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TOPIC :- FEATURES OF SPECIAL DRAWING RIGHTS (SDR) SCHEME

Special Drawing Rights (SDRs) are regarded as international reserve, allocated annually by the collective decision of participating members in the fund. Possession of SDRs entitles a country to obtain a defined equivalent of currency from other participating countries and enable it to discharge certain obligations towards the General Account of the fund. The creation of SDRs is, thus, intended to increase the resources available to IMF members to overcome their temporary foreign exchange difficulties without putting any additional strain on the IMF resources. SDRs are, thus, a method of supplementing the existing reserve assets in the international liquidity.

The salient features of Special Drawing Rights scheme are as follows:–

(1) The creation of Special Drawing Rights is essentially similar to the concept of credit creation which central banks undertake in their countries to supplement the resources of the banking system to meet the monetary requirements – the liquidity need of the country. The SDR scheme is an extension of the same principle.

(II) The scheme proposes that the allocation of SDRs is to be made on the basis of quotas held by the individual member countries.

(III) SDRs have been created under a Special Drawing Account with the IMF. The resources of the new account, SDA, are created by an agreement amongst members as to the percentage of the existing resources with the IMF to be formed into SDRs.

(IV) With the introduction of the SDR scheme thus the accounts of the IMF are divided into two accounts namely as the General Account and the special Drawing Account. The General Account deals with the ordinary transactions of IMF whereas the special Drawing Account conducts the SDR transactions.

(V) The scheme proposes that the special Drawing Rights would be a sort of gold paper. Thus, the value of SDRs is fixed in gold.

(VI) The scheme, thus, envisages a pure fiduciary reserve creation. It provides for regularly creating SDRs in the IMF which the member countries

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would accept as reserves and use for the settlement of the international payments. The SDRs have been, thus, aptly remarked as "Paper Gold."

(VII) The SDRs themselves are not international money, SDRs are just like coupons which can be exchanged for currencies required by the holder of SDRs for making international payments.

(VIII) It has been statutorily laid down that due restraint would be exercised in the creation of SDRs in order to maintain people's confidence in it.

(IX) The SDRs allocated to fund members are transferable assets under the designation issued by the IMF, subject to certain limits of holding.

(X) Under the scheme, the use of SDRs would obviously imply a reduction in the reserves of the using country, while the other participating countries which are receiving drawing rights in international settlement, would accumulate their SDR holdings. It is proposed that a modest rate of interest will be paid in SDR on holdings of such Drawing Rights.

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(xi) The scheme provides that the decumulation and accumulation of SDRs would be taking place within the Special Drawing Account itself. Over a five year period, a country shall not use more than 70% of its average net cumulative allocation.

Through the scheme seeks to reconstitute the IMF and its international liquidity structure, it aims at increasing international liquidity without causing any basic change in the present IMF system and its functioning.