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Funding Climate Action and COVID-19 Recovery by New Special Drawing Rights – A Game Changer?

A Proposal for the Structure of the IMF's New Resilience and Sustainability Trust

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EXECUTIVE SUMMARY

In August, the International Monetary Fund (IMF) Board of Governors gave final confirmation for the issuance of new Special Drawing Rights (SDRs) worth $650 bn in order to tackle the COVID-19 and the climate crises. The newly created SDRs would be allocated to the IMF member states in proportion to each country's share in the IMF's capital.

This leads to the situation that the bulk of the new SDRs - roughly $400 bn - ended up in the balance sheet of the central banks (or their treasuries) of the Global North, whereas the countries from the Global South are in the greatest need for the new international reserve currency. To give the member states an opportunity to correct this misallocation on a voluntary base the IMF plans the establishment of a new Resilience and Sustainability Trust (RST).

This paper will analyse on which way a sum of around $300 bn of the newly created SDRs could be rechannelled from the North to the South in form of grants (not loans). The RST could play a crucial role as transmitter between the countries from the Global North, which donate a part of their new received SDRs to the RST, and various Development Finance Institutions (DFIs) which will develop roadmaps together with the countries from the Global South to finance the vaccines and climate action measures.

If additional climate action can be financed with the help of the transmitter function of the RST a new demand - for example - in renewable energy equipment will occur in the Global North. The Global North will satisfy this demand by increasing its exports to the Global South and getting back its SDRs in this way. The Global South will benefit, because the countries can import vaccines and climate related investment goods without increasing their external debt. If the number of bankable renewable energy investments opportunities increases also institutional investors could be involved into the finance process.

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INTRODUCTION

The G20 currently discusses the best way to use Special Drawing Rights (SDRs) for alleviating the negative economic implications of the pandemic and considers different options to use this hugely important tool also for combating the global climate crisis.

The COVID-19 crisis and the increasingly obvious effects of climate change call for funds to be provided in unprecedented volumes. The most recent Intergovernmental Panel on Climate Change (IPCC) report once again underlined the critical importance of a rapid global energy transition to 100 percent renewable energy (RE).[1] Especially in the countries of the Global South, existing fossil-fuel systems need to be replaced with carbon-free energy systems capable of meeting growing energy demands in the future in order to achieve the 17 Sustainable Development Goals (SDGs). Additional resources are also required to successfully finance vaccines and economic reconstruction in response to the COVID-19 pandemic.

The international institution that can provide the required funding is the International Monetary Fund (IMF), which has its own global reserve currency, namely the SDRs. Since the beginning of the pandemic, there have been calls to alleviate the financial constraints arising from the COVID-19 crisis by creating new liquidity through SDRs. After numerous renowned economists had recommended an SDR allocation worth USD 500 billion[2] or USD 1 trillion[3], the US House of Representatives called for an SDR allocation equivalent to USD 2.8 trillion on 31 July 2020[4]. In the months since February 2021, it has become increasingly clear that there will be a majority in both the G7 and the G20 in favour of a new SDR allocation worth USD 650 billion. Of crucial importance was the assent of the US government, whose vote share of 16.5 percent affords it veto power regarding any new SDR allocations. US politics also determine the number of USD 650 billion since a higher amount would have required a consent with the US Senate an uncertain proposition.

However: A significant obstacle to supporting the COVID-19 recovery process and climate protection measures in the countries of the Global South by SDRs remains in place: the majority of new SDRs (more than USD 400 billion out of USD 650 billion) would be going to wealthy countries in the Global North because the new SDRs are being distributed in proportion to each country's share in the IMF's capital. In its summit communiqué dated 13 June 2021, the G7 therefore directly called upon the IMF to look for ways to channel new SDRs to the Global South[5]. This demand was echoed at the meeting of the G20 finance ministers and central bank governors.[6]

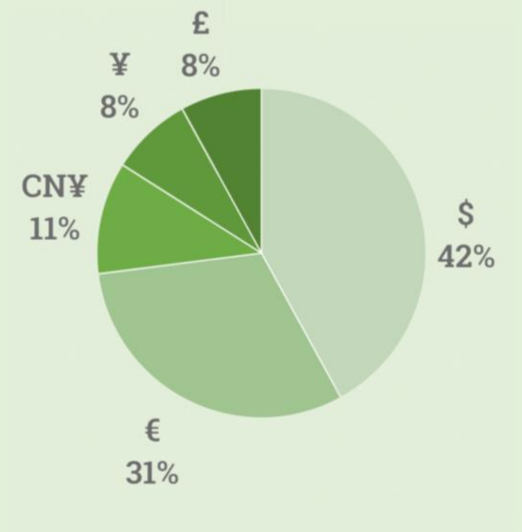
On the 2nd of August, the IMF Board of Governors gave final confirmation for the issuance of SDRs worth USD 650 billion. The newly created SDRs were allocated to IMF member countries on 23 August 2021.[7] The IMF also announced the new Resilience and Sustainability Trust (RST), which aims to address the issue of channelling the SDRs to the Global South.[8]

1. The IMF's Special Drawing Rights as an International Reserve Currency

What is an SDR and how are they used?

The IMF Special Drawing Rights are a quasi-currency[1] that can be traded between the central banks of IMF member countries. This makes it easier for IMF member countries to access the reserve currencies of other countries. The new SDRs are therefore especially important for the poorer countries in the Global South. Creating SDRs can mean creating new money in reserve currencies like the Dollar or the Euro because, when IMF member countries exchange their newly received SDRs for the reserve currency in question, the central banks of the reserve countries pay them by creating new money in their own currency.

SDRs



Source: Own Graphic based on International Monetary Fund (2021).[9]

Historical Background

The IMF has had the Special Drawing Rights at its disposal since 1969. This global reserve currency, which can be converted into the national currencies of IMF member countries, was created by the IMF at the member countries' request. Its original purpose was to lower tensions in foreign exchange markets under the Bretton Woods fixed-rate system of the time. However, SDRs lost relevance in 1973 when the fixed-rate system collapsed. Few new SDRs were created until 2009, when the G20 decided to once again task the IMF with issuing new SDRs. Worth USD 250 billion, these new SDRs were supposed to help mitigate the effects of the 2008 economic crisis by providing IMF member countries with additional, internationally accepted liquidity. The latest new allocations raise the total value of SDRs in circulation from USD 293 billion to USD 943 billion.[10]

[1] The IMF refers to the SDRs as an international reserve asset.

Employing SDRs to Finance Climate Protection Investments

Ever since the new allocations in 2009, scientists and NGOs have been recommending employing new SDRs to address the global climate crisis. The World Future Council has also repeatedly provided detailed recommendations in support of this financing opportunity, starting with the Copenhagen climate conference in 2009 (COP 15).[11]

However, the creation of additional new SDRs was consistently vetoed by the USA, which saw the creation of additional SDRs as a potential rival to the US Dollar's status as the global anchor currency. These concerns now appear to have taken a back seat for the new Biden administration in light of the enormous economic impact of the COVID-19 pandemic in conjunction with the climate crisis.

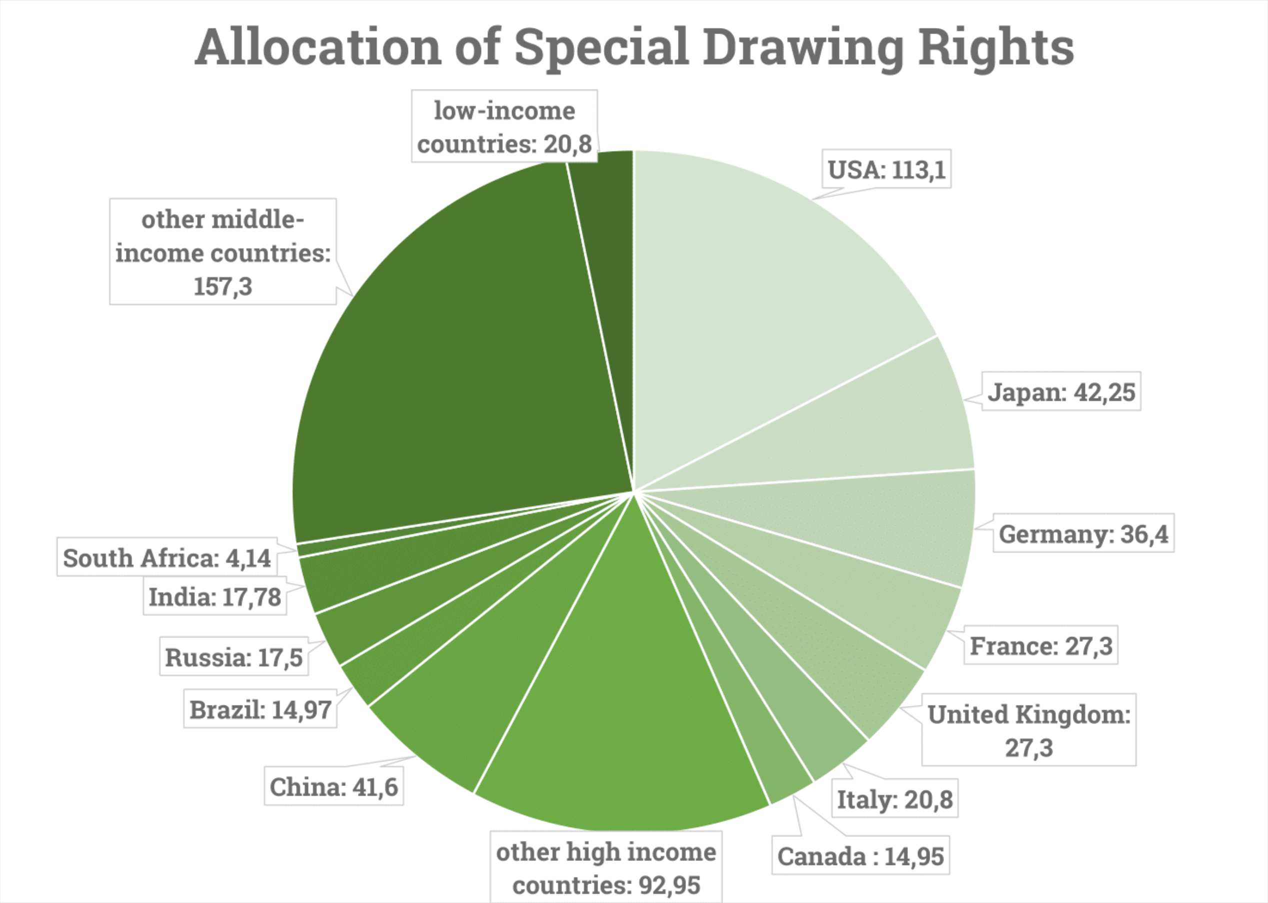
2. A New SDR Allocation Worth USD 650 Billion

The additional liquidity created through the new SDRs as international reserve assets is primarily intended to help fund the global COVID-19 recovery process in the Global South. The global pandemic has made exports more difficult for many countries in the Global South, thereby significantly reducing the influx of foreign currency that they heavily rely on. In many cases, this problem has been exacerbated by the reduction in tourism and in remittances from people working in the Global North, who are now earning less due to the pandemic. This severely hindered the financing of imports of vaccines, medications, and capital goods for developing medical and other infrastructure. The same obstacles also affect import goods needed for the transition to RE and for other climate-protection investments in the Global South.

The benefits of the additional global liquidity—the USD 650 billion created through the new SDRs—are being significantly diluted because the new SDRs are being distributed in proportion to each country's share in the IMF's capital.

Graphic: Allocation of Special Drawing Rights to Various Countries or Groups of Countries

*SDRs indicated in $ BN Dollars



Source: Own Graphic based on International Monetary Fund (2021).[12] *; Ellmers (2021)*

> ***" This quota system results in the poorer countries in the Global South receiving the fewest new SDRs despite having the greatest need for new liquidity. According to the IMF, low-income countries will receive only USD 21 billion of the new SDRs, which are worth USD 650 billion in total. Even when emerging and developing countries are included, this figure would only rise to USD 274 billion, still only 42 percent of new allocations. "***[13]

Because some of the countries with *emerging* economies have more in common with the high-income countries from the Global North, new SDRs worth significantly more than USD 400 billion will end up in the possession of wealthy countries that have little need for them since they already have sufficient foreign-exchange reserves at their disposal.

New ways to voluntarily reallocate SDRs

In March 2021, the IMF began working on ways to solve this distribution problem and channel the new SDRs to poorer countries, stating, *"In parallel, staff would also explore options for members with strong financial positions to reallocate SDRs to support vulnerable and low-income countries."*[14]

In May, French president Macron called for the creation of a vehicle to redirect USD 100 billion from the wealthy countries of the Global North to countries in Africa.[15]

Also in May, IMF managing director Kristalina Georgieva stated that many countries had already expressed their willingness to transfer SDRs to poorer countries, saying, *"In terms of rich nations re-allocating SDRs to poor countries, many have already announced that they intend to do it—both advanced economies and some emerging-market economies like China."*[16]

In late June, it was announced that the IMF was also working with the US Treasury to address the issue of reallocating the new SDRs, with Reuters reporting, *"The U.S. Treasury is working closely with the IMF to explore options and design mechanisms for channelling SDRs to vulnerable countries, one U.S. Treasury official told Reuters on condition of anonymity because of the sensitivity of the matter."*[17]

G7 and G20 agree to explore redistributing SDRs to the Global South

Shortly before this, on the 13th of June, the G7 had also called for an exploration of ways to channel SDRs to countries in the Global South.[18] One month later, on the 10th of July, the G20 finance ministers unequivocally threw their weight behind SDR reallocation at their summit as well, stating,

"To significantly magnify the impact of the allocation, the G20 called on the IMF to quickly present actionable options for countries to voluntarily channel a share of their allocated SDRs to help vulnerable countries finance more resilient, inclusive and sustainable economic recoveries and health-related expenditures, for example through the creation of a new trust fund."[19]

The formal decision to create new SDRs worth USD 650 billion was made by the IMF Board of Governors on the 2nd of August. The SDR allocation followed on 23 August 2021.[20]

The latest SDR Allocation as a milestone in global liquidity management

The fact that the international community succeeded in breaking a twelve-year deadlock by agreeing not only to create a set of new SDRs, more than tripling their total value to USD 943 billion, but also **to look for ways of correcting the extreme inequity in SDR distribution is an extraordinary and most welcome development.**

However, the risk is that the fundamental desire to look for solutions will not be followed by deeds.

Barry Eichengreen stated: "*The hope was that governments and the IMF would find a way for high-income countries to transfer their SDRs to developing countries in need. So far, there's little sign of progress in this direction.*"[21]

It seems that the majority of announced SDR reallocations are set to be completed through the IMF's relatively small Poverty Reduction and Growth Trust (PRGT). However, the PRGT is open to only a small number of extremely poor countries and, as a rule, offers loans instead of the nonrepayable grants that are needed in this case.[22]

The IMF's new Resilience and Sustainability Trust

Addressing this challenge, the IMF brought the RST into play a very reasonable and actionable approach. However, it is not at all clear how the new RST will achieve its objective of allowing the intended distribution of the SDRs. A major concern is that the SDRs will be reallocated only as new loans and not in the form of non-repayable grants.[23]

The communiqué from the latest G20 summit in Rome mentioned that a SDR redistribution should "provide affordable long-term financing", for the countries in need, which most probably means as loans not as grants[24]. However, regarding the promised $100 billion a year for climate finance issues Mario Draghi announced at the closing G20 press conference, that we can use the new SDR allocation to match the remaining difference from 83 billion to one hundred billion US-Dollar.[25] Additionally Draghi announce that Italy will nearly triple its finance commitment to 1.4 billion Dollars a year for the next 5 years by using the SDR allocation.[26] Both can be understood that at least a significant part of the SDRs should be used in form of grants from Italy.

Unfortunately, the plan from Draghi was not picked up at the COP26 in Glasgow and the long ago promised $100 billion per year could again not be met. However, the SDRs are now mentioned as a possible financial resources in addition to concessional financial resources, which can be regarded as a hint for a use in form of grants. [27]

This question of loans or grants makes a substantial difference with regard to the impact. Obviously, only non-repayable grants will truly help countries in the Global South.[28] Any type of loan would result in new external debt that many countries cannot afford, especially in light of pandemic-related economic challenges. The key is to find an approach that utilises non-repayable grants— we need grants, not loans.

As discussed, the RST is a blank slate. It is up to governments to shape it and ensure its efficiency. The RST has to be structured in a way that takes full advantage of the great potential offered by the new SDR allocation. This requires showing how a non-repayable redistribution of SDRs can successfully overcome the COVID-19 crisis and fund climate-protection investments in the Global South. And it is important to highlight, that investments happening in the Global South as a result of SDR grants will ultimately also benefit economies in the Global North as well by technology, logistic or infrastructure companies operating in both regions.

3. The Functions to be Performed by the Resilience and Sustainability Trust

Given the scope of the challenges at hand, it is crucial to avoid voting for too small reallocation volumes. With over USD 400 billion of the new SDRs being allocated to wealthy countries, it seems appropriate to redistribute USD 300 billion, especially since the reallocation will largely serve to finance new exports from the Global North to the Global South, thereby causing the majority of the reallocated SDRs to ultimately flow back to the countries of the Global North. For the RST to be as effective as possible and to gain acceptance in the countries of the Global South, it should meet several basic conditions:

1. The SDR reallocation cannot be allowed to lead to a further increase in external debt and must therefore be non-repayable for the countries of the Global South.

2. The reallocation of the new SDRs cannot be tied to new fiscal austerity measures that result in a decrease in public expenditure and hinder the implementation of the SDGs.

3. The only binding conditions should be that the SDRs transferred through the RST be used to finance vaccines and other pandemic-relief measures and to fund the global energy transition and related climate-protection investments.

In terms of COVID-19 relief and climate protection, it seems reasonable to divide the reallocated SDRs as follows:

USD 100 billion in non-repayable, reallocated SDRs for the direct procurement of COVID-19 vaccines and medical equipment and for the expansion of health services.

USD 200 billion for funding global climate-protection measures through non-repayable grants and guarantees, for example by developing these measures into quantifiable investment opportunities so that institutional investors can participate as well; so far, the expansion of RE in the Global South has not been hindered by a lack of investment-ready green capital but by a lack of bankable investment opportunities.[29]

The necessity of regular SDR allocations

Because the current SDR allocation of USD 650 billion is a one-time measure whereas climate financing, in particular, must take place over a period of at least 15 years, annual SDR allocations and RST transfers worth at least USD 200 billion appear to be necessary. It is up to the USA to refrain from vetoing these allocations. New SDRs valued at USD 200 billion would make up less than 0.25 percent of the current global GDP. During these 15 years, the total value of the SDRs would rise from USD 943 billion to USD 3.943 trillion; compared to the current annual global economic output of around 90 trillion, this figure is unproblematic from an economic point of view.

4. Utilising the Resilience and Sustainability Trust to Reallocate SDRs through Non-repayable Grants

The new RST can achieve its purpose by serving as an intermediary between the Northern countries providing the SDRs and the recipients in the Global South. In the past, the central banks of IMF member states have generally processed the allocation of new SDRs by recording the SDR positions as assets and an offsetting item in their balance sheets.[2] The additional SDRs would directly increase each central bank's gross international reserves, but the banks would create no new money in their own currency at this point.

The banks designated as prescribed holders by the IMF:[30]

Central Banks: European Central Bank, Bank of Central African States, Central Bank of West African States, Eastern Caribbean Central Bank

Intergovernmental monetary institutions: Bank for International Settlements, Latin American Reserve Fund, and Arab Monetary Fund

Development institutions: African Development Bank, African Development Fund, Asian Development Bank,
International Bank for Reconstruction and Development and the International Development Association, Islamic Development Bank, Nordic Investment Bank, and International Fund for Agricultural Development.

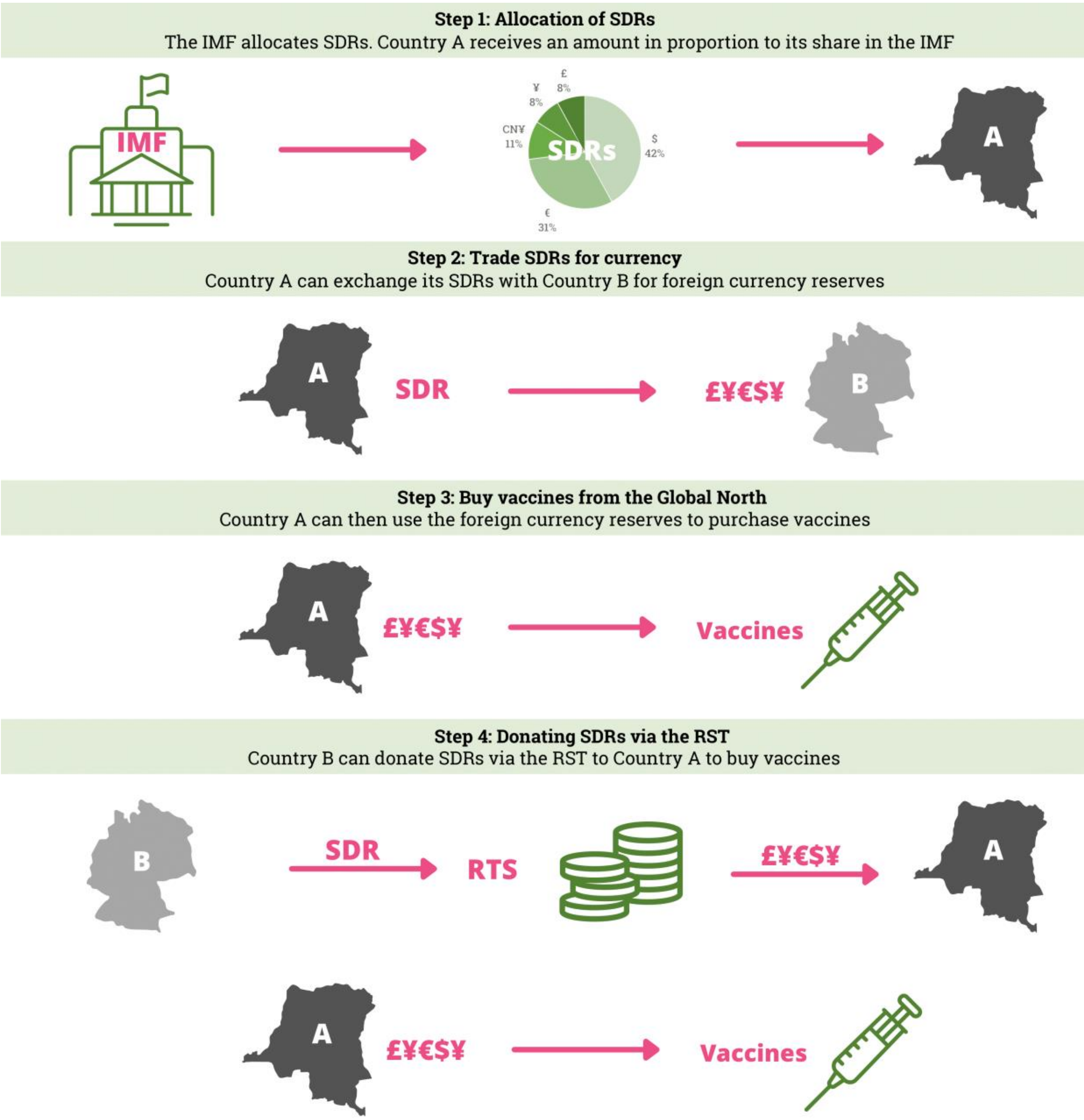
How does it technically work?

If a country donates its SDRs to the RST, its central bank's balance sheet would shrink again. Nonetheless, the country's central bank still holds the same amount in foreign-exchange reserves as before the SDR allocation. As soon as the RST now exchanges the new SDRs for a global reserve currency in order to cover specific expenditures for the Global South, the corresponding central banks get their SDRs back and pay the RST with newly created (reserve) funds in their own currency. However, this new money is now offset by the real values of the additionally produced goods (e.g. vaccines and equipment related to RE). This means that the countries involved are actually financing green global growth and fighting the COVID-19 crisis through the SDR transaction.
An additional opportunity for transferring the SDRs to the Global South could be the involvement of the so called "prescribed holders", a category that includes a selection of DFIs and international organisations permitted by the IMF to hold SDRs. They could support the new RST with the transfer or help finance activities in the Global South.

[2] The details of SDR allocation differ slightly from country to country, but it would also be feasible for SDRs to be directly allocated to finance ministries, which would then have direct control over the new SDRs.

4.1. Financing Vaccines through the RST

Assuming that newly allocated SDRs worth USD 300 billion are donated to the RST, it can exchange USD 100 billion of SDRs for major reserve currencies in order to finance the purchase of necessary vaccines and other essential medical equipment registered with the RST by countries in the Global South. The RST could also co-operate with the worldwide COVAX initiative in this topic. This would enable countries in the Global South to protect their population without using up the limited amounts of foreign currency they hold. Countries in the Global North benefit as well because a successful vaccination programme in the Global South will slow the further mutation of the virus. In addition, the countries in the Global North whose (reserve) currency was used to finance vaccines and medical equipment would regain possession of the donated SDRs.



Source: Own Graphic based on International Monetary Fund (2021).[31]

4.2. Financing New Investments in Climate Protection in the Global South

Regarding the financing of new climate-protection investments, it makes sense for countries in the Global South—in conjunction with designated Development Finance Institutions (DFIs) and prescribed holders—to create a roadmap that lays out which projects for the development of RE have already been made possible through guarantees and which projects require a financial grant to become cost-effective. Further financing can then be undertaken on the basis of this roadmap.

Utilising New SDRs for Guarantees

A large number of fundamentally profitable RE investment projects are only blocked because risks for institutional investors are difficult to calculate. The RST could therefore use some of the USD 200 billion to provide guarantees for RE projects previously selected by the DFIs and countries in the Global South. It is safe to assume that only a small proportion of the guarantees will become payable, meaning that a much greater amount can be guaranteed for RE projects. For example, with USD 100 billion in SDRs and a DFI-estimated failure rate of 10 percent, additional RE investments of USD 1 trillion could be made calculable at a low interest rate, thereby becoming bankable. This would open up a large new market for green investment by institutional investors.

Utilising New SDRs to Finance Grants for RE Investment Projects

Other RE investment projects in the Global South require no guarantees but rather non-repayable grants to ensure profitability. In this case, the RST can provide support by exchanging the transferred SDRs for the required foreign currency and passing the funds on to the participating DFIs. This approach will offer leverage as well, meaning that a grant of USD 100 billion could make possible new RE investments worth many times that figure. Similarly, to the guarantees, new markets would open up to institutional investors wanting to invest in green projects.

The Macroeconomic Financial Flows between the RST and Central Banks in the Global North

To fund the grants (and any guarantees becoming payable), the RST will exchange the received SDRs at the central banks of the countries that have a strong reserve currency, meaning that these countries get their SDRs back in return for creating new money in their own currency. At the same time, the SDRs create new export opportunities for the Global North. As a result, a country in the Global North that would otherwise have ineffectually held the new SDRs on its central bank's balance sheet can now increase its exports, thereby creating jobs and tax revenue.
For their part, countries that reallocated the SDRs they received from the IMF but did not regain possession of their SDRs because the RST used a (reserve) currency other than

their own do not have to create any new money in their own currency. If they cannot share in the export growth in another way (e.g. through vaccines or RE equipment), they do not receive new foreign currency to replace the donated SDRs.

A Compensation Mechanism for Preventing Imbalances between Countries in the Global North

The reallocation would place the countries, which will donate their SDRs and gain no SDRs or reserve currency back, at a disadvantage to the countries whose currency was used by the RST. Ultimately, this could lead to several countries with strong export economies ending up with more SDRs than were initially allocated to them. Therefore, the IMF's RST must offer a compensation mechanism to address this imbalance. For instance, this mechanism could have the central banks of the countries that regained a substantial share of their SDRs open a line of credit for the countries that did not regain their donated SDRs. This could compensate for the foreign-exchange losses these countries sustained as a result of reallocating their new SDRs, because the new lines of credit with central banks that have a reserve currency offer them similar access to foreign currency as their own SDRs would have.

Since it can be assumed that the majority of transferred SDRs will be exchanged for Euros, US Dollars, Japanese Yen, or British Pounds Sterling, the corresponding central banks would be primarily responsible for opening lines of credit to the other countries reallocating their SDRs.

5. SDR Reallocations Offer the Global South Greater Financial Leeway

Countries in the Global South may prefer to receive a direct SDR transfer without going through the RTS and without conditions for their use. This is understandable because it would give them more opportunities for their foreign-exchange management, and they could use the SDRs to directly repay their foreign debt. However, this kind of SDR reallocation would not align with the intent of the countries in the Global North, which decided to create new SDRs and then looked for ways to channel some of their own SDRs to the Global South based on the conviction that both the COVID-19 pandemic and climate protection are issues that can only be successfully addressed through global co-operation. Neither the prospect of the reallocated SDRs being used for various other purposes by national governments in the Global South nor the reduction in global liquidity caused by countries using the SDRs to settle debts would therefore be attractive for the SDR donor countries.

However, even conditional SDR reallocations offer the Global South significantly more financial room for manoeuvre as Southern countries get the foreign currency needed to purchase COVID-19 vaccines and to make crucial climate-protection investments essentially for free instead of having to take out expensive foreign loans. Every billion in non-repayable SDRs that goes to countries in the Global South reduces their external debt and creates fiscal space to fund additional SDGs.

6. The Roles of Germany's Central Bank and ESCB in SDR Reallocation

As part of the new allocations, the IMF member state of Germany received SDRs of EUR 31 billion, which were transferred to the Bundesbank, Germany's central bank. In response to queries by civil society, the Bundesbank stated that it considers these SDRs to be normal currency reserves, meaning that they cannot be donated, according to its own interpretation of the law.[32] However, this is questionable as there are strong counterarguments to this interpretation.

The SDRs allocated to Germany as an IMF member are transferred to Germany's central bank in accordance with § 3 of the German IMF Act [*IWF-Gesetz*] of 1976.[33] However, the IMF Act does not expressly permit or prohibit additional uses for the SDRs. This is presumably because SDRs did not play an important role for legislators or in the political agenda at the time. In addition, § 3 of the German Central Bank Act [*Bundesbankgesetz*] stipulates that Germany's currency reserves are held and administered by the Bundesbank within the European central bank system.[34] However, the fact that the Bundesbank technically holds and administers the SDRs does not necessarily mean that it has the final say in their use. There are two reasons for this:

1

The legal framework of the European System of Central Banks (ESCB) establishes that member countries' currency reserves are now held and administered by the ESCB (§ 21 TFEU). Because the German Central Bank therefore only administers German currency reserves on behalf of the ESCB, it can be assumed that it has no jurisdiction on the question of potentially reallocating SDRs as currency reserves. In this case, jurisdiction falls to institutions at the European level. The issues at hand are therefore which of the European institutions have a say in this decision and which decision-making powers the governments of the EU member states have as the actual recipients of the SDRs?
It is important to settle these issues soon in order to enable the SDRs to be reallocated—as a donation—to the IMF's RST.

2

As made clear by the decisions of the G7 and the summit of G20 finance ministers, the majority of IMF member countries—including Germany—want to increase the liquidity of the global economy in order to fight the negative economic effects of the COVID-19 pandemic and to generate new funds for climate financing. However, this new liquidity must also enter into circulation. The position of the Bundesbank—which decided to keep the new EUR 31 billion on its balance sheet, thereby withdrawing this amount from global economic circulation—amounts to a refusal to use the SDRs in the way decided by the IMF and its member states.

In a study conducted for Latindadd, Arauz indicates that the (governments of) the member countries are the actual recipients of the new SDRs, even if the SDRs are administered through the balances of each country's central bank. In addition, the Articles of Agreement of the IMF count as international law, meaning that they supersede national law.[35] There is also an important macroeconomic argument to the Bundesbank's position. Due to its positive trade balance, Germany is one of the countries with the least need for the new SDRs.

CONCLUSION

It is a good sign that the IMF achieved consensus with the G7 and the G20, in the space of a few months, to create new SDRs worth $650 bn. The additional global liquidity will make at least some progress towards overcoming the COVID-19 crisis.

It is even more encouraging that countries in the Global North have acknowledged that they need to voluntarily transfer some of their SDRs to the Global South in order to truly achieve a noticeable effect in the fight against the COVID-19 crisis and that they chose to address global climate protection at the same time. Yet, several member states are apparently pulling the brakes, wanting to reallocate SDRs only as loans and with favourable conditions attached**. However, real progress towards overcoming the COVID-19 crisis and massively expanding RE investments in the Global South can only happen by reallocating the SDRs as non-repayable grants, effectively donating them; we need grants, not loans.**

The Global North would also benefit from donating SDRs due to the resulting increase in exports from the North to the South. The Global South and Global North would therefore benefit from non-repayable SDR reallocation in equal measure.

Under its managing director, Kristalina Georgieva, the IMF proceeded with the discussion and announced the creation of the RST, which could play a decisive role in successfully reallocating SDRs as non-repayable grants. **It is now up to the public to call on the larger IMF member countries to make the decisive final step by switching from loans to grants.**

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