AFRODAD

AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

The Institute for Social Accountability

An Assessment of the IMF's 2021 Special Drawing Rights (SDRs) Allocation, Usage, and Implications on Public Debt Management:

Kenya and Africa's Experiences

Regarding the extent to which SDR qualified as a debt relief, the study concludes that SDR highly contributed to settling debt service obligations due in the next five years for African countries.

July 2023 - TISA

Abstract

This study delves into the perspectives of Kenya and selected African countries regarding the International Monetary Fund's (IMF) 2021 Special Drawing Rights (SDRs) allocation. Particularly, the study examines Kenya's experiences with the SDR allocation and the extent to which SDR compares to other IMF's debt relief, such as Extended Credit Facility (ECF) in the management of public debt. The IMF allocated a total $650 billion in SDR to all member countries in August 2021, with Africa receiving a total of $33.8 billion and Kenya receiving $737.6 million in SDRs.

While the SDR provided Africa and Kenya an immediate liquidity boost without increasing their debt stock and supporting in economic recovery, perception is that the allocation was small compared to annual financing gap of $194 billion that Africa needs to achieve its sustainable goals by 2030.

The findings also revealed that while African countries' public debt continue to increase at an alarming rate, the IMF's 2021 SDR allocation to some extent, helped many countries to pay-off part of their debts during COVID-19.

The study makes several recommendations, among them being a call for the IMF to expand the scope of the SDR quota system beyond GDP to include development needs across regions. This would help to increase the share of SDR allocation to African countries. It also recommends that African governments including Kenya adopts urgent reforms around SDR allocation transparency and accountability, including strengthening its reporting framework. Third, these governments, with the support of civil society organizations (CSOs) should develop flexible conditionalities around SDRs to make it useful in supporting sustainable development needs across the continent.

Table of Contents

Acronyms

AfDB	African Development Bank
AGTF	African Growing Together Fund
BOPs	Balance of Payments
CBK	Central Bank of Kenya
CF	Credit Facility
CSOs	Civil Society Organizations
DSSI	Debt Service Suspension Initiative
ECF	Extended Credit Facility
GDP	Gross Domestic Product
IFIs	International Financial Institutions
IMF	The International Monetary Fund
KIIs	Key Informant Interviews
LICs	Low Income Countries
OCOB	Office of the Controller of Budget
ODA	Official Development Assistance
PBOC	People's Bank of China
PRGT	Poverty Reduction and Growth Trust
RST	Resilience and Sustainability Trust
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
UNECA	United Nation Economic Commission for Africa
VTA	Voluntary Trading Agreement

1. Introduction to Special Drawing Rights

The International Monetary Fund (IMF) created special drawing rights (SDRs) in 1969 as a form of international reserve asset to supplement existing official reserves of its member countries[1]. The development of SDRs originated following concerns that the continued use of a single national currency, as was established under Bretton Woods system's fixed exchange rate, would expose the world to liquidity shortages or inflationary concerns[2]. Initially, SDR was equivalent to 0.888671 of fine gold, which was equivalent to 1 US dollar[3].

However, SDRs value is today pegged on the value of a basket of five world currencies with different weights. This includes the US dollar (43.38%), Euro (29.31%), Chinese Renminbi (12.28%), Japanese Yen (7.59%), and Sterling Pound (7.44%). These five currencies are reviewed and selected every five years based on two criteria: the export criterion if the currency is one of the top five world exporters and a member of IMF, and freely usable criterion if the currency is widely used in payments for international transactions and widely traded in major exchange markets[4].

SDRs is regarded as neither a currency nor a liability. It represents unconditional liquidity, which serves to provide IMF members with the necessary levels of liquidity in times of financial crises. It can be exchanged for freely usable currencies among IMF members through voluntary trading agreements (VTA), which are usually facilitated by the IMF to meet member countries' financial needs. Allocations can be made through either general or special mechanisms. General allocations require the approval of 85% of the IMF's Board of Governors, and it is distributed to IMF members according to their quota shares in the fund.

Considering that some IMF members did not receive the initial SDR allocations, a Fourth Amendment of the IMF's Article of Agreements was passed in 1997 to create a special SDR allocation, to allow members to participate equitably in the SDR system. A one-time special allocation of 21.5 billion (about $33 billion) in 2009, thus, served to raise the ratios of members' cumulative SDR allocations relative to quota to a common benchmark ratio[5].

SDRs allocations is based on IMF members' quota. Quotas represent each country's economic standing within the IMF community. It includes a country's gross domestic product (GDP),

[1] Questions and Answers on Special Drawing Rights (imf.org)
[2] https://www.un.org/esa/desa/papers/2012/wp126_2012.pdf
[3] The SDR as a Basket of Currencies in: IMF Staff Papers Volume 1979 Issue 004 (1979)
[4] What is the SDR? (imf.org)
[5] Special Drawing Rights (imf.org)

international trade portfolio, and other economic indicators. Quotas determine each country's voting power, access to IMF's financial resources, and share of the SDR allocation. Globally, the United States (U.S) leads in quota share as a proportion of SDRs at 17.085. In Africa, South Africa leads at 0.859. Kenya stands at 0.125 while Seychelles stands at 0.004[6].

As of August 2021, a total of SDR 660.7 billion (about $935.7 billion) had been allocated to IMF members, including the largest single allocation of SDR 456 billion (about $650 billion) on August 2, 2021, to address long-term global needs for reserves due to Covid-19 pandemic. African region received SDR 23.7 billion (about $33.8 billion), which translates to about 5.2%. Kenya received SDR 520.2 million (about $737.6 million or Ksh. 83.7 billion) of the IMF's 2021 SDR allocations[7]. This allocation provided African countries and Kenya to be specific, an immediate boost in liquidity without increasing their debt stock.

Despite the liquidity boost and additional resources for supplementing official reserves, the 5.2% SDR allocation to African region continues to raise significant questions relating to inclusivity and fairness of the SDR allocation system and the international financial architecture in general. This is informed by the 2021 SDR allocation utilization rate, which stood at 42.9% and 5.9%[8] for developing countries and developed countries, respectively. The utilization rate data places developing regions, including Africa as the principal users of SDRs, thus, would be far more reliant on SDR compared to the developed nations.

This disparity in terms of SDR allocations with less consideration to the attendant needs, calls for the need to relook at the international financial architecture to address the deficiency in equitable allocation of SDR as a critical fiscal tool for debt relief. This study builds on these gaps to provide additional information that can strengthen the voices of civil society organizations (CSOs), citizens, and media in Kenya and Africa in advocating for reformation of the SDR allocation system.

This study examines Kenya's experience with the 2021 SDR allocation considering the IMF's ideological shift in SDRs' use as a fiscal tool for development purposes. It also looks at the governance, tracking, access to data, transparency, and accountability on the utilization of SDR allocations. The study equally adds to the limited body of literature currently available on SDRs in Kenya.

---

[6] IMF Quotas
[7] 2021 General SDR Allocation (imf.org)
[8] SPECIAL DRAWING RIGHTS (SDRs) FOR PEOPLE'S RECOVERY IN KENYA – The Institute of Public Finance (ipfkenya.or.ke)

Specifically, the objectives of the study were as follows:

1. To develop a country-specific in-depth analysis into Kenya's SDR allocation and absorption experiences, one year later since the initial issuance of SDRs.
2. Evaluate the extent to which SDRs in Kenya qualify as a debt relief package compared to other policy frameworks like Debt Service Suspension Initiative (DSSI), G20 CF, Extended Credit Facilities (ECF), and the announced China debt restructuring.
3. To develop an in-depth analysis of how the Kenyan experience could inform actionable proposals for reform of the SDRs allocation system and public debt administration.
4. To generate advocacy targets and strategies for a concerted continental effort to reform the SDR allocation system and strengthen public debt administration in Kenya.

2. Methodology

To achieve the stated objectives, this study used a mixed methods approach for data collection and data analysis. The study began with an extensive literature review that focused on both quantitative and qualitative studies around SDRs that already exist. Literature review sources included publications from various authoritative institutional reports and journal databases. Subsequently, key informant interviews (KIIs) were conducted to collect primary qualitative data directly from individuals who possess significant expertise or knowledge of SDRs.

Targeted experts were drawn from state actors (i.e., Office of the Controller of Budget (OCOB), Central Bank of Kenya (CBK), Office of the Auditor General, and the National Treasury), non-state actors (i.e., Civil Society Organizations, such as Christian Aid and International Budget Partnership [IBP]), and international financial institutions (IFIs) in Kenya. These interviews used a semi-structured approach, giving firsthand perspectives, contextual, and nuanced understandings that may not be comprehensively captured in the literature. The study then synthesized the collected data from the literature and KIIs to develop a comprehensive analysis. The integration of both quantitative and qualitative findings allowed for triangulation and validation of results.

Following this methodology section, subsequent sections of the study provide results and findings. Section three details global, regional, and Kenya's 2021 SDR allocations. Section four examines Kenya's perspectives on the 2021 SDR allocations, including legal and policy framework, usage and distribution, and priorities and strategic areas for considerations. Section five provide results of SDR as a debt relief to African countries compared to other policy frameworks. Section six details findings related to the rechanneling of SDR to African countries. The last section provides conclusions and recommendations.

This study encountered some limitations. First, at the time of collecting and analyzing data, some of the targeted state actors had not committed to participate in the study citing tight schedule. Also, lack of adequate data relating to SDR usage from either CBK, or the treasury made it difficult to pinpoint the specific use of SDRs in Kenya through the budgetary process. Third, limited knowledge around SDR made it difficult for some experts to conclusively comment on the extent to which SDRs compares to other debt policy frameworks. The researchers, however, deployed adequate strategies to validate and corroborate the findings.

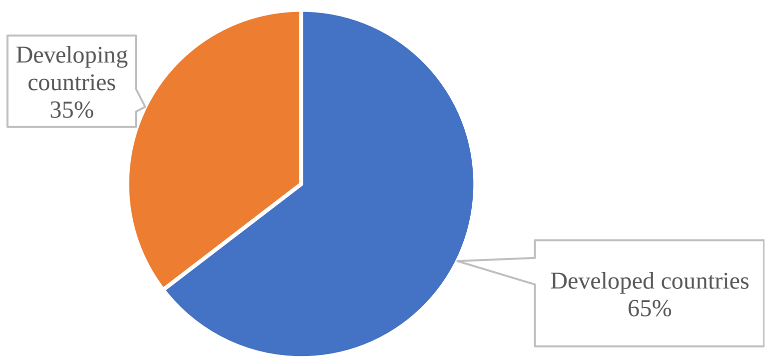
3. Analysis of Global, Regional, and Kenya's 2021 SDR Allocation

This section provides an in-depth analysis into SDR allocation at a global, regional, and Kenya's level.

3.1 Global SDR Allocation

As per Article XVIII, Section 2(b) of the IMF's Articles of Agreement, SDR allocations are determined based on a proportion of a member country's paid fund quota shares. This quota is calculated using a formula primarily dependent on the size and openness of a country's economy within IMF community[9]. Subsequent to the historical three general allocations (SDR 9.3 billion in 1970 - 72, SDR 12.1 billion in 1979 - 81, and SDR 161.2 in 2009) and one-time special SDR allocation (SDR 21.5 billion in 2009), the IMF allocated a largest single SDR 456 billion (about $650 billion) to its members in August 2021. Based on members' quotas, developed countries received SDR 294.6 billion (about $420 billion, equivalent to 64.6%). G20 countries received about 68% of the total SDR allocations with 43% of the G20's allocation going to G7 members alone. Interestingly, the United States (US), which has the highest SDR quota received approximately SDR 79.5 billion (about $113 billion, equivalent to 17%) of the total allocation. Developing countries, including Africa received SDR 161.5 (about $230 billion, equivalent to 35.4% of the 2021 SDR allocation)[10] (Figure 1).

Figure 1. Distribution of 2021 SDR allocation between the global North and South



Source: Author's computation using IMF (2021b) data

[9] The International Monetary Fund Articles of Agreement, 2020 version (imf.org)
[10] Special Drawing Rights (SDRs) and the COVID-19 crisis (cepal.org)

As evidence reveals, the 2021 SDR allocation was a crucial lifeline for many global economies amid the Covid-19 pandemic. The allocation provided substantial injection of liquidity into the global financial system, supported many countries' economic recovery, and sufficiently helped in navigating the debt sustainability challenges brought about by the health crisis. This allocation demonstrates the significant need to build resilient financial systems that do not sink developing countries into more debt, rather promote economic cooperation. In terms of regional share of the 2021 SDR allocation, estimates from the IMF indicates that of the total SDR allocations to developing countries, which have approximately 43% of the world's population, Africa received only SDR 23.7 billion (about $33.8 billion, which translates to 5.2%). Among the developing region, Asian got the highest allocation of SDR 98 billion (about $139.4 billion, which is about 21.5% of the total SDR allocation). The developing Europe and the Caribbean regions received the least SDR allocation (see Table 1)

Table 1. Regional distribution of 2021 SDR allocation

Regions	SDR Allocations in US dollars	Share of total (*percentages*)	Population Estimates	Share of global population
Developed countries	420	64.6%	1.3 billion	17%
Developing countries	230	35.4%	6.6 billion	83%
Total	**650**	**100%**	**7.9 billion**	**100%**
Africa	33.8	5.2%	1.4 billion	17%
Asia	139.4	21.5%	4.4 billion	55%
Developing Europe	6.9	1.1%	70.6 million	0.8
Latin America and the Caribbean	51.5	7.9%	660.3 million	8%
The Caribbean	2.4	0.4%	44.1 million	0.5%
Least Developed Countries	15.3	2.4%	1.1 billion	13%

Source: Adapted from Economic Commission for Africa and Economic Commission for Latin America (2022); United Nations Conference on Trade and Development (2022)[11]

Note: The population estimates are based on author's computation, especially the developing Europe and the Caribbean.

Considering the developing countries' share of global population (about 83%), which reflects the socio-economic investment needs, the IMF's 2021 SDR allocation appears too small to address these needs. It presents an imbalanced regional distribution that is insufficient to promote sustainable inclusive economic growth on a global scale. Whereas the allocation significantly helped developing countries to address debt-related challenges at that time,

[11] Now 8 billion and counting: Where the world's population has grown most and why that matters | UNCTAD

evidence reveals that to some extent, the allocation system as it is does not reduce economic disparities.

3.2 African SDR Allocation

Despite Africa having 17% share of the global population, the second largest after Asian region in terms of share of global population, the continent received only SDR 23.7 billion (about $33.8 billion), equivalent to 5.2% of the IMF's total 2021 SDR allocation. South Africa received the largest share of allocation of SDR 2.9 billion followed by Nigeria with SDR 2.4 billion, and both Egypt and Algeria with SDR 1.9 billion, independently. São Tomé and Príncipe received the lowest allocation of SDR 14.2 million in Africa.

Although the $33.8 billion in SDR allocation was small, it reduced African countries' exposure to exchange rates volatility and other risks related to balance of payment pressures. It also replenished African countries' foreign exchange reserves that at the time of the 2021 SDR allocation, was on a 27% decline. Nonetheless, this allocation represented only a 17.4% of the estimated $194 billion annual financing gap that Africa needed to achieve its sustainable development goals (SDGs) by 2030, which according to the Organization for Economic and Cooperation Development (OECD), is estimated at $1.6 trillion[12]. The financing gap requires additional financing mechanism that does not significantly raise African countries' debt levels.

3.3 Kenya's SDR Allocation

Kenya received SDR 520.2 million compared to Sudan that received SDR 604 million. Compared to the immediate neighboring countries, Kenya's 2021 SDR allocation was higher than that of Tanzania's SDR 381.2 million and Uganda's SDR 346 SDR million (see Table 2). Experts indicated that while the allocation was small, it provided Kenya a much-needed financial relief for economic stability and recovery following the adverse impact of COVID-19.

[12] Africa's Development Dynamics 2023 : Investing in Sustainable Development | OECD iLibrary (oecd-ilibrary.org)

Table 2. Distribution of 2021 SDR allocation in African region

No.	Country	Quota	2021 SDR allocation (Mln)
1	Algeria	0.577	1,878.5
2	Egypt	0.434	1,952.5
3	Libya	0.517	1,507.8
4	Morocco	0.271	857.2
5	Tunisia	0.132	522.5
6	Benin	0.028	118.7
7	Burkina Faso	0.028	115.4
8	Cameroon	0.085	264.5
9	Cape Verde	0.004	22.7
10	Cote d'Ivoire	0.15	623.4
11	Equatorial Guinea	0.015	151
12	Gambia	0.014	59.6
13	Ghana	0.17	707.3
14	Guinea	0.049	205.3
15	Guinea-Bissau	0.007	27.2
16	Liberia	0.059	247.7
17	Mali	0.043	178.8
18	Mauritania	0.03	123.4
19	Niger	0.03	126.1
20	Nigeria	0.806	2,352.5
21	Senegal	0.074	310.1
22	Togo	0.034	140.7
23	Angola	0.132	709.4
24	Central African Republic	0.026	106.8
25	Mauritius		136.3
26	Comoros		17.1
27	Chad	0.026	134.4
28	Kenya	0.125	520.2
29	Burundi	0.035	147.6
30	Djibouti	0.007	30.5
31	Eritrea		15.2
32	Ethiopia	0.061	288.2
33	Rwanda	0.037	153.5
34	Somalia		156.6
35	Sudan		604
36	Tanzania	0.091	381.2
37	Uganda	0.083	346
38	Botswana	0.029	189
39	Lesotho	0.016	66.9
40	Madagascar	0.056	234.2
41	Malawi	0.032	133.3
42	Mauritius	0.047	136.3
43	Mozambique	0.052	217.8
44	Namibia	0.063	183.2
45	Seychelles	0.004	22
46	South Africa	0.859	2,924.4
47	Eswatini	0.023	75.2
48	Zambia	0.225	937.6
49	Zimbabwe	0.163	677.4
50	DRC	0.245	1,021.7
51	Congo Republic	0.039	155.3
52	South Sudan		235.8
53	São Tomé and Príncipe		14.2
54	Gabon	0.071	207

Source: Adapted from IMF (2021b) data

4. Kenya's Perspectives on 2021 Special Drawing Rights

This section provides in-depth evaluation of Kenya's perspectives on SDR with regards to existing legal frameworks, usage, and distribution of the 2021 SDR allocation, and priority and strategic areas for consideration. The analysis extends to African countries' experiences with the 2021 SDR allocation.

4.1 Legal Frameworks

There exist an Act of Parliament, the International Monetary Fund Act No. 16, CAP 467 of 1969, which provides for Kenya's participation in IMF's SDRs. The Act mandates the Cabinet Secretary (or Minister) responsible for matters relating to finance to communicate and execute SDR obligations on behalf of the government. Section 4(2) of the Kenya's IMF Act places Central Bank of Kenya (CBK) as the government's fiscal agent[13]. Section 9(1) of the CBK Act also mandates the CBK to receive, hold, and manage Kenya's official foreign exchange reserves. This can include SDRs as Kenya's international reserves. Subsequently, the CBK Act allows CBK to enter into agreements and arrangements with IMF and other international financial institutions (IFIs)[14].

Despite the availability of these two legal frameworks, there is a consensus on the inadequacy of specific laws and regulations that address the utilization and allocations of SDRs to various sectors in Kenya and Africa in general. The existing legal frameworks around SDR do not explicitly outline how SDRs should be allocated and utilized within different sectors of the economy. This policy gap creates uncertainty and impedes the effective integration of SDRs into economic policies and development strategies. It has greatly hindered the clarity and transparency around the use of IMF's 2021 SDR allocation for economic development.

The existing policy gaps may demonstrate IMF's lack of interest in enhancing the legal framework of SDR use in Africa and Kenya, which could be due to SDR not specifically tailored to suit the needs of developed countries, as is the case with other IMF's financing mechanisms that best benefit developed nations by imposing conditionalities on African countries. This has led to overlooking the SDR policy and legal challenges faced by developing countries. Nonetheless, adequate policy and legal frameworks around SDR can ensure that it

[13] CAP. 467 (kenyalaw.org)
[14] The_Central_Bank_of_Kenya_Act_1st_January_2014.pdf (centralbank.go.ke)

supports Africa's economic development and inclusive growth, by outlining specific areas for SDR use.

4.2 Utilization and Distribution of Special Drawing Rights

Following the IMF's allocation of SDR 520.2 million to Kenya, available information indicates that the National Treasury borrowed up to half of the allocation (about $370 million or Ksh. 41.8 billion) from the CBK to support the financial needs of the fiscal year (FY) 2022/2023. This is supported by the National Treasury's Budget Review and Outlook Paper of 2023, which highlights that the government used IMF's SDR of Ksh. 47.3 billion as part of its borrowing to finance its fiscal deficit for that period. The report, however, provides no information relating to proposed IMF's SDR use in FY 2023/2024. Also, a joint World Bank – IMF review of 2022 indicated that Kenya had so far utilized three-quarter of its 2021 SDR allocation in meeting the financial needs in the fiscal years (FY) 2021/2022 and 2022/2023. The report added that the amount was an on-lent to the national government.

Though the World Bank – IMF review does not outline the specific areas or sectors to which the on-lent SDR allocation to the government was used, this paper posits that the allocation was vital in building up Kenya's international reserves in the wake of increasing dollar demand for imports and payment of Kenya Airways foreign loans. Since the 2021 SDR allocations, IMF and Kenya have made about five reviews under the extended arrangements (ECF/EFF) support program to support the economy. In the fourth reviews of the ECF/EFF on November 8, 2022, the IMF had disbursed SDR 336.54 million (about $447.4 million) for budget support. In the latest fifth review under ECF/EFF arrangements as of July 17, 2023, IMF has approved disbursement to Kenya equivalent to SDR 306.7 million (about $415.4 million) to support in reducing debt vulnerabilities.

Comparing Kenya's SDR use to other African countries, expert opinions from across state, non-state, and CSOs actors in Kenya confirmed that African countries highly utilized their 2021 SDR allocations on pandemic-related financial needs. This included economic recovery, social protection measures, and health, among others. The uptake rate of SDRs allocation in Kenya as well as across 47 of the 54 African countries demonstrate the continent's commitment to effectively using SDRs to support their economic growth[15].

[15] See Development Re-Imagined (2023b)

This provides a platform for the needed restructuring of the current international financial architecture and the SDR allocation system. Critical for considerations also is the SDRs rechanneling or reallocation mechanisms to Kenya and African countries to support Africa's sustainable development needs.

4.3 Priorities and Strategic Considerations

Africa and Kenya to be precise, remains highly exposed to emerging global crisis, including the climate change, the ripple effect of the ongoing Ukraine – Russia, which has caused significant increase in energy prices and food prices. There are also the challenges of financing needs related to renewable energy, health systems, education, and other infrastructural developments. According to the OECD estimates, Africa needs approximately $1.6 trillion to finance its SDGs between now and 2030, which is about $194 billion annually. Critical areas for consideration in the OECD's estimates include agri-food value chains, renewable energy, natural ecosystems, and climate action among others.

In the context of Kenya's priority areas for development, Kenya Vision 2030 as the development blueprint outlines key pillars for sustainable development, including economic social and political. At the heart of attaining Kenya Vision 2030 is the current government's Bottom-up Economic Transformation Agenda (BETA)[16], which prioritizes key areas for long-term development including agriculture, housing, trade, healthcare, and renewable energy. Like Kenya's ambitious development plan, Africa's Agenda 2063 also prioritizes development around infrastructure, health and crisis preparedness, education and human capital, and climate change mitigation and adaptation among other areas[17].

SDR resources can be used to finance most of these developments. For instance, in the context of climate change mitigation and adaptation, SDR can effectively be used to finance renewable energy projects and sustainable agricultural practices to build resilience to climate-related challenges. Considering that many African countries in high debt distress, SDR can be used to support debt relief and enhance economic reliance by increase reserve buffers of African countries. The right to food is also area that can be supported through SDR financing to support smallholder farmers, improve agricultural practices, and reduce poverty.

[16] See Republic of Kenya (2023) on the recent press release on the financial year 2023/24 budget statement. https://www.treasury.go.ke/wp-content/uploads/2023/06/Press-Release-Budget-Statement.pdf
[17] See African Union (2023) on linking Agenda 2063 and the SDRS. https://au.int/en/agenda2063/sdgs

The need to achieve these development areas has forced Africa countries to seek more public debt, thereby increasing their fiscal deficits and debt servicing. However, SDRs can help African countries reduce fiscal deficit by providing them with additional liquidity and financial resources. Particularly, SDRs can be used to cover budgetary shortfalls and finance government expenditures. SDRs can also be directed towards funding critical development projects like healthcare, education, and climate change, thus, reducing fiscal deficits needed to fund such projects. As such, the paper deduces that SDRs can play a key role in reducing fiscal deficits by avoiding economic stagnation and deflation. Considering SDR in funding critical projects also means no immediate rollover risks will materialize.

5. Special Drawing Rights as a Debt Relief Package for African Countries

This section evaluates Africa and Kenya's debt burden, it compares SDRs to other international debt policy frameworks, and the governance issues around the 2021 SDR allocation.

5.1 Debt Burden for Kenya and African countries

About 40% of African countries are already in record high debt levels. Others are above 60% of their GDP. This is characterized by increasing fiscal imbalances, currency fluctuations, and the on-going COVID-19 and climate risks. The latest 2023 World Bank's DSA puts Mozambique, Zimbabwe, Sudan, Angola, and DRC and other countries in high debt distress[18].

Kenya's overall public debt reached 67.8% of GDP in 2021, where external and domestic public debt accounted for 34.5% and 33.3% of GDP, respectively. The external public debt remains on concessional terms, with significant support from multilateral institutions, which accounted for 43%. Debt from bilateral lenders stood at 31% in the same period. The DSA also indicated that non-Paris Club members, from China, accounted for 64% of Kenya's bilateral debt. Experts raised concerns with the increasing Kenya's debt, arguing that continued external borrowing exposes the economic stability to external shocks.

Table 3. Analysis of Kenya's external debt and debt service

	Debt Stock (end of period 2021)			Debt Service					
				2021		2022		2023	
	(In US$ mln)	*% Total Debt*	*% GDP*	*(In US$ mln)*	*% GDP*	*(In US$ mln)*	*% GDP*	*(In US$ mln)*	*% GDP*
Total	72,522	100%	67.8%	9,813	8.9%	10,553	9.0%	9,051	7.5%
External	36,882	50.9%	34.5%	2,266	2.1%	3,087	2.6%	3,058	2.5%
Multilateral creditors	15,750	21.7%	14.3%	504	0.5%	556	0.5%	558	0.5%
Bilateral creditors	11,337	15.60%	10.3%	585	0.5%	1,184	1.0%	1,336	1.1%
Bonds	7,100	9.8%	6.4%	452	0.4%	520	0.4%	515	0.4%
Commercial creditors	2,196	3.0%	2.0%	774	0.7%	802	0.7%	623	0.5%
Other international creditors	499	0.7%	0.5%	78	0.1%	26	0	26	0
Domestic	35,640	49.1%	33.3%	7,546	6.8%	7,466	6.4%	5,993	5.0%

Source: Adapted from World Bank & IMF (2022)

[18] See World Bank's (2023) debt sustainability analysis. https://www.worldbank.org/en/programs/debt-toolkit/dsa

5.2 SDRs as a Debt Relief Compared to other Policy Frameworks

Important questions for consideration in this study were: how did SDR compare to available debt policy frameworks? How did 2021 SDR allocation affect African countries' ability to meet their debt service obligations? By region, the 2021 SDR allocations to Low Income Countries (LICs), including Africa, was equal to 21% of debt service due over the next five years. Africa's SDR allocation of $33.8 billion was equal to 12% of debt service due in the same period[19]. While speaking to one of the CSO experts in Kenya who participated in the study, the 2021 SDR allocation was a huge boost to some individual economies.

It provided the much-needed liquidity to offset outstanding debt, thus reducing future debt service obligations. Some countries, such as Angola and Algeria do receive little official development assistance (ODA). Comparing 2021 SDR allocation to these countries' ODA on development prospects, SDR allocation provided much concessional finance than what ODA offers. A look at the 2021 SDR allocation to Sudan compared to the country's annual ODA indicated that SDR allocation was equivalent to the country's half a year worth of ODA.

In May 2021, the IMF, World Bank, and G20's debt service suspension initiative (DSSI) helped IMF member countries to suspend $12.9 billion. Many of the LICs benefited from this initiative. For instance, Kenya received DSSI amounting to $504 million, equivalent to 0.46% of the GDP. In the same period, Kenya also received 38-month arrangements under an Extended Credit Facility (ECF) and Extended Fund Facility (EFF) of about SDR 1.655 billion by the IMF, equivalent to 305% of Kenya's quota or $2.34 billion, to support the government's efforts to reduce debt vulnerabilities[20].

Experts posited that SDR allocation can offer African countries the much-needed fiscal space which allows for reallocation of resources to other priority areas away from debt servicing. SDR also comes at lower borrowing costs compared to other frameworks. However, they noted that policy frameworks, such as DSSI, ECF, and EFF have more elaborate formulas for allocation, a monitoring system, and eligibility criteria, compared to SDRs.

[19] See Kharas and Dooley (2021) on debt service risks, special drawing rights allocations, and development prospects. https://www.brookings.edu/wp-content/uploads/2021/09/Debt-service-risks-SDRs.pdf

[20] See IMF's (2021) press release on the approval of US dollar 2.34 billion ECF and EFF arrangements for Kenya. https://www.imf.org/en/News/Articles/2021/04/02/pr2198-kenya-imf-executive-board-approves-us-billion-ecf-and-eff-arrangements

SDR allocation can easily be misappropriated unless a mechanism is put in place to govern its use. This would ensure transparency and accountability. In Kenya, a detailed conversation with experts revealed that there is no publicly available document that elaborately shows how the government spent 2021 SDR allocation, apart from a publication that SDR supported the efforts by the Kenyan government against COVID-19[21].

5.3 Governance, Transparency, and Accountability of SDR allocations

When SDR allocation is done, there needs to be a mechanism that ensures what is allocated to members is monitored. However, with Kenya, this is not the case. Like in Kenya, there is no transparency on the use of SDR from different African governments as there is no public involvement while deciding what is allocated. Reports reviewed so far, including a joint World Bank – IMF review together with the National Treasury's BROP of 2022 and 2023 do not adequately pin-point the areas where the fund were used. These inadequate reporting and oversight mechanisms raise concerns about mismanagement and possible corruption.

In most countries, especially Africa, the use and accountability of SDR has been left solely to the Central Banks and a few individuals from the National Treasury. Since the public is not involved in public participation to identify critical development projects that would need SDR financing, it raises concern in terms of the government priorities. Government may decide to make repayment of debt to international creditors as opposed to using the funds on national development efforts without including the public in decision making[22]. Whereas CSOs also have an important role to play in advocating for effective reporting of SDR usage owing to their expertise, African governments have not created a conducive environment to promote involvement of CSOs in monitoring usage and allocation of SDRs to various project areas.

Another governance concern related to SDR absorption and use is the lack of priority areas for SDR. Many African countries have not effectively aligned SDR allocation and use with national development priority areas and pressing economic needs of the citizens, thus, adversely affecting the suitability of SDR in supporting sustainable goals.

[21] https://www.treasury.go.ke/wp-content/uploads/2022/12/2022-Budget-Review-and-Outlook-Paper.pdf
[22] https://internationalbudget.org/special-drawing-rights-lets-talk-about-transparency-and-accountability/

6. Increasing or Rechanneling of Special Drawing Rights to African Countries?

This section discusses what an increase in SDR allocation or rechanneling would mean for Africa and Kenya.

An increase in SDR allocation or reallocation would have significant implications for Africa, including Kenya, as the continent faces major development needs and funding gaps to achieve SDGs. With a higher proportion of SDR allocation, higher than the 5.2% of the 2021 allocation, African countries can access additional liquidity to address urgent priorities, such as climate change mitigation and adaptation, attaining inclusive growth by formalizing informal trade sector, healthcare, agriculture, renewable energy, and other infrastructural projects. An increased proportion of SDR allocation would enable African countries to address fiscal deficits, strengthen foreign reserves, and improve their ability to withstand economic shocks.

On the other hand, SDR rechanneling provides an opportunity for developed countries to reallocate their unused SDRs to support developing countries. Evidence so far has shown that compared to developing countries that used about 42% of their 2021 SDR allocations, developed countries used only about 5% of their allocations. This is despite developing countries receiving only 35% of the IMF's 2021 SDR allocation while having 83% share of global population, unlike developed countries that received 65% of SDR allocation and only having 17% share of global population. The preference for rechanneling is driven by the need to offer additional critical financing and resources for sustainability projects, climate change adaptation, and infrastructure projects.

Many developed countries, especially the G20 and the G7 committed to reallocating $100 billion of SDRs. However, only China has come out openly to make commitments of $10 billion to African countries. This lack of commitment speaks to the shortcomings and inequality of the current financial architecture as it does not promote inclusive growth. Since the proposal to reallocate SDR to developing countries, the only action that has been taken is to design new fund mechanism, the Resilience and Sustainability of Trust (RST), under IMF to channel SDR allocation to developing countries. Other rechanneling options include Liquidity and Sustainability Facility (LSF), Poverty Growth Trust (PRGT) that has both ECF and EFF, and African Development Bank (AfDB).

As currently designed, though RST presents opportunities for rechanneling, it also has numerous limitations. One such concern is the misaligned priorities with the principles of inclusive growth, just, and inclusive economic transformation. It also comes with conditionalities that may not promote growth among developing countries. Despite the concerns, countries such as China, Australia, Canada, Germany, and Spain have so far collectively contributed about US dollar 20 billion to IMF's RST. China alone, has officially reallocated 21% of its share of the SDR allocation in 2021, equivalent to 6 billion SDRs, to IMF's RST accounts. A total of 17 IMF members have already made pledges amounting to 30.4 billion to the RST account[23].

[23] See Development Re-Imagine (2023a)

7. Conclusion and Recommendations

7.1 Conclusion

The study examined IMF's 2021 SDR allocation and absorption experiences in African countries with particular focus on Kenya. The aim was to determine to what extent the experiences two years after the 2021 SDR allocation can inform a reform of the SDR quota system. The study established that though the 2021 SDR allocation of $33.8 billion was a crucial lifeline for African economies amidst the Covid-19 by providing liquidity in navigating the challenges of the pandemic, the allocation was too small to address Africa's financing gap, which is estimated at $194 billion annually to attain SDGs by 2030. The experiences around SDR absorption and utilisation were that even with the small allocation of 5.2%, there exist a transparency and monitoring lacuna, which is necessary to make SDR work for African countries.

Regarding the extent to which SDR qualified as a debt relief, the study concludes that SDR highly contributed to settling debt service obligations due in the next five years for African countries. Comparing Kenya's SDR allocation of $737 million to, for instance, current external fiscal deficit of 131.5 billion, the study concludes that SDRs could largely help Kenya African countries reduce fiscal deficits and manage debt. However, this would depend on each country's governance mechanism to ensure efficient use of SDR allocations. Based on these experiences, the study posits that SDRs is a vital financial liquidity that can help countries support growth and manage their debt levels.

7.2 Recommendations and Advocacy proposals

The study, therefore, makes the following recommendations for advocacy around SDR allocation and rechanneling:

1. International financial institutions and the developed countries should commit to an open and transparent financial system that would promote inclusive growth. This should include G20 economies rapidly meeting their commitment of $100 billion SDR reallocation.

2. Even as calls are under way to restructure the financial system, African countries should increase calls for AfDB to be used as a rechanneling mechanism for SDR due to its hybrid financing innovation that can allows it to leverage reallocations three-to-four-

times the original amount. Besides, AfDB also has its sustainable investment areas that are aligned to Africa's Agenda 2063, as well as African countries' renewable energy goals.

3. **Adopt urgent reforms around SDR allocation governance and reporting framework:** SDR allocations comes as a general reserve that is tied to no specific development purposes. This makes it difficult to track and report its uses. In light of this, the government with the support of CSOs can develop effective governance frameworks to improve transparency and accountability of SDR channeling and distribution.

4. **Implement substantive reforms around SDR compatibility with critical development projects to support sustainable goals**. African countries need to identify priority projects that SDR can fund, for instance, climate resilience, or zero hunger programs, with a view to attract increased SDR rechanneling to support such projects.

5. **Develop flexible conditionalities around SDR to make it work like other IMF innovative climate resilience funding initiatives**. While African countries are concerned with the conditionalities that IMF always attaches to its financial support to developing countries, the need to ensure SDR works better in Africa may require minimal conditionality. This can promote adequate reporting and tracking of SDRs' use in Africa and other developing countries.

6. **Expand the scope of the SDR quota system beyond GDP**. Available reports estimates that African countries utilized 85% of their allocated SDRs in 2021 compared to their developed counterparts. This demonstrates the need for a review of the SDR quota system to take into consideration the development needs of each country or region with regards to SDR allocation.

7. **Develop effective working partnership among Central Banks, Parliament, and Treasury to improve effectiveness of SDR allocations**. Central Banks are the custodians of SDR once IMF allocates the reserve to any country. Parliaments debate and approve government projects that require immediate funding. The treasury disburses the funds once approved by the parliament. To this extent, there is a need to

establish an effectively coordinated partnership among these critical bodies to increase transparency and accountability around SDR usage in African countries, while involving non-state actors such as the civil society, to augment the ongoing continental push for the reformation of SDRs.

8. **African governments should work closely with CSOs and encourage them to build the capacity of citizens to participate in the SDR discussion**. This will increase the level of awareness around SDR as a debt relief tool and increase the calls for more reallocation towards developing countries.

References

Afreximbank. (2021). *Putting SDR's to good use in Africa. Boosting the capital base of regional development finance institutions to build back better.* Volume 5 Issue 2. Trade & Development Finance Brief. https://media.afreximbank.com/afrexim/Trade-and-Development-Finance-Brief-ATDFB-Vol.5-2021-1.pdf

African Union. (2023). Linking Agenda 2063 and the SDGs. https://au.int/en/agenda2063/sdgs

Center for Global Development. (2022, September 9). A quick rundown on where we stand with SDRs. https://www.cgdev.org/blog/quick-rundown-where-we-stand-sdrs

Center for Global Development. (2023, February 15). *A valentine's day gift for the AfDB's campaign for SDR recycling – but now we need more heart*. https://www.cgdev.org/blog/valentines-day-gift-afdbs-campaign-sdr-recycling-now-we-need-more-heart

Central Bank of Kenya. (2014). Laws of Kenya: Central Bank of Kenya Act – CAP 491. https://centralbank.go.ke/images/docs/The_Central_Bank_of_Kenya_Act_1st_January_2014.pdf

Development Re-Imagined (2023b). *Infographic: Africa SDRs – How they are used, distributed, and what needs to change*. https://developmentreimagined.com/african-sdrs-how-they-are-used-distributed-and-what-needs-to-change/

Development Re-Imagined. (2023a). *Options paper for channeling China's SDRs to Africa.* Finance Development Lab. https://findevlab.org/wp-content/uploads/2023/05/EN-Options-Paper-for-Channeling-Chinas-SDRs-to-Africa-20230502.pdf

Economic Commission for Africa (ECA) and Economic Commission for Latin America (ECLA). (2023). Special drawing rights (SDRs) and the COVID-19. https://repositorio.cepal.org/bitstream/handle/11362/47856/1/S2200199_en.pdf

Economic Commission for Africa. (2023, May 22). *African ministers call for reforms of the IMF's special drawing rights system*. https://www.uneca.org/stories/african-ministers-call-for-reforms-of-the-imf%E2%80%99s-special-drawing-rights-system

Erten, B. (2012). *Overcoming the technical and political difficulties of using SDRs for development purposes*. Economic & Social Affairs. https://www.un.org/esa/desa/papers/2012/wp126_2012.pdf

Institute for Security Studies. (2022, July 13). *Africa is losing the battle against extreme poverty*. https://issafrica.org/iss-today/africa-is-losing-the-battle-against-extreme-poverty

Institute of Public Finance. (2022, October 3). *Government fingered for non-disclosure on how Ksh 465B IMF loan was used*. https://ipfglobal.or.ke/2022/10/03/government-fingered-for-non-disclosure-on-how-sh-465b-imf-loan-was-used/

International Budget Partnership (IBP) 2021. *Special Drawing Rights: Let us talk about transparency and accountability*. https://internationalbudget.org/special-drawing-rights-lets-talk-about-transparency-and-accountability/

International Monetary Fund (2022, May). IMF Executive Board Concludes Quinquennial SDR Valuation Review and Determines New Currency Weights for SDR Valuation. https://www.imf.org/en/News/Articles/2022/05/14/pr22153-imf-board-concludes-sdr-valuation-review

International Monetary Fund. (1979). *The SDR as a basket of currencies*. IMF's Research Department. https://www.elibrary.imf.org/view/journals/024/1979/004/article-A001-en.xml

International Monetary Fund. (2017, April 24*). Acceptances of the proposed amendment of the Articles of Agreement on reform of the Executive Board and consents to 2010 quota increase*. https://www.imf.org/external/np/sec/misc/consents.htm#a2

International Monetary Fund. (2021, October 28). *Annual update on SDR trading operations*. https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/10/26/Annual-Update-on-SDR-Trading-Operations-498096

International Monetary Fund. (2021a, August 23). *From questions and answers on special drawing rights*. https://www.imf.org/en/About/FAQ/special-drawing-right

International Monetary Fund. (2021b, August 23). *2021 general SDR allocation*. https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation

International Monetary Fund. (2022a). *Overview: What is the SDR? What is new allocated SDRs?* https://www.imf.org/en/Topics/special-drawing-right

International Monetary Fund. (2022b). *IMF quotas. How does the IMF use quotas?*

https://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas#:~:text=Quotas%20are%20a%20key%20determinant,the%20same%20for%20all%20members.

Kazi, D. (2020). Modern Day Colonialism: Debt Crisis in the Global South. Positive Money. https://positivemoney.org/2020/10/modern-day-colonialism-debt-crisis-in-the-global-south/

Kenya Law. (n.d). *Laws of Kenya: International Monetary Fund Act No 16, CAP 467 of 1969*. http://kenyalaw.org:8181/exist/kenyalex/actview.xql?actid=CAP.%20467

Kenya Vision 2030. (n.d). *About Vision 2030*. https://vision2030.go.ke/about-vision-2030/#:~:text=The%20aim%20of%20Kenya%20Vision,a%20clean%20and%20secure%20environment%22.

Kharas, H., & Dooley, M. (2021, September). *Debt service risks, special drawing rights allocations, and development prospects*. Policy Brief. Brookings. https://www.brookings.edu/wp-content/uploads/2021/09/Debt-service-risks-SDRs.pdf

Mariotti, C. (2022, April). *Special drawing rights: Can the IMF's reserve currency become a transformative financial resource?* Briefing Paper. European Network on Debt and Development. https://assets.nationbuilder.com/eurodad/pages/2897/attachments/original/1649658655/sdr-briefing-apr10-final.pdf?1649658655

National Treasury and Planning. (2021). *Kenya's annual public debt report 2020/2021*. Treasury. https://www.treasury.go.ke/wp-content/uploads/2021/12/ANNUAL-PUBLIC-DEBT-REPORT-2021-final-as-at-oct-21-2021.pdf

Nyamudzanga, I. (2022). *Special drawing rights and its impact on economic justice, towards reconstructing the new African economic order*. Research Paper 01/06 ADHR.

Republic of Kenya. (2023). *Press release on the FY 2023/24 budget statement*. https://www.treasury.go.ke/wp-content/uploads/2023/06/Press-Release-Budget-Statement.pdf

Republic of Kenya. (2022). 2022 Budget review and outlook paper. The National Treasury and Economic Planning. https://www.treasury.go.ke/wp-content/uploads/2022/12/2022-Budget-Review-and-Outlook-Paper.pdf

Rizk, Y, (2023, May). *African Debt: Three proposals to Reform the SDR System*. The African Report. https://www.theafricareport.com/310821/african-debt-three-proposals-to-reform-the-sdr-system/

Savage, P., &Tian, Y. (2022). *Analysis: China debt restructuring policy under Scrutiny as more countries demand relief*. Reuters. https://www.reuters.com/world/china/china-debt-restructuring-policy-under-scrutiny-more-countries-demand-relief-2022-09-08/

Today News Africa. (2023, June 26). *Kenyan president William Ruto champions New Global Financial Architecture at Global Summit*. https://todaynewsafrica.com/kenyan-president-william-ruto-champions-new-global-financial-architecture-at-global-summit/

World Bank. (2022). Kenya: *Joint World Bank – IMF debt sustainability analysis*. World Bank Group. https://documents1.worldbank.org/curated/en/099200502172342405/pdf/BOSIB08d41b80e0b00982404d65440cd5b8.pdf

World Bank. (2023). *Debt and fiscal risks toolkit: Debt sustainability analysis (DSA)*. https://www.worldbank.org/en/programs/debt-toolkit/dsa

WorldData. (n.d). Africa population estimates. https://www.worlddata.info/africa/index.php

Zafar, A., Muench, J., & Ordu, U. A. (2021**).** *SDRs for COVID-19 relief: The good, the challenging, and the uncertain.* Brookings. https://www.brookings.edu/blog/africa-in-focus/2021/10/21/sdrs-for-covid-19-relief-the-good-the-challenging-and-the-uncertain/