

Special Drawing Rights and BRICS: Challenge & Opportunities

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Abstract: *This paper examines Special Drawing Rights (SDRs) as a means of bringing global markets under control during uncertain economic times, with a focus on the US\$650 billion SDR allotment to IMF member countries in 2021. As an international reserve asset that increases global liquidity and acts as an insurance policy for both developed and emerging countries, the analysis demonstrates the function of SDR. The advantages have been distributed unevenly across the nations, despite the fact that the allocation has contributed to debt sustainability, bolstered trust in global financial systems, and offered an insurance mechanism for unforeseen events. Using IMF reports, World Bank projections, and UNCTAD trade data that briefed leaders at the complete, this paper represents how the case for SDRs already rested on these sources. It portrays SDRs as essential to (a) strengthening countries' resilience, (b) releasing them from reliance on unstable and fragile capital flows, and (c) enabling them to invest in sustainable climate development pathways. The conclusion of the research is that new rechannelling methods and the use of multilateral coordination in the exchange of SDRs are essential for inclusive growth and global financial stability.*

Keywords: BRICS Economies, International Monetary Fund (IMF), Global Financial Stability, International Reserves, Debt Sustainability, Liquidity Support, Sustainable Development, Special Drawing Rights (SDRs)

JEL Classification: F33, F55, O57, E52

1. Introduction

In both trade and finance contexts, the U.S. dollar remains the most widely used global reserve currency, indicating that the worldwide monetary system is systemically dollarized. According to Truman (2023), the dollar accounts for about 59% of the world's foreign exchange reserves as of 2023, underscoring both its importance and the systemic problems. In turn, the dollarize movement has heightened concerns about exchange rate volatility, financial instability, and the capacity of developed countries to exercise geopolitical influence (Mohammed, 2024). Discussions concerning the possible function of Special Drawing Rights (SDRs) issued by the International Monetary Fund (IMF) as an extra worldwide reserve asset have been rekindled by these issues in both academia and policy.

The SDR, established in 1969 is not a currency but a potential claim on the freely usable currencies of IMF members, and derives its value from a basket of five major currencies: the U.S. dollar, euro, Chinese yuan, Japanese yen and British pound (Harrison, 2019). However, besides some large allocations, especially the unique US\$650 billion allocation in 2021 during the COVID-19 crisis, the SDR has retained a marginal status in global finance, accounting for less than 5% of total reserves (Ocampo, 2019; Truman, 2023). Structural governance challenges within the IMF and the absence of the political will of member states to develop their role, have led to SDRs being underutilized (Pforr, Pape, & Murau, 2022). In this context, the BRICS—Brazil, Russia, India, China and South Africa—have banded together to demand a more multipolar system of international finance. With more than 32% of global GDP and 18% of world trade, BRICS nations are also important players in any conversations regarding

reserve diversification (Nach, 2024; Ye, 2023). BRICS via the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) has signalled its effort and readiness to develop instruments of liquidity that do not depend on dollar-led mechanisms (Chin, 2024; Bradlow & Masamba, 2024).

Thus, SDR reforms and BRICS strategic objectives came together to offer win-win opportunities with no policy trade-offs. In this respect, SDRs, on the one hand, could enable BRICS to reinforce intra-bloc trade settlement, diversify reserves and provide protection from external shocks. However, IMF governance asymmetries, SDR liquidity limitations, and divergent national interests within BRICS make coordination difficult (Cooper & Cannon, 2024; Hofman & Srinivas, 2024). However, because of the system-wide passivity of the dollar, some structural issues at the IMF have kept SDRs from providing effective counterweights to global monetary asymmetries. Even with outstanding allocations like the 2021 issuance, SDRs have remained marginal to international finance, making up less than 5% of global reserves (Ocampo, 2019; Truman, 2023). Academics note that governance imbalances and the lack of proportionality of emerging markets in the IMF limits the fair allocation and effective deployment of SDRs (Pforr, Pape, & Murau, 2022). Such constraints have raised demands from the Global South, especially from BRICS countries, for reforming reserve assets and more flexibility in using SDRs for development.

Against this changing background, BRICS have emerged as important players calling for the creation of a multipolar financial trajectory. BRICS have tried to establish complementary mechanisms to lessen reliance on dollar-based liquidity infrastructures through policies like the New

Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) (Chin, 2024; Bradlow & Masamba, 2024). The NDB's expanding membership and partnerships show increasing efforts to institutionalise South-South financial cooperation, and continuing discussions on the role of SDRs showcase the potential of pro-BRICS monetary regimes (Hofman & Srinivas, 2024; Nanwani, 2024). BRICS apparently designs such schemes to change the global financial architecture and to remedy what they see as long-standing imbalances in international monetary reserve allocation in connection with (or even through) the linking SDR allocation with alternative multilateral institutions. This paper examines these dynamics and seeks to deepen the understanding of the challenges and opportunities of using SDRs within an expansion of BRICS in the service of a multipolar global financial system.

2. Literature Review

a) Evolution of Special Drawing Rights, in the Global Monetary System

The issue of Special Drawing Rights (SDRs) has become more controversial in recent years, especially following the IMF allocating, as an exceptional measure, US\$650 billion in 2021 to cushion the economic damage caused by the COVID-19 pandemic (Truman, 2023). Although SDRs were intended to increase global liquidity, their importance is quite limited: they represent less than 5% of total reserves (Harrison, 2019). Obstfeld (2010) previously attributed the underutilization of SDRs to their low liquidity and reliance on IMF governance. Recent writings have focused on their role as global crisis counter-cyclical instruments (Ocampo, 2019; Truman, 2023). The political economy of SDR allocations has been debated among scholars with some pointing out that IMF quota structures mean that advanced economies gain the most from SDR allocations (Pforr, Pape, & Murau, 2022). If we look specifically at SDR reform, Harrison (2019) similarly situates China as one of the so-called "dominant emerging powers" behind efforts to internationalise the renminbi, but also claims that China received a significant victory (at least symbolic) with the inclusion of the yuan in the SDR basket in 2016. This reflects earlier recommendations made by Zhou (2009) to reinforce SDRs as a real global reserve currency, reiterating discussions on the need for a multipolar reserve regime.

b) The BRICS alliance and the struggle for Financial Independence

Similar to SDR discussions, the BRICS bloc has sought to stake out a space in the geopolitical debate over opposing dollar dominance. BRICS aims to diminish dependence on West-centric institutions via channels like the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) (Chin, 2024; Bradlow & Masamba, 2024). Nach (2024) focuses on the intra-BRICS integration which leads to the channels for the de-dollarization to take place, Mohammed (2024) talks about the BRICS-Plus framework as the motherboard of global financial multipolarity.

The NDB is the most obvious of the many institutional reforms made by BRICS (Kurtulus, 2014). Méndez (2024) and Chin and Kamal (2024) look at new members like Uruguay and Bangladesh, demonstrating how the NDB serves

as a platform for Global South agency. In the NDB, Is It Overshooting in Africa? The NDB's advantages for Africa are evaluated by Bradlow and Masamba (2024), who also point out some of the institution's strengths as a developmental organization as well as the drawbacks brought about by its design. Alden and le Pere (2024) similarly present the NDB as a continuation of earlier South-South cooperation platforms, situating BRICS attempts within a larger Southern multilateralism tendency.

c) New Development Bank Strategic Directions

A growing amount of research examines the NDB's strategic alliances and evolving position within the global financial system. Nanwani (2024) analyzes NDB in seeking partnerships with more mature MDBs, and Hofman and Srinivas (2024) contend NDB can succeed only if enlightened BRICS geopoliticking overcomes political pressures over global governance. The gaining of United Arab Emirates as a member of NDB demonstrates that NDB is reaching new geopolitics that are promising but politically complicated (Cooper and Cannon, 2024). To limit zero-sum great power competition, Zhu (2024) notes that China is using UN-supported expansion of NDB to garner greater multilateral legitimacy.

d) Challenges and Opportunities of SDR–BRICS Convergence

Debates over SDR reform have coincided with financial strategies for BRICS, emerging as a focal point in the literature. If accurate, it may establish BRICS institutions like the NDB as the primary channel for SDRs, which many academics think would provide liquidity for emerging countries while simultaneously boosting alternatives to the dollar system (Ocampo 2019; Truman 2023). Despite this, governance asymmetries within the IMF are a structural obstacle, with BRICS combined holding only about 14% of voting power, too little to push through reforms alone (Pforr et al. 2022).

At the same time, the BRICS group finds it challenging to function as a cohesive entity due to internal divisions. China markets yuan internationalization, but India and Brazil are unsure of a range of deep monetary integration, claim Mohammed (2024) and Nach (2024). These interactions highlight SDRs' potential and limitations in advancing the BRICS multipolar agenda.

3. Research Methodology

This paper takes a discussion-focused strategy and is wholly dependent on secondary sources, particularly a number of globally reputable sources such as the United Nations Conference on Trade and Development (UNCTAD), World Bank, and International Monetary Fund (IMF). Official documents, information bases, and strategy archives provided data on SDR distributions, BRICS international cash saving, and exchange investment history for the 2020–2025 period. After that, it was combined and synthesized to give an understanding of BRICS' position on the benefits and difficulties of using SDRs. The methodology is qualitative, devoid of econometric models or statistical tests, and centered on policy analysis and data interpretation. Without straying from the consequences for global monetary change and

BRICS financial cooperation, it enables us to monitor all pertinent facts.

4. Discussion

Recently, SDRs have gained popularity as a crucial financial asset for the BRICS nations, all of whom are trying to increase their ability to withstand external shocks in the wake of the COVID-19 outbreak. In August 2021 the International Monetary Fund (hereafter IMF) approved the largest SDR allocation in history of US\$650 billion, out of which BRICS collectively were allocated c. US\$182 billion (IMF 2021). As the second largest holder of IMF quotas, China received US\$42 billion, followed by Russia (US\$18 billion), India (US\$ 17.8 billion), Brazil (US\$15 billion) and South Africa (US\$4.2 billion) (IMF, 2022). This allocation enhanced liquidity positions for the group as a whole but disproportionate distribution is still revealing global quota imbalances as the major part of SDRs was received by advanced economies.

In 2021, the IMF allocated Special Drawing Rights (SDRs) to all its members for the second time in history, which resulted in the distribution of roughly US\$650 billions of liquidity, according to their IMF quotas (International Monetary Fund, 2021). This allocation proved vital for BRICS countries, as it provided a tool to bolster foreign exchange reserves, protect balanced budgets and cushion economic shocks from COVID-19. An analysis of the distribution of SDRs will not only allow one to identify the quantitative scale of resources garnered by Brazil, Russia, India, China, and South Africa, but also their qualitative policy implications. Table 1 shows 2021 shares of allocation to BRICS members, in dollar terms, as well as each country share of the whole allocation and potential relevance to research.

Table 1: SDR Allocation to BRICS in 2021

Country	SDR Allocation (millions)	USD Equivalent (billions)	Share of Global Allocation (%)
Brazil	10,583.30	15.07	2.30%
Russia	12,367.60	17.61	2.70%
India	12,569.60	17.89	2.80%
China	29,216.50	41.57	6.40%
South Africa	2,924.40	4.16	0.60%

Source: IMF (2021) www.imf.org

BRICS economies have performed differently in acquiring foreign exchange reserve from 2020 to 2025 which in turn reflects on their potential use of SDRs. The foreign exchange reserves of China increased from 3.17 trillion US dollars in 2020 to about 3.25 trillion US dollars in 2023 according to IMF and World Bank statistics (World Bank, 2023), indicating a stable position of foreign exchange reserves income accumulation capacity of China under the global economic headwinds. India too continues to increase its reserves every year, with reserves reaching US\$597 billion (and among the five largest reserve holders in the world) in 2023 (RBI, 2023). However, Russia also saw large declines in its reserves after reaching about US\$630 billion at about 2021, as Western sanctions rapidly closed off the country from financial markets after 2022 with its reserves dropping to about US\$416 billion by 2023 (IMF, 2023a). Brazil's reserves ranged from US\$390 billion to US\$400 billion and South

Africa's from US\$70 billion to US\$90 billion between 2020 and 2023 (World Bank, 2023). This asymmetry in resilience within BRICS reflected in these disparities will largely determine the extent to which each member deploy SDRs as a financial buffer.

Similarly, one indirect role of SDRs relates to the global trade system, where the BRICS countries are also exercising in an expanding way. BRICS' joint goods and services trade rose to over US\$6.5 trillion in 2022, nearly a fifth of the world trade according to statistics of UNCTAD and IMF textile (UNCTAD, 2023). China leads this with more than US\$3.7 trillion, while India and Russia had US\$1.2 trillion and US\$850 billion respectively. Brazil's trade approximated US\$600 billion, driven mostly by agricultural and energy exports, and South Africa US\$250 billion (World Bank, 2023). According to the IMF (2024) these trends could see BRICS command a world trade share of over a quarter already in 2025, in large part driven by currency diversification policies and increasing use of local currencies to settle intra-BRICS trade.

In addition, reform on SDR rechanneling mechanisms has been an important issue. G20 has also urged advanced economies to redirect some of their largely idle SDRs to developing economies including BRICS, in an Arab-strategic alliance with IMF's Resilience and Sustainability Trust (RST) and Poverty Reduction and Growth Trust (PRGT) (IMF, 2023b). Such channels are likely to help BRICS nations, especially South Africa and India, to finance sustainable development and climate investments. But reallocations of this kind, limited in size and perhaps only reaching an estimated total of US\$100 billion worldwide, are insufficient to meet the liquidity requirements of large emerging economies (World Bank, 2024).

Thus, although SDR allocations since 2020 have reinforced the financial stability of BRICS countries, asymmetries within the bloc, differences in reserves of foreign exchange, exposure to geopolitical shocks, and dependence on external demand, all of which were present before the global pandemic, still contribute to the role of BRICS in the aforementioned context. The difficulty for BRICS in 2025 will be replicating from SDR access a temporary liquidity tool into a long-lasting trade support and a financial sovereignty factor.

5. Conclusion

The results of this study illustrate that extra SDR allocations are an indispensable instrument for strengthening the financial resilience of the BRICS economies in the context of the COVID-19 pandemic and the post-pandemic recovery from 2020 to 2025. While the US\$650b facility provided relief needed at a time of great distress, it also exposed systemic inequities based on the IMF quota structure with advanced economies receiving the bulk of the allocation (IMF (2021) (IMF, 2025). SDRs were especially beneficial for the BRICS in import facilitation, exchange rate stabilization, and foreign reserve bolstering, highlighting the growing importance of SDRs in the changing global financial architecture (Harrison 2019; Truman 2023). These academic discussions also highlight that SDRs may be better used, if distributed to regional and multilateral institutions like the NDB or CRA.

Terms of use Studies emphasize that the NDB has successfully evolved into a possible alternative to IMF facilities, providing a buffer for some liquidity and infrastructure-driven development access (Bradlow and Masamba 2024; Chin 2024; Hofman and Srinivas 2024). Simultaneously, BRICS' promotion of de-dollarization and the increasing number of NDB members speak to a larger goal of altering the international financial system to give greater power to emerging powers (Mohammed 2024; Luo and Yang 2021; Zhu 2024).

All in all, SDRs are a useful stabilization tool when the external shocks hit, but their transformational impact for BRICS may lay in their embedding into new institutional configurations that gradually are pursued with the long-term objectives of the bloc – in terms of financial independence and finance governance with multipolar features (Alden and le Pere 2024; O'Neill 2024; Ye 2023). It is fair to suggest that the significance of SDR allocations to BRICS illustrates both the urgent need for liquidity provision and the need to transform global financial institutions to truly represent the realities of a new world economy.

6. Policy Implications

Policymakers need to pay attention to the fundamental inequities of the prevailing IMF quota system and jointly push for reforms to ensure that BRICS economies- and developing markets more generally—gain an appropriate resource share of SDR allocations (IMF 2021; Luo and Yang 2021). If BRICS were to take coordinated action, its bargaining power in international forums would be enhanced and would strengthen calls for a more balanced and inclusive global financial order (Mohammed 2024; Zhu 2024). To ensure maximum developmental impact of SDRs, BRICS governments should invest this money in bigger goals with long-term benefits including climate change adaptation, an energy transition and in sustainable infrastructure projects. Bonding the SDR to the pooled resources of institutions like the New Development Bank (NDB) or the Contingent Reserve Arrangement (CRA) can both multiply their functionality while making these institutions more legitimate (Chin 2024; Bradlow and Masamba 2024; Hofman et al. 2024).

In addition, using SDRs for intra-BRICS trade in national currencies also further reduces systemic dependence on the dollar and contributes to greater monetary sovereignty, consistent with the larger BRICS and de-dollarization policy goal (Mohammed 2024; O'Neill 2024). Those kinds of initiatives would be valuable not just in the short term for stabilizing BRICS economies but also towards constructing a more resilient, multipolar and balanced international monetary system (Alden and le Pere 2024; Ye 2023). It is this potential for collaboration one which would never be dependent on the limitations and conditions of international finance that would affirm the SDR utility as a pivotal platform through which BRICS can present itself as a force to reshape an archaic global finance governance in line with 21st century realities through integration aligned with broader strategic policies: financial resilience, sustainable development and monetary sovereignty.

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