SPECIAL DRAWING RIGHTS ALLOCATION, USAGE, AND WHAT IT MEANS FOR AFRICA

Marie-Louise F. Aren

It is no secret that the Covid-19 pandemic has brought on devastating socio-economic and health consequences. Its lingering effect has been projected to cost the global economy $1.2 trillion per annum amid rising global poverty/inequality, dwindling fiscal revenue. Given this forecast, the global economic forecast looks bad because of the GDP contraction, rising prices, prolonged global stagnation with disrupting effect for middle income and low-income countries as seen in Figure 1 below.

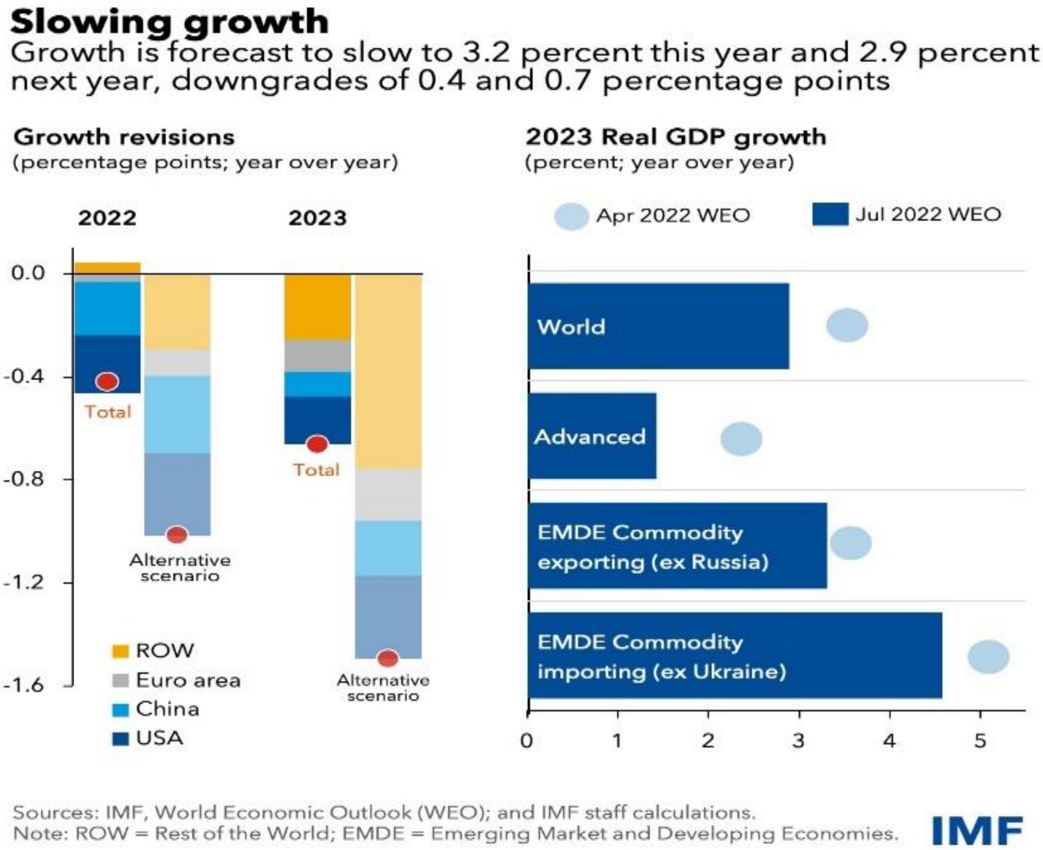

Figure 1: *Source:* IMF World Economic Outlook.

For Africa, Covid-19 brought the continent's economy into a recession in 2020 with a Gross Domestic Product (GDP) contraction of about 2%. However, in 2021, due to multiple factors including national lockdown restriction easing and the provision of Covid-19 fiscal stimulus packages, GDP grew by 6.9% in 2021. In 2022, Africa faces more economic growth challenges compounded by the Russian-Ukraine Conflict leading to rising energy cost, food shortages, import costs, global market fluctuations among others. This is in addition to Africa's rising highly unsustainable debt levels (40 % of African countries are in debt distress/high risk liquidity), climate change disruption, low productivity, conflicts, and suchlike. These conditions have contributed to Africa's rising financial needs.

Africa’s financing needs have become numerous and more urgent, arising mostly from rises from reduced average growth rate projected to slow down to 4.1% in 2022 and 2023; increased fiscal deficit at 8.4 % of GDP in 2020, rising debt burden/ servicing obligations, inadequate and disorganised debt relief measures, climate change risks- where Africa experience climate change losses of about 5-15% of GDP; and sustainable development infrastructure financing. The traditional means of finance through taxes, official development assistance, private borrowing from the global capital markets not very feasible owing to their policy and financial costs. As a result, larger special drawing rights (SDRs) allocation can come to rescue with little cost. However, the SDRs allocation criteria is skewed towards richer countries, reflective of the inequalities in the global financial architecture. In the 2021 International Monetary Fund (IMF) SDRs allocation, Africa received only 5% of the US$ 650bn allocated. This allocation amount has not been enough in meeting Africa’s additional financing needs which has been estimated to be over $400 bn to support Covid-19 economic recovery alone in 2022 and 2023. These reasons inform Africa calls for reforms and larger SDRs allocation to support its burgeoning development.

SDRs are international reserve assets created by the IMF to supplement the existing official reserves of its member countries. SDRs represent a potential claim on the freely usable currencies of IMF members and can be exchanged for these currencies. SDRs value is based on a basket of key reserve currencies including US Dollar, Euro, Yen, Yuan, and Pound sterling using export and the freely usable criteria. SDRs exchange and usage is a sovereign decision of countries. SDRs are mainly used for providing the IMF member countries/global economy with liquidity. SDRs are also utilised to increase/supplement official/exchange reserve; settle balance of payment (BOP) deficits; reduce reliance on costly domestic or external debt sources like capital market borrowing; and so on. SDRs theoretically enhance stability of the international monetary system, bolsters international economic resilience, and avoid economic stagnation and deflation. SDRs allocations are based on member’s quota shares in the IMF, which are in turn based mostly on GDP size, reflective of countries relative economic positions in global economy. Thus, richer countries get larger SDRs allocations and vice versa. G20 SDRs quota share is 68% (2021 allocations provided over US$ 300bn of US$ 650bn) compared to Low-income countries (LICs) with a less than 3% SDRs allocation that (provided US$ 20 bn of the US$ 650bn SDRs allocation of 2021).

High Income Countries (HIC) do not have an immediate need for SDRs due to the massive fiscal stimulus packages to complement expansionary monetary policies like quantitative easing provided by the government to ease the burden of financial crisis on the populace. Developing countries however do not have this luxury and depend more on the external fiscal stimulus packages. Unfortunately, the SDRs allocation criteria limit African economies due to their raw materials-focused exports which adds little value to GDP growth and the structure of the SDRs allocation mechanism which ties up the SDRs from meaningful usage by those who truly need these resources. IMF has allocated a total of SDRs 660.7 billion (about US$935.7 billion) consisting of 4 general allocations and a one-time 4th amendment special allocation of US$21.5 bn on 9 September 2009. In August 2021, the largest SDR 456.5 billion allocation (US$650 billion) was done to provide liquidity to the global economy to bolster economic resilience due to the destructive economic effect of the pandemic. Africa’s share of the allocation amounted to about US$ 33bn. Between 2021 to 2022, the allocation has been used to US$ 4bn in January 2022. Some of the uses of the SDRs allocation include:

- Meeting debt obligations. Countries like Angola, Chad etc used $4.9 billion or 14.8 percent of the $33 billion meet debt obligations debts/related expenditures.

- Augment budget financing/deficits. Countries like Angola, Botswana, Cabo Verde, Uganda, Ghana, Malawi, and DRC have used it for this purpose. Cabo Verde used its SDRs to finance its 2022 and 2023 budgets.
- Support National Covid-19 responses and fiscal stimulus/palliatives. Countries like Angola, Chad, Comoros, Cabo Verde, Ghana used a portion of their SDRs for this purpose.
- Imports payment- Countries like Angola used it for this purpose.
- Boost reserves. Countries like Kenya, Angola used some of their SDRs for this purpose. Zambia used its US$1.3 billion SDRs to boost US dollar reserves.
- Reallocate a portion of the SDRs to some Regional development finance institutions (DFI), like the Afriexim Bank.

From the above uses, certain implications arise for Africa. While the SDRs allocation of 2021 provided some fiscal relief for African countries, its quick exhaustion within one year indicates the strong liquidity constraints and financial needs of African countries. SDRs are usually held by countries as reserves because SDRs are a reserve asset. However, many African countries used/exchanged most of their SDRs to provide finance rather than holding them as reserves like High Income Countries (HICs). Due to the payment of interests on SDRs when countries use them below their quota share, African countries would be paying interest on their depleted SDRs, although the interest is very little compared to other financing sources like private credit interests. Also, the very meagre allocation received by African countries and distributed among African countries where the big economies received larger shares, is reflective of the systemic inequalities that exists in the global financial architecture where SDRs allocations are based on the size of quota contribution to the IMF. For example, 30% of US$ 33bn allocation received by Africa went to Egypt, Nigeria, and South Africa. South Africa got the largest allocation of US$ 4.2bn. Nigeria received about US$ 3.3. Another implication is that based on the unbalanced SDRs allocation criterion using mostly GDP size, LICs who have greater need for SDRs allocation essentially receive the least allocation. Despite the meagre allocation to LICs, the SDRs allocation received by LICs is more impactful on their economy than SDRs received by MICs. For instance, Zambia's allocation was more impactful on its foreign reserves than Egypt's SDRs allocation on its foreign reserves which increased it minimally by just 6%.

The SDRs allocation of 2021 brings to fore certain facts with poignant meanings for Africa. It means that rising unsustainable debt levels compounded by the back-to back Covid-19 pandemic and the Russian Ukrainian Conflict effects, will continue to slow down and stall Africa's economic growth recovery. It may also widen fiscal deficits and make other traditional financing sources remain largely inaccessible and costly. There may be increased debt defaults, especially around 2024 and beyond when several debt repayments are due. Also, the systemic inequalities in place at the global level entrenches Africa's passive/rule taking influence in SDRs allocation decision-making due to the quota criterion which determines IMF executive board seat allocation, voting power and low commitment levels by HICs in the redistribution of used SDRs. For Africa to remove form this quagmire and emerge as a rule-maker, it must demand for a dismantling and redesign of the SDRs allocation mechanism based on fairer and more democratic criteria; call for a larger allocation of SDRs in to meet its financing need; and urgently secure action for a redistribution of the US$ 100bn allocation unused SDRs commitment made by several members of the G20 in the interim. African countries would also need to put effective national legal/policy framework and public finance management reforms for transparency & accountability in SDRs use and management. To achieve these, Africa countries would have to arrive at a common position and speak with one voice to be ensure the current global financial system rule makers listen and act accordingly.

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