Shaping Africa's Voice on Special Drawing Rights through Global Financial Architecture Reforms:

From allocation to utilisation

Kenya | Uganda | Nigeria | Senegal | Zambia | Chad | Ethiopia | Ghana

INTRODUCTION

Global shocks, including the COVID-19 pandemic and the recent wars in Ukraine-Russia, Israel and Palestine have exacerbated the already constrained Africa's fiscal space leading to a reduction in financing development in Africa which in the long-run reduces the required finance for development. While Africa has benefited from bilateral and multilateral support, particularly during the pandemic, the global financing architecture is still grossly inadequate for low income countries and Africa, thus the external debt overhang in the Global South has reached crisis proportions. Due to the global financial crisis caused by COVID-19, and following calls[1] from civil society organisations including AFRODAD, the International Monetary Fund (IMF) Board of Governors approved a general allocation[2] of about 456 billion Special Drawing Rights (SDRs), equivalent to US$650 billion, to boost global liquidity. The allocation was the largest in the history of IMF with an intention to help countries respond to the COVID-19 pandemic just after the general allocation[2] of about SDRs 161 billion in 2009, equivalent to US$250 billion that was released to boost liquidity amid the global financial crisis of 2007/2008.

Practically, the Articles of Agreement[3] allow the IMF to allocate SDRs to members but does not prescribe to the SDRs holders under what conditions the SDRs can be used. The general allocation of SDRs is broadly distributed to member countries in proportion to their quota shares at the IMF, therefore only a small fraction of about US$33bn representing 5 percent of total allocation went to Africa economies. Majority of SDRs were reserved for high-income countries who hardly faced a financial crisis compared to developing economies.

While addressing the inequality in the SDRs allocation, President Macky Sall called it a "drop in the bucket"[4] while comparing it with what countries like the United States received which was approximately $118 billion (SDRs 83 billion) which is about 17% of the total SDRs while China got $43 billion-about 6% of the total SDRs. During the African Union meeting of Heads of State in February 2022, there was an urge for wealthy nations to increase the SDRs allocation to the continent to at least $100 billion and channel part of them through the African Development Bank and this was incorporated into the Multilateral Development Bank (MDB) Vision Statement issued at the Summit on the Paris Pact for People and Planet held in June 2023. However, the facility is yet to become operational with only the UK and Japan having supported AfDB's proposal for SDRs rechanneling, and support from at least five donor countries is needed for the initiative's implementation in the long run.[5]

The disproportion in SDRs allocation is evidence that the current global financial architecture is not fit for African economies. While rising issues are global, they have an outsized impact on African economies and societies.[6] The central debate is less about the overall level of the allocation than about its distribution among IMF member countries.

1. https://latindadd.org/arquitectura-financiera/civil-society-organisations-call-for-quick-special-drawing-rights-allocation/
2. https://www.imf.org/external/np/exr/cs/news/2009/CSO79.htm
3. https://www.imf.org/external/pubs/ft/aa/index.htm
4. https://www.theafricareport.com/120851/what-do-the-imfs-special-drawing-rights-actually-entail/
5. Leveraging the power of Special Drawing Rights: how developed countries can help boost Africa's development | African Development Bank Group (afdb.org)
6. Rechannelling special drawing rights through the Multilateral Development Banks and the Liquidity and Sustainability Facility. - AFRODAD

The general principle applied to SDRs injections since their creation, and derived from the Fund's Articles of Agreement, is clear, almost too clear: SDRs are distributed among members according to the quota of each country in the Fund, a quota itself calculated on the basis of several macroeconomic criteria, primarily GDP.[7] The distribution strategy has the major disadvantage of creating an imbalance development trajectory from which advanced countries benefit (wealth begets wealth, access to liquidity becomes cumulative for these advanced countries via their SDRs holdings), and symmetrically low-income countries (LICs), especially in Africa, find themselves caught in a vicious circle: their financing constraints are only marginally eased by the creation of new SDRs. Due to the importance of the SDRs and the many controversial policy issues around it, AFRODAD then decided to do a series of reports on SDRs including:

- Rechannelling Special Drawing Rights through the Multilateral Development Banks and the Liquidity and Sustainability Facility in Africa - AFRODAD
- An Assessment of the International Monetary Fund's (IMF) 2021 Special Drawing Rights (SDRs) Allocation, Usage, and Implications on Public Debt Management: Kenya and Africa's Experiences
- Economic Recoveries for Uganda: A focus on Special Drawing rights and COVID- 19 acquired Debt.
- Tracking Utilisation of Special Drawing Rights (SDRs) in Nigeria.
- Tracking Utilisation of Special Drawing Rights (SDRs) in Nigeria
- Utilisation of Special Drawing Rights (SDR's) In Zambia
- Examination of the SDRs allocation, and assessment of the extent to which the SDRs allocation can be considered a debt relief program in comparison to other debt relief frameworks in Senegal.
- Analysis of Chad's Experience with the use of SDRs.

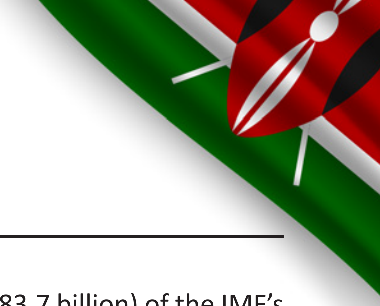
Therefore, AFRODAD has made a condensed synopsis covering all the findings of the study while delving on how to enhance allocation and rechanneling of the SDRs in shaping Africa's voice in the Global Financial Architecture Reform.

SELECTED COUNTRIES CASE ANALYSIS

In collaboration with partner organisations in Africa including AERC, MEJN-Malawi, ANEEJ – Nigeria, UDN-Uganda, CTPD-Zambia, TISA-Kenya, CROSET-Chad, and LAREM-Senegal, AFRODAD has undertaken studies from countries including Kenya, Uganda, Nigeria, Senegal, Zambia, Chad, Ethiopia and Ghana to assess and review SDRs allocations, use, and reporting while also ascertaining gaps and alternative policies on how best to enhance both transparency and accountability in the use and reallocation process of the SDRs in these countries.

Kenya | Uganda
Nigeria | Senegal
Zambia | Chad
Ethiopia | Ghana

7. Articles of Agreement of the International Monetary Fund (imf.org) - https://www.imf.org/external/pubs/ft/aa/index.htm



KENYA

In collaboration with its national partner, TISA-Kenya AFRODAD undertook a study which assessed the International Monetary Fund's (IMF) 2021 SDRs Allocation, Usage, and Implications on Public Debt Management: Kenya and Africa's Experiences. At the same time, AERC deep dived on the need to leverage on SDRs for sustaining Economic Recovery in Kenya while also highlighting the challenge of Kenya limited fiscal space and lighter international markets to access funding while experiencing high debt servicing costs straining country's foreign exchange reserves and reducing the country's ability to allocate resources to other development priorities.The studies found out the following:

Key Findings

i. Kenya received SDRs 520.2 million (about $737.6 million or Kshs. 83.7 billion) of the IMF's 2021 SDRs allocations.[8] This allocation provided African countries and Kenya to be specific, an immediate boost in liquidity without increasing their debt stock.

ii. As per the National treasury of Kenya, the National Treasury borrowed up to half of the allocation of the SDRs (about $370 million or Ksh. 41.8 billion) from the CBK to support the financial needs of the fiscal year (FY) 2022/2023. This was supported by the National Treasury's Budget Review and Outlook Paper of 2023, which highlights that the government used IMF's SDRs 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 SDRs use in FY 2023/2024. Also, a joint World Bank – IMF review of 2022 indicated that Kenya had so far utilised three-quarter of its 2021 SDRs 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.

iii. The IMF allocation and current distribution mechanism based on the relative Quotas continue to disadvantage the vulnerable countries, who are in dire need of these financial resources while advanced and emerging market economies continue to benefit more from the distribution of SDRs allocation, and yet they do not need them as evidenced by unutilised allocations.[9]

2021 SDRs Allocation
520.2 million SDRs
(USD 737.6 million)

3/4 of the SDRs utilised to meet (FY) 2021/2022 and 2022/2023 financial needs

8. 2021 General SDRs Allocation (imf.org)
9. SDR-PB-003: Leveraging Special Drawing Rights (SDRs) for Sustaining Economic Recovery in Kenya

Key Messages from Kenya

Transparent financial system

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 SDRs reallocation.

Rechannelling SDRs through AfDB

Even as calls are under way to restructure the financial system, African countries should increase calls for the African Development Bank (AfDB) to be used as a rechannelling mechanism for SDRs due to its hybrid financing innovation that can allow 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.

Reform SDRs allocation governance & reporting

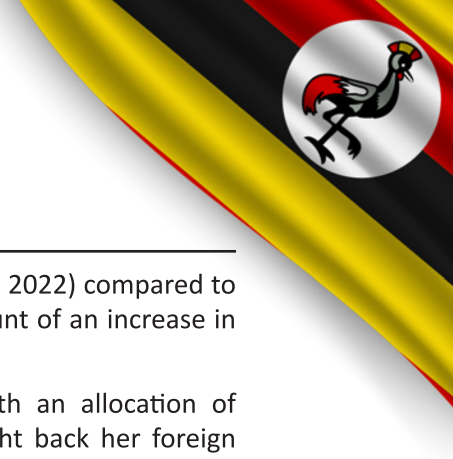
There is a need to adopt urgent reforms around SDRs allocation governance and reporting framework: SDRs allocations comes as a general reserve that is tied to no specific development purposes. This makes it difficult to track and report its uses. Considering this, the government with the support of CSOs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

Flexible SDRs conditionalities

The study called for development of flexible conditionalities around SDRs 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 SDRs work better in Africa requires minimal conditionality. This can promote adequate reporting and tracking of SDRs' use in Africa and other developing countries.

Expand Scope of SDRs quota system

There is a need to expand the scope of the SDRs quota system beyond GDP. Available reports estimate that African countries utilised 85% of their allocated SDRs in 2021 compared to their developed counterparts. This demonstrates the need for a review of the SDRs quota system to take into consideration the development needs of each country or region with regards to SDRs allocation.



UGANDA

Uganda received an allocation of about SDRs 365 million worth approximately USD 492 million from the IMFs $650 billion (SDRs 456.5 billion) general allocation of SDRs in 2021 which contributed to the country's recovery efforts. Uganda strategically utilised SDRs to strengthen her reserves and, provide fiscal support.

Key Findings

i. **Foreign assets** increased by 4 percent to UGX 18,413,172 million (June 2022) compared to UGX 17,699,505 million as of June 30, 2021. This was largely on account of an increase in IMF SDRs holdings by SDRs 346 million.

ii. **Impact on Uganda's forex reserves and future SDRs holding.** With an allocation of approximately USD 235 million in reserves (*figure 1*), Uganda brought back her foreign exchange reserves to sustainable levels and, EAC targets (*4.5 months of import cover*) enhancing its liquidity and economic stability.

iii. **Fiscal support and impact to social sector.** About half (USD 250 Million) of the SDRs allocated in 2021 were earmarked for priority social spending in Health, Education, and water and sanitation projects. A total of UGX 893 billion (237.8 million USD) from the SDRs allocation to Uganda was used for budget support in the FY 2022/23, though government has not instituted mechanisms for special monitoring and reporting on the utilisation of SDRs including the annual budget performance reports.

iv. **Distributed growth.** Before Covid-19 pandemic, Uganda's economy averagely grew by about 6 percent, but started reducing even before the pandemic and stayed below average throughout the pandemic period. USD 153.72 million was used as budget support to the Ministry of finance, UGX 462.73Billion was injected into the economy for business recovery through Uganda Development Bank. This enabled the economy to stay resilient thus shifted the economy from 3.0 percent in FY2019/2020 to 4.6 percent in FY2021/22.

The 2021 SDRs allocation
365 million SDRs
(USD 492 million)

Ca. 50% of the SDRs (USD 250 Million)
Earmarked for spending in Health, Education, and water and sanitation projects

237.8 million USD used for FY 2022/23 Budget support.

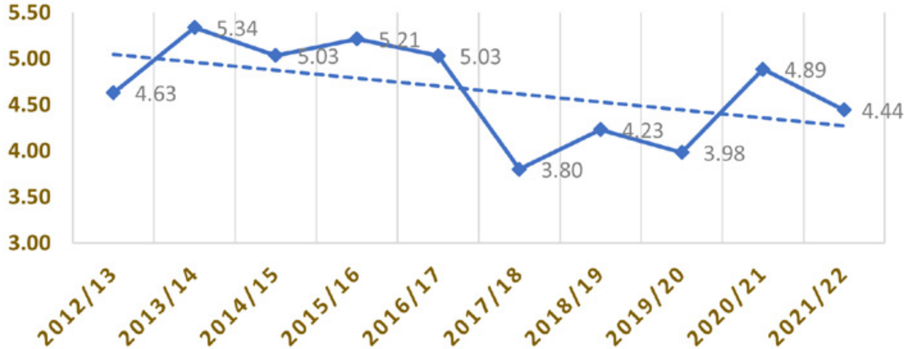


Figure 1. Total external reserves in future months of imports of goods and services

Source: BoU Balance of Payments analytical - BPM6

Key Messages from Uganda

Efficient and transparent SDRs utilisation

SDRs are a potential tool for economic recovery in Uganda. They provide additional liquidity and bolster foreign exchange reserves, enabling the country to address immediate economic challenges and support long-term growth. Therefore, Uganda needs to promote efficient and transparent utilisation of SDRs to maximise their impact on the economy.

Rechannelling SDRs & Increasing development financing

Broad political consensus on rechannelling SDRs and increasing development financing is still needed to help developing countries recover from recent shocks and achieve the aspirations of the Agenda 2063.

Targeted policies & interventions

COVID-19 had severe effects on the Ugandan Economy. There is need for targeted policies and interventions to support affected sectors, such as healthcare, tourism, and small businesses as well as increase social safety nets to mitigate the effects of the pandemic.

Prudent debt management

Uganda's debt is growing rapidly. Prudent debt management practices with effective debt restructuring and refinancing strategies will alleviate debt pressures and create fiscal space for investment in critical sectors.

NIGERIA

From the study undertaken by AFRODAD and its national partner organisation, ANEEJ in Nigeria, while carrying out the interview with stakeholders, the following comment was received:

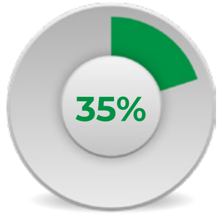
> "SDRs utilisation in Nigeria suffers from disregard for fiscal discipline which undermined the purpose the SDRs were earmarked for. Some of the SDRs funds are accounted for and some were used in sectors that are less in need of them.[10]"

Key Findings

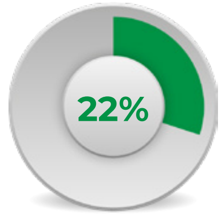
Nigeria received $3.35 as its share of the SDRs and ANEEJ with support from Open Society Initiative for West Africa (OSIWA) tracked the use of the allocated SDRs. It found out that the SDRs for a long time were domiciled at the Central Bank of Nigeria (CBN). Other findings from the report show that the SDRs were used to finance the budget deficit in the 2022 fiscal year. This differs sharply from the expectation when the funds were allocated to Nigeria in August 2021. The following recommendations have been put forward to all stakeholders to improve the utilisation and reallocation of SDRs. This can be summarised in the following figures:

Used for financing budget deficit

Used to boost liquidity and pay interest on loans



Used to fund many sectoral projects in the economy but counterproductive due to poor coordination, thus leading to scramble for development financing due to already high debt



Used to supplement government projects / programmes as loan to be paid back

10. Interview response from a senior member of the Africa Network for Environment and Economic Justice (ANEEJ), a civil society in Nigeria – 02 October 2023

Key messages from Nigeria

Amendment of the CBN Act. There was no budgetary information showing the allocation of SDRs to sectors of the economy. Amending the CBN Act, 2007, to ensure that SDRs are reflected in National budget documents. Also, Section 8 of the CBN Act provides that the CBN governor briefs the National Assembly from time to time with regards to its policies and activities; the National Assembly did not call on the CBN to provide such a briefing in 2021 when the SDRs was received.

IMF should keenly monitor the utilisation of general SDRs allocations. The IMF should monitor the use of general SDRs allocations. Like its approach with its credit facilities, a thorough monitoring mechanism should be designed and implemented.

Reallocation of SDRs to poor countries. There is an urgent need for SDRs reallocation to poor countries in greater need. The reallocation should not necessarily go through Multilateral Banks which would charge interest on the resources and further exacerbate the debt crisis.

Collaboration, dialogue and knowledge sharing among government, private sector, civil society, and international partners is key in shaping policies, fostering innovation, and ensuring inclusive economic recoveries.

Greater transparency and accountability in the use and proper channelling of SDRs is required. This is to address dearth of information and data regarding SDRs allocation. With an expanding global context for increased vulnerability and weak macroeconomic fundamentals in Nigeria, proper channelling SDRs funds to sectors, projects, and programmes, would help to enhance Nigeria's resilience and the attainment of inclusive growth.

Stakeholders' involvement in the use of SDRs. It is important to develop a framework for tracking the utilisation of SDRs funds from allocation to release and utilisation. Stakeholder engagement to determine the area of priority would also be vital. It is apparent from the utilisation of SDRs funds allocated to Nigeria in 2021 that these processes were lacking.

Advocate streamlining of use of SDRs. The context in which Nigeria and other countries received the SDRs allocation in 2021 showed that the IMF laid out the overall context for the fund but did not provide specific details on how the funds should be used. CSOs should therefore lead the advocacy to call for reform in how the SDRs from the IMF is used in countries such as Nigeria. CSOs should also be involved in monitoring and tracking the use of SDRs in countries.

SENEGAL

Through a national partner, Consortium pour la Recherche Economique et Sociale (CRES), ARC also conducted a study to examine the extent to which Senegal could access SDRs reallocation to finance its economic recovery without further deteriorating its deficit and public debt rates. Senegal benefited, in proportion to its quota (323.6 million SDRs), from an amount of $442 million, or 246 billion CFA francs, representing 1.6% of the country's Gross Domestic Product (GDP).

Key Findings

i. Nearly 42% of the SDRs allocation (i.e. 103 billion CFA francs) was used for the accelerated payment of outstanding commitments. This expenditure was aimed at supporting economic recovery. They mainly concerned the settlement of unpaid obligations, notably in the energy and public work sectors.

ii. Slightly more than 13% of SDRs (i.e. FCFA 33 billion) were spent in the health sector. These expenditures relate to the response to the COVID-19 crisis, the production of vaccines and investments in hospitals. This allocation of SDRs was used to supplement the resources needed to cover additional urgent and one-off expenditure on health and social protection. SDRs contributed 61% of this expenditure.

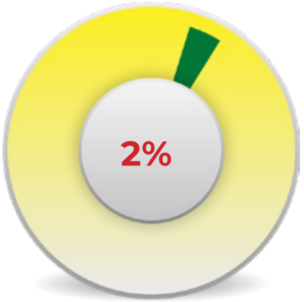
iii. 2% of the SDRs amount (5 billion FCFA) was used for cash transfers. This represents an SDRs contribution of 14.3% to energy subsidies in the face of soaring world prices due to the Covid-19 crisis.

iv. 20.3% (50 billion CFA francs) and 22.4% (55 billion CFA francs) of SDRs were allocated to financing needs, respectively.

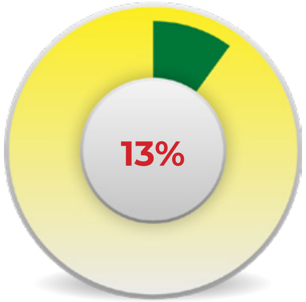
v. Senegal's budgetary room for maneuvers was reduced and the external debt burden deteriorated further. In addition, Senegal financed its public deficit mainly through borrowing, increasing its debt from 52.5% in 2029 to 67.4% of GDP in 2020. The rapid increase of public debt with a growing share of commercial debt has led to a deterioration in sustainability. Senegal's debt is mostly short-term, mainly financing current expenditures especially since the increase in public expenditures that led to the increased use of debt over the recent years is due to high energy subsidies and expenses linked to COVID-19 mitigation measures.

vi. According to the study, even though Senegal meets the conditionality relating to the IMF-supported program, it would need to strengthen its debt sustainability. It proposes the dual strategy of developing its domestic securities market and reducing its risks and costs linked to volatility in interest rates and exchange rates.

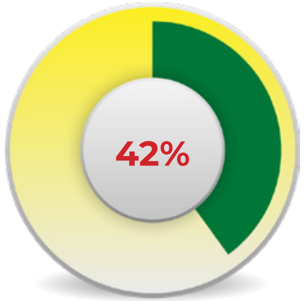
vii. SDRs allocation: a debt relief program? A review of a number of debt relief programmes reveals three main characteristics. A debt relief programme: is taken under the aegis of the international community; involves a change in the amount of debt; and/or concerns debt repayment conditions. Whether or not to consider an SDRs allocation as a debt relief programme depends on the use to which it is put, i.e., whether it modifies the conditions under which the country has borrowed or is used as an alternative to onerous indebtedness.



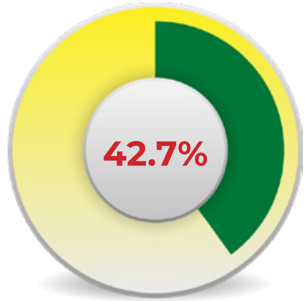
Used for cash transfers



Spent in the health sector



Accelerated payment of outstanding commitments



Allocated to financing needs 20.3% (50 billion CFA francs) and 22.4% (55 billion CFA francs)

Key messages from Senegal

The study recommends that the Government of Senegal mobilises more resources by creating fiscal space through several resource mobilisation options such as the improvement of efficiency in public spending, the increase of public revenues, the elimination of illicit financial flows (IFFs), the implementation of rigorous macro-economic management measures, the lobbying for increased official development aid, and additional transfers.

Senegal should finance social investments that are better targeted to the needs of the population.

The Federal government of Senegal needs to enhance the efficiency of public services to improve performance.

Finally, there is a need to reduce the dependence of low-income countries on the outside world for the supply of basic necessities i.e. The government of Senegal to reduce its new loans and overall indebtedness with the international markets would improve debt sustainability.

ZAMBIA

AFRODAD undertook the study on the utilisation of SDR's in Zambia with the national partner; Centre for Trade Policy & Development (CTPD).

Social sector spending (pensions, youth and women empowerment, health services, Covid-19 vaccines, food security and cash transfer programs in 2022

allocated to the 2023 and 2024 national budgets

Key Findings

Zambia received US$1.3 billion which doubled the country's reserves to US$2.8 billion by December 2021. Zambia used 50 percent of this allocation for social sector spending in 2022, funding pensions, youth and women empowerment, health services, and Covid-19 vaccines. Additional funds supported food security and cash transfer programs. The remaining 50 percent was allocated to the 2023 and 2024 national budgets, with an emphasis on transparency and accountability.

Despite providing the necessary fiscal support, the IMF quota formula is criticised for being inequitable, favoring larger economies. Reforming it to include factors like indebtedness and poverty would ensure a fairer allocation of SDRs based on countries' challenges. While SDRs are not a debt relief package, they complement existing debt relief efforts by supporting social sector spending. Prudent management, transparency, and accountability in using these funds are crucial for maximising benefits and maintaining credibility with creditors.

Key messages from Zambia

Identifying sustainable alternative financing for entities like Public Service Pension Fund and Zambia Medicines and Medical Supplies Agency, including other social protection programmes. This involves eliminating inefficiencies and making the pension fund more competitive and self-sustaining.

Enhancing domestic resource mobilisation by efficiently collecting revenues, expanding the tax base, and plugging revenue leakages to reduce dependency on external funding.

Sustained advocacy for the rechannelling of unused SDRs from developed to developing countries, and for reforming the SDRs quota formula to consider population size, poverty, and indebtedness levels for equitable allocation.

Ensuring transparency and accountability in the utilisation of SDRs to maximise benefits for the poor and vulnerable, and ensuring proper approval and oversight of official borrowings in line with public debt management regulations.

CHAD

The study analysed Chad's experience in using SDRs and examined their impact on the country's economy and financial stability.

Key Findings

Chad benefited from the allocation of SDRs, which increased the country's foreign exchange reserves and strengthened its economic position, especially in times of economic difficulty and high political instability. At the same time, SDRs helped with alleviating pressure on foreign exchange reserves, stabilise the national currency (FCFA) managed jointly with the other five CEMAC zone states, and supported financial stability.

Key Messages from Chad

Chad needs to ensure the efficient and transparent use of SDRs to maximise their benefits.

The country should put in place monitoring and control mechanisms to ensure that the funds allocated are used responsibly and for productive investments to generate growth in the medium and long term. This would help generate additional budgetary resources.

In addition, it is crucial to develop a risk management strategy to cope with possible fluctuations in exchange rates and commodity prices.

Finally, Chad should explore opportunities for economic diversification to reduce its dependency on sectors that are vulnerable to external shocks (oil in particular).

There is need for collaboration between IMF, Chad, and other development partners including CSOs, in SDRs management. This can be through strengthening institutional capacities and promoting transparency which are essential reforms needed to ensure the efficient and responsible use of SDRs.

ETHIOPIA

AFRODAD partner organisation, the African Economic Research Consortium (AERC) undertook a study that aimed at showing trends of Ethiopia's debt profile, state of its debt restructuring process and highlight the role of SDRs in easing debt distress in supporting economic recovery. The study found that Ethiopia has been sliding backwards from important economic and social gains in the past two decades with poverty rates rising.

Key Findings

Tough Ethiopia received USD 414 million from the SDRs allocation in 2021, the amount was only just a fifth of Ethiopia's debt servicing expenses.[11] The study also estimates that the country would need at least USD 20 billion over the next five years to finance resilient recovery and reconstruction following the conflict in Northern Ethiopia.

The study proposes a new SDRs allocation formula that incorporates parameters indicating liquidity shortage and structural vulnerability of countries in addition to the existing parameters. It criticises the slow reaction to new SDRs allocation in response to the Covid-19 pandemic. Further it found that the stringent IMF requirements in its rechannelling SDRs instruments, i.e. PGRT and RST locks out the potential of African countries to fully utilise SDRs in concessional terms.

Key messages from Ethiopia

Revision of the current SDRs allocation formula to incorporate liquidity needs and structural vulnerabilities of countries in addition to the IMF Quota.

Rechannelling through AfDB is preferable as AfDB has country-specific expertise and less stringent policy conditionalities on lending.

SDRs allocation to be complimentary to the country's effort to improve its own domestic resource mobilisation. Enhanced SDRs allocation can't substitute the need for countries to address structural challenges and the need to build resilience.

11. SDR-PB-001: Leveraging Enhanced SDR Allocations to Finance Resilient Economic Recovery in Ethiopia

GHANA

In the study that looked at the reforms of SDRs financing in Ghana's Economic Recovery, questions on how SDRs could contribute to addressing economic and development challenges in Africa in the face of recurrent global economic shocks, AERC found out the following:

Key Findings

Between 2020 and 2022, in particular, the government's fiscal operations were characterised by a high expenditure that far exceeded revenue generation, resulting in rising deficits in the domestic primary balance. The rising deficits during the period were predominantly financed by Eurobond proceeds, IMF's SDRs allocation, and domestic borrowing leading to rising total public debt. However, even though the study makes a case for countries including Ghana to tap into SDRs as it is a cheaper alternative source of finance, its cautions of the uneven distribution nature of SDRs which is based on quota formula i.e. proportion of countries contribution or share in the Fund.[12]

Key messages from Ghana

Rechannelling of SDRs to those who need them-The study proposes the provisions rechannelling of SDRs from member states who do not use them to countries that are in more need as part of broadening their scope and promoting full participation among all member states with unused SDR.

Revision of how SDRs allocations are made - Determination of a member's share should also consider the "need" for funds by member countries.

12. SDR-PB-002: Reforms for Special Drawing Rights (SDRs) Financing in Ghana's Economic Recovery

Accountability & Transparency in SDRs Utilisation

While the SDRs allocation offered some reprieve for most of the developing countries in terms of budgetary support, questions have emerged on accountability and transparency of the approved allocation. Information on SDRs allocation is readily available on the IMF website however, given that the IMF does not require countries to report on how they utilise their SDRs allocation, such information is scant at a times missing from some government portals in Africa. In addition, whereas most Africa governments report IMF' SDRs allocation as part of the government borrowing to finance their fiscal deficit, there is no additional information on whether the government directed proceeds from the SDRs allocation to specific sectors or programmes. This therefore limits information that CSOs can use to evaluate the impact of SDRs allocation in support of demands for additional SDRs allocation and/or rechannelling from developed countries to developing countries.

Reallocation and Rechannelling of SDRs to Africa

In line with Section 2(b) of Article XVIII of the SDRs' Articles of Agreement, SDRs are allocated in accordance with participants' paid Fund quota shares, decisively determined by a quota formula largely based on the size and openness of a country's economy. Generally, there is no international agreement consensus on how the reallocation can and needs to take place. In addition, there is no enough clarity on how SDRs function, thus making it difficult to take technical decisions on their reallocations. In addition, *SDRs belong to individual countries, not to the IMF,* thus, any decision to reallocate or transfer SDRs must be made on a country-by-country basis. The IMF plays no direct role other than accounting for any reallocations that take place. The only way the IMF might play an implementation role is in crafting facilities for its own lending, for which SDRs can provide sources of funds.

The reallocation elusiveness lacks distinction between lending and donating SDRs i.e., if countries lend their SDRs, they remain the asset of the country. As with any lending, SDRs may earn interest, have some prospect of being returned after the life of the loan, but also incur some risk of non-repayment or default. Some developed economies may also wish to donate their SDRs to another country, making it a permanent transfer, however, at times this might require approval by parliament. Unfortunately, there is a perpetual annual cost to the donating country; it must pay the SDRs charges forever unless it comes by replacement SDRs in some other manner.

Strategies for Rechanneling SDRs in Africa

While assessing the strategies and option for the rechanneling of the SDRs, AFRODAD undertook a study entitled, "Rechanneling special drawing rights through the Multilateral Development Banks (MDB) and the Liquidity and Sustainability Facility (LSF)" where it highlighted the following:

- MDBs are financial institutions that provide loans and other financial assistance to countries for economic development, infrastructural projects and environmental protection with specific lending policies and conditionalities to promote certain development goals or to ensure that the funds are used effectively. In Africa, we have the AfDB. The rechanneling of SDRs through MDBs would ensure that they are used to finance development projects or other purposes rather than as a means of addressing Balance of Payment issues.[13]
- The LSF by UNECA is a financial mechanism designed to help African states access affordable financing and reduce liquidity premiums associated with borrowing from international bond markets. It works by creating a repo market for African sovereign bonds, which allows investors to purchase these bonds and hold them as short-term collateral thus allowing for an improved access to international financing and reduce the cost of borrowing for African countries. The LSF is a recent instrument proposed as a mechanism to rechannel SDRs. It provides financing that is not subject to the same market risks and volatility associated with borrowing from private sources. It has the potential to provide a more secure and viable option for countries looking for a source of financing. There is however lack of data to determine the effectiveness and sustainability of this facility over the long term and how effective it would be an SDRs rechannelling mechanism compared to the MDBs mechanism.

AFRODAD emphasises through its findings that when rechanneled through the MDB or LSF, SDRs can:

Help African countries facing temporary balance of payments difficulties to stabilise their economies and avoid a financial crisis.

Help African countries to maintain economic and financial stability by providing a source of financing that is not subject to the market risk and volatility associated with borrowing from private sources. This can be particularly important for countries that may not have access to international capital markets or that may face high borrowing costs due to market perceptions of their creditworthiness.

Help African countries to preserve their policy flexible through providing financing that is not subject to the conditions that are often attached to loans from private sources or other international financial institutions. This can enable African countries to pursue their own economic policies and address their specific economic challenges in a way that is consistent with their own priorities and objectives.

13. Rechannelling special drawing rights through the Multilateral Development Banks and the Liquidity and Sustainability Facility. - AFRODAD

However, with MDBs having a mandate to support economic growth and development and, AfDB seems to have a wider range of financial instruments and tools at their disposal which can allow it to tailor their support to specific needs of recipient countries of the SDRs in Africa.

Caveat on Rechanneling SDRs through AfDB

The African Development Bank has proposed a new tool called the Hybrid Capital Instrument (HCI). According to the AfDB, the HCI will enable the Bank to multiply the SDRs contributions by three or four times and keep them at the IMF as part of its balance sheet. The Bank will then borrow money in hard currencies from capital markets and lend it to members in their preferred currency. With the increased debt crisis in Africa, it therefore leaves a lot to be answered by AfDB in the criteria and system whether it will act as a loan facility in distributing SDRs to its member states or rechannelling at a zero-interest rate.

Another concern regarding the HCI model is that when used by the AfDB, SDRs contributing countries will be entitled to earn interest on their SDRs, unlike when they are donated. The credit rating of the HCI is based on the AfDB's strong capitalisation, capital management, liquidity frameworks and Preferred Creditor Treatment (PCT). PCT gives the AfDB lower default rates and higher recovery rates than commercial lenders on sovereign loans.

The HCI will focus on lending for climate and green growth activities and food security. However, until to date, there has not been any clear guiding framework from the AfDB on how it wishes to undertake the HCI facility and what rate it will charge on the receiving countries regarding SDRs. It is in the public domain that interest rate payment on debt accounts for significant amount of the Africa debt, thus there is a need to clarify the structure and framework regarding how HCI will not deprive countries economic growth at the expense of SDRs interest payments.

AFRODAD and Partners' Call WWfor the SDRs Utilisation, Reallocation and Rechanneling

It is evident that the current quota system works against developing countries, Africa included, yet in the face of global shocks, their economies are more vulnerable compared to developed countries. In essence, SDRs allocation propagates the existing inequalities that are prevalent in the global financial system. Currently, the IMF uses a quota system in which a country's quota is determined by a pre-set formula where a country's GDP accounts for more than half of a countries' quota. The implication is that SDRs allocation favors developed countries who receive approximately 67 per cent of the total allocation while low-income countries receive a meagre 1 per cent. Additionally, the quota system implies that developing economies are disadvantaged in financial and economic decision-making at the global level. These countries have a limited voice and cannot determine their own development, financial and economic decision in a way that serves the needs of their people. Some of the proposals that have been put forward include:

i. Unfair share and unequal representation heavily favor wealthy nations, exacerbating global inequalities and limiting access to critical financial resources for those most in need. As a result, there is a need to increase the basic votes, shift to Purchasing Power Parity (PPP)-based GDP or adopt a double majority voting system- the first based on one vote for each country and the second is based on economically weighted votes.

ii. Weak representation and dominance of the IMF quota system in allocating SDRs means a lack of voice in the decision-making processes related to SDRs creation and allocation – hence reforming the quota system is paramount. This can be done through changing the way voting is done by eliminating special majorities in favor of a simple majority in all decisions.

iii. AFRODAD favors the use of Multilateral development banks, notably AfDB in reallocating and rechannelling the SDRs. However, we are cognisant with the fact that the reallocation mechanisms and on-lending should not lead to new debt in any AU member state.

iv. There is a need to reform SDRs allocation system to reflect the need rather than economic might. This is because with the appropriate use of SDRs, it will help to solve liquidity problems at best, but emphasis also needs to be given to comprehensive debt management strategies to minimise the debt crisis in Africa.

We strongly believe that even though there is need of changing the quota formula, institutional reforms on how IMF operates the SDRs should be given greater attention to shift the lopsided Global Financial Architecture to work for all economies equally. As a result, we call out the IMF to consider some of these proposed alternatives in the scheduled review of the SDRs quota formula in 2025.

The Africa Borrowing Charter Principles calls for a greater need for transparency and accountability in the allocation, usage, and rechannelling process through the MDBs for the SDRs resources. With any apparent lack of transparency and accountability, shrinking civic space and a severe shortfall in political will to champion for the reallocation strategy of the SDRs, it will be impossible to comprehensively implement the policy framework for the SDRs reallocation to Africa economies using the Multilateral development banks notably the AfDB.