBs' investments** for food security and sustainable food systems. In doing so, countries can hope to leverage \$1 of rechannelled SDRs to generate \$4 of additional public and private investments (which is

the average of blended finance leverage ratio – Apampa 2023). Under this scenario, MDBs would invest in a coordinated and synergistic manner, alongside countries’ rechannelled SDRs from the RST.





B. Rechanneling SDRs through MDBs



Partly because of the limitations of the IMF SDRs rechanneling options – but also to optimise SDRs rechanneling for greater impacts on food security and sustainable food systems – alternative options for rechanneling SDRs through Multilateral Development Banks (MDBs)³ are currently being explored, including:

1. Hybrid capital instrument, as a means to leverage SDRs to attract additional investments (leverage of 1:4 against less than 1:1 for IMF mechanisms);
2. Issuance of SDR-denominated bonds, allowing developed countries to invest their SDRs in classic reserve assets—like bonds.

Beyond the technical elements of these two options (summarised in Table 1), rechanneling SDRs through MDBs will help leverage their capacities and role to support efforts towards achieving the SDGs (going beyond climate action), their ability to catalyse additional public and private investments, their technical expertise and, for some, policy advice and technical assistance to countries and the private sector. MDBs are also based on a solid governance framework and often have an AAA rating, demonstrating their financial strength.

Table 2: High-level overview comparing SDRs rechanneling options for MDBs

	Hybrid capital instrument proposal	SDRs denominated bonds
SDR Reserve Status preserved		
SDRs lent to countries		
Leverage effect	1:3 to 1:4 for AfDB (can be higher for other MDBs)	1:1

SDRs lending countries' cost	None (profits)	None (profits)
Previous experience	AfDB Hybrid capital (2024)	WB SDR bond (2017)
Current SDRs lenders' &/or MDB's interest	AfDB and IDB Japan and Spain interest and France commitment for the Liquidity Support Agreement	Potential interest from MDBs including the EIB
Investments focus		

When comparing the two options, the element that stands out, given the US4.2 trillion SDG financing gap and the current polycrisis (and more especially the food crisis), is the leverage effect of the hybrid capital instrument, which stands at 1:3 to 1:4 against 1:1 for the SDR denominated bonds. This ratio is expected to be higher for MDBs operating in more mature and stable markets such as those present in Latin America and Asia. This is one of the reasons why this option has attracted increasing attention and interest from the IMF and potential SDRs lenders.

This note dives into the hybrid capital option, by providing a description and analysis of the mechanism and how it works, before highlighting why MDBs, especially those who are already SDR-prescribed holders, should carefully consider this option as a way to boost investment and maximise its impacts on food security and sustainable food systems.

4. The hybrid capital instrument

The AfDB and IDB dedicated significant efforts and time to developing an attractive scheme to rechannel SDRs through MDBs:⁴ the hybrid capital instrument, which is combined with a liquidity support agreement. Under this scheme, countries with surplus SDRs can lend them to MDBs. Instead of converting those SDRs into hard currency, MDBs will keep them in their IMF account, as part of

the Bank's balance sheet, as hybrid capital – a new asset class recognised by credit rating agencies (Box 1). The hybrid capital instrument will be leveraged to issue bonds in hard currency on capital markets three to four times the equity value and on-lend them to developing economies. As a result, MDBs – through their capacity to mobilise additional investments – will see their lending capacity grow.

Box 1: Hybrid capital key characteristics

In short, hybrid capital allows the MDB to raise money (typically three to four times the amount of hybrid capital note) to increase its loanable funds by issuing bonds, which the hybrid capital guarantees. Hybrid capital is a fixed-income financial instrument, which has elements from both equity and loan products:

- It is sold as a fixed-income instrument (like a bond), but does not dilute the capital of the MDBs even though it is considered as equity from an accounting perspective;
- While the terms make it look like a permanent investment in the MDBs, investors can decide to cash in the bond after an extended period of 10 years – while doing this before can be ruled out by MDBs;
- It ranks senior to paid-in capital but junior to other unsecured debt. However, given the MDBs' AAA-rated financial management, the risk of lost hybrid capital is minimal and reserves can be set aside to address this risk.

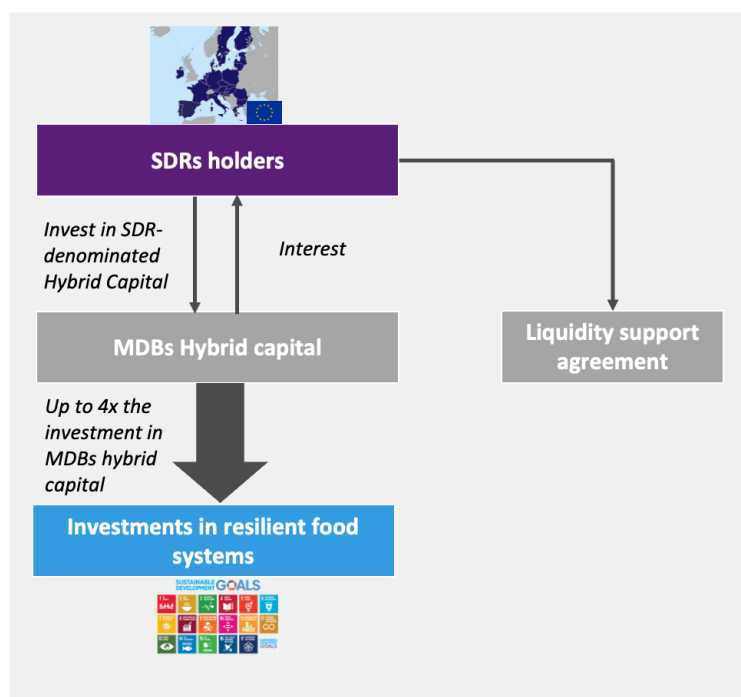
While hybrid capital has long been used by the private sector, it became an MDB asset class in January 2024, when the AfDB issued a \$750 million hybrid capital transaction with a coupon of 5.75% until August 2034, with a 10.5-year first call date at the Bank's discretion. While the pricing can be considered as high, it is generally in line with the spreads that banks and corporates pay for hybrid securities, and it should be understood in a context where the AfDB is creating a market, paying a first mover price. In contrast, The World Bank bypassed capital markets and offered the hybrid securities directly to its

shareholders, which is less expensive (Germany, who provided a €305m private placement to the World Bank) (Khadbai 2023). It is likely to see the AfDB and other MDBs issuing hybrid capital notes in the future through and/or bypassing capital markets, with e.g. the AfDB having a total capacity to issue \$4 billion-\$5 billion of hybrid capital bonds.

Source: Based on Sala and Plant 2022 and Strohecker and Savage 2024

The second pillar of the hybrid capital proposal refers to the liquidity support agreement (LSA) and is of particular relevance for European countries as they are not allowed by the European Central Bank (ECB) to rechannel their SDRs through the hybrid capital instrument. The LSA is less about maximising the impacts and scale of SDRs-backed investments than adding yet another layer to ensure the reserve asset status of the SDRs (Figure 2). Concretely, the LSA helps ensure the liquidity of the MDB SDR Debt by providing funding for the temporary exit of an SDR lender in case of balance of payment needs, through unfunded liquidity guarantee by SDR lenders. However, the probability of LSA guarantees being called upon is very low given the first layer of protection built in by the AfDB.

Figure 2: Simplified overview of the hybrid capital model to recycle SDRs



Source: From the authors

The hybrid capital proposal is attractive for several reasons (Plant 2023):

1. For each SDR dollar equivalent, an additional three to four dollars will be spent on sustainable development, with the potential to attract additional public and private investments at the project level;
2. The reserve asset status of the SDRs is preserved, as indicated by the IMF staff document on the matter;
3. It is highly unlikely the SDRs will be pulled out of their IMF account (this is also reflected in the credit rating agencies' recognition of hybrid capital as a new asset class). Likewise, the impact of SDR recycling on central banks' foreign reserves will likely be minimal and short-lived (Adroque and Plant 2023).
4. SDRs are not lent to countries, so recycling SDRs will not strain central bank reserve management, which is a concern for some central banks.
5. SDRs lenders would make a minor profit from rechannelling their SDRs, given that the AfDB will pay an interest rate slightly above those of SDRs.

To materialise the hybrid capital proposal, SDRs lending commitment from five⁵ donors amounting to SDR 500 million each must be secured, while two would be enough when it comes to the LSA. Thus far, a few countries including Japan have indicated an interest in the hybrid capital instrument and the LSA (France and Spain). This however still falls short of the necessary requirements and is explained by i) the innovative nature of the instrument, which has recently been tested for the first time by an MDB - the AfDB in January 2024; and ii) the reluctance of developed economies' central banks to engage in this alternative as some have a strict interpretation of how SDRs can be used (for monetary rather than fiscal purposes).

The political pushback from countries and institutions is also visible from i) the recent postponement of the the formal decision by the board of the IMF on whether special drawing rights (SDRs) could be recycled into the hybrid capital scheme which was and still is expected to be a key milestone and facilitator to move this interest into actual commitments; ii) the inability of countries to make concrete steps towards SDRs rechannelling during the 2024 Spring Meetings - all this in a context where climate and food security needs are enormous and growing. Beyond addressing a key development issue, the inability of countries to rechannel effectively and efficiently their SDRs also has a political impact,

creating distrust and further socioeconomic and political divide between the Global South and North.

5. Ways forward for rechannelled SDRs for food security and sustainable food systems

As previously emphasised, the current food crisis requires investments at scale, and to tap into existing pockets of money rather than creating new solutions, which are not likely to receive strong political backing given the current budget constraints, and be implemented in the short term to address urgent needs. There is a general consensus that rechanneling SDRs could be a most relevant avenue to foster investments in food security, but the current IMF mechanisms (RST and PGRT) are not well equipped to deliver impactful solutions at scale, in time, and with significant leverage effect.

That is why increasing attention has focused on the role of MDBs, whose expertise, governance and capacities to mobilise additional public and private investments make them a most relevant entry point to rechannel SDRs for food. In this context, our analysis highlights that amongst all options, two models particularly stand out when it comes to MDBs' engagement for SDRs rechanneling for food.

1) The hybrid capital option for higher leverage effect

Following the approval of the IMF Board on this proposal, planned for 2024, it is possible to see the AfDB move forward in rechanneling SDRs in early 2025. However, given the current needs, more MDBs are (and should be) interested in seizing this as an opportunity to engage in SDRs rechanneling, in a way that helps them significantly increase their lending capacities and achieve greater impacts - putting those rechannelled SDRs to good use.

Given the current growing levels of food insecurity, and the need to deliver more and better investments in sustainable food systems, MDBs would be well-positioned to implement a hybrid capital instrument. Though this model could be applied by all MDBs as long as they comply with some of the key

technical criteria (including being a prescribed holder), some may be better equipped than others to rechannel SDRs for food specifically:

1. MDBs who have experience in issuing bonds and attracting additional investments, and a unique position and knowledge in supporting resilient food systems. Looking at criteria such as who their shareholders and members are (do they include partner countries including LMICs?) is crucial as it does provide the necessary credibility and political traction to pursue MDBs mandate of investing in sustainable food systems. Likewise, the capital structure of the MDBs could be another dimension to consider: some MDBs use different balance sheets to serve different types of countries (e.g. LICs and fragile countries) whilst others use the same balance sheet allowing to diversify risks and engage into more additional types of investments. Looking at MDBs countries' exposure may also be relevant as it may affect where food related investments can and cannot go.
2. MDBs who have a solid track record, knowledge and expertise in investing in sustainable food systems, where needs have and are expected to increase in the coming years, partly due to the polycrisis. In addition, additional criteria should be considered including: i) MDBs' network - at the regional, national and local levels; ii) their ability and experience in reaching smaller food system's' actors, indigenous communities and women and girls; iii) their capacity to invest in more challenging segments including on climate adaptation for food systems; iv) their ability to innovate and foster ICT and digital innovations; and v) their capacity to attract additional resources including from the private sector.
3. MDBs which modus operandi goes beyond the one-deal type of transaction, but rather aims to approach food issues from a systemic perspective, and in doing so, coordinates with a plurality of actors including: i) national and local authorities - hence working with and through local actors; ii) technical partners like FAO, which can help improve the business environment to make investments possible; and iii) other MDBs, as co-financiers or under other forms including scaling up of IFAD's tested Innovations. While this coordination may require additional costs, it is nonetheless a condition sine qua non to transform sustainable food systems and provide a long-term response to food insecurity.

In this context, development financial institutions that have a primary focus on rural transformation and food security issues could be seen as the most relevant partners to pilot rechannelling SDRs for food security and sustainable food systems. For example, both its exclusive focus and expertise on food systems and its hybrid capital structure and experience issuing bonds on capital markets, make IFAD a possible partner (Figure 3).

Figure 3: Why IFAD is a relevant entry point to rechannel SDRs for food security



Source: From the authors

In addition, using IFAD as a pilot for the implementation of the hybrid capital instrument can be considered less risky, as the amounts involved would be of a more limited scale than those required by bigger MDBs.

For IFAD, the time could not be more opportune: IFAD is going through its 13th replenishment process, which has been relatively successful thus far (pledges reached \$1.35 billion so far, exceeding the total \$1.28 billion pledged for the 12th replenishment of IFAD (2022-2024)). In particular, members of the G7 and the EU are actively contributing to the current IFAD replenishment, thus showing their commitment and trust in IFAD's track record. In addition to pledges, donors could consider recycling their SDRs through IFAD, to give it the necessary means to scale up its interventions and carry on its innovative work that complement and build synergies with other MDBs initiatives.

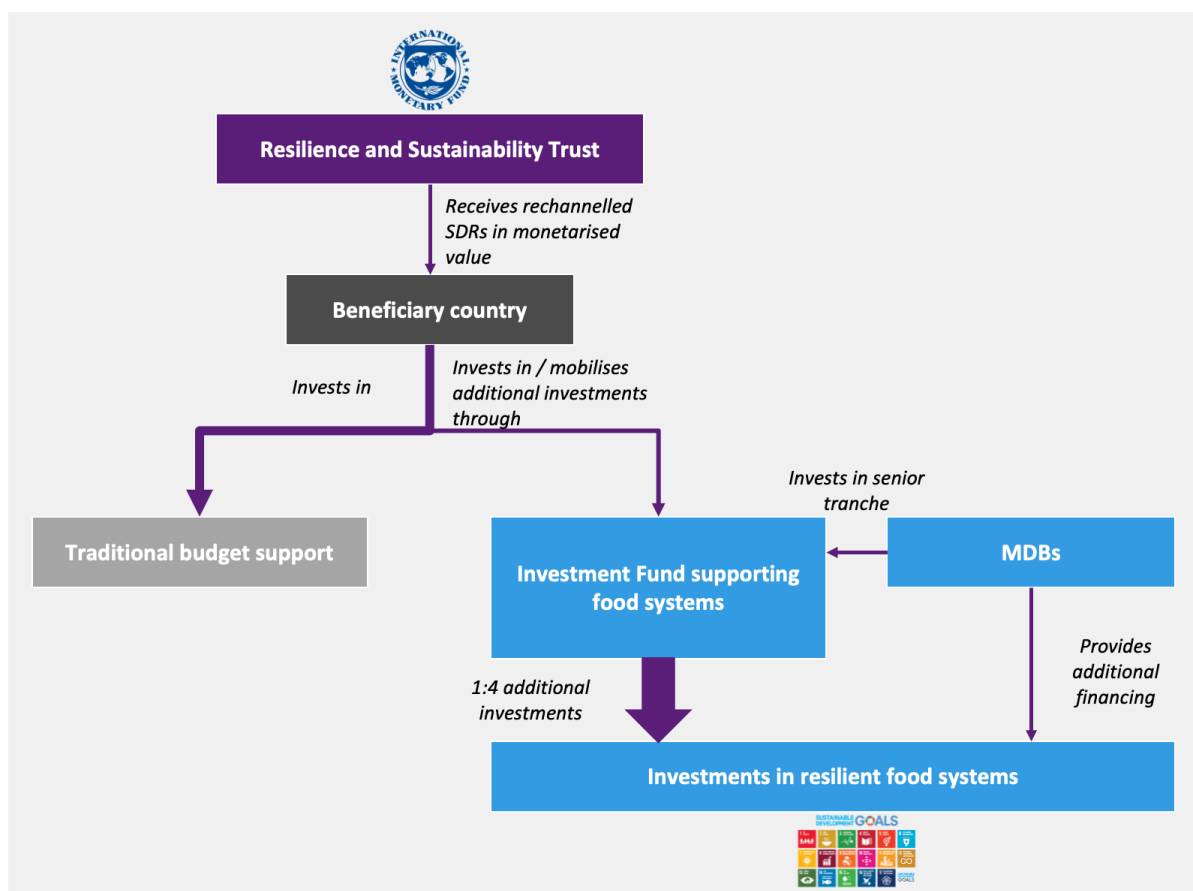
2) Working in a coordinated and synergistic manner with the RST

Besides the hybrid capital option, MDBS could indirectly contribute to maximising rechannelled SDRs' resources for greater and more transformative food investments at scale. Rechannelled SDRs through the RST are mostly used as budget support in the form of grants. While this is understandable, it does not imply any leverage effect, which, considering the scale of the food crisis, is, if not a drawback, a missed opportunity.

In the model further explained below, we argue that part of the rechannelled SDRs could be used by countries as a means to attract MDBs' investments for food security and sustainable food systems. In doing so, countries can hope to leverage \$1 of rechannelled SDRs to generate \$4 of additional public and private investments (which is the average of blended finance leverage ratio - Apampa 2023). In this scenario, governments benefiting from rechannelled SDRs through the RST could inject part of them in an investment fund in the form of grants (for technical assistance, interest rates' subsidies etc.) that could be used in the context of blending operations, to mobilise additional public and private financing, including from MDBs. Alternatively, rechannelled SDRs could also be used as a risk-sharing mechanism, de-risking MDBs operations and thus allowing them to engage in riskier geographies (LMICs including fragile countries, rural and remote areas), and overlooked segments (MSMEs, credit unions etc.) and population (women and youth). This would be additional and complementary to the more traditional types of investments MDBs would make (without the need for blending or de-risking), including in transport and energy infrastructures (Figure 4). Such an approach could help deliver more transformative and systemic impacts, which is one of the key elements to take into account when investing in food.

To facilitate this endeavour, a proper/effective coordination framework between the IMF RST and MDBs could be developed, where MDBs expertise could also be used not only to help shape impactful and transformative sustainable food systems and food security investments, but also to provide policy advice to central and local authorities - building their capacities and ability to implement effective food policies and strategies.

Figure 4: Leveraging SDRs from the RST to attract additional investments for food



Source: From the authors

6. The urgency of high-level political support

Given the growing levels of food insecurity, current global financial commitments are insufficient. Global leaders have a *political* responsibility to move at the required speed to rechannel their SDRs for concrete and impactful investments at scale, beyond the *technical* debates on different instruments for SDR rechanneling, leveraging multilateral platforms. So far these leaders have not been up to the challenge with too little done to finance a sustainable food systems transition and address the global food crisis.

The Italian G7 presidency, in particular, provides an opportunity for high-level political support for food security and could provide a relevant channel for global

leaders to launch a formal process aiming to explore how to effectively rechannel SDRs for food security and sustainable food systems within and beyond IMF channels (Rampa et al. 2023) – e.g. through a declaration either at the G7 Summit in June or at the Development Ministerial Meeting in October. The Brazilian presidency of the G20 and its proposed Global Alliance against Hunger and Poverty could go in the same direction, thus ensuring a united front against the food security crisis.

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Endnotes

1. This can translate into annual net benefits of USD 5 to 10 trillion – by reducing current unaccounted health and environmental costs (Food System Economics Commission 2023).

2. Besides their respective objectives, the PGRT and RST also differ in size: the funding target for the PGRT and RST stand at \$ 17 and \$44 billion. By March 2024, the PGRT had secured [\\$3.1 billion](#) in subsidy pledges, against [\\$42.3 billion](#) for the RST (IMF website).

3. Beyond MDBs, other solutions outside of the IMF have been put forward including the Liquidity and Sustainability Facility (LSF) proposed by UNECA.
4. Although the proposal is based on and focuses on the case of the AfDB, it has been made clear that it could be applied by any other MDBs with similar characteristics.
5. Five countries are required to engage in the hybrid capital proposal mainly to diversify risks and ensure the sustainability of the hybrid capital option, in case one of the countries lending SDRs would decide/need to step out. Another layer of protection against this risk is the LSA, which would be triggered in case a hybrid capital investor for any reason needs SDRs back. There, two countries are required to ensure risk diversification and respond at the scale needed to the potential risk.

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