



**IMF Special Drawing Rights a Sustainable
Option for Financing the Fight Against
Covid-19 Pandemic and Economic Recovery in
Africa**
An Afrodad webinar

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What are SDRs (Special Drawing Rights)?

- SDRs are an international reserve asset created by the IMF to supplement member countries' official reserves.
- Their value is based on a basket of five currencies.
- They cannot be held by private entities or individuals.
- An SDRs allocation provides each recipient country with a costless asset which countries can use as they want, with no conditionality.*

*with some constraints: they are not a currency and they are tied to how IMF operates

How are SDRs allocated?

- SDRs are distributed in proportion to IMF members' quotas (Around 60% to global north, 40% to emerging market and developing economies, of which 3% has gone to LICs).
- A country earns the SDR interest rate on its holdings of SDRs and pays the SDR interest rate on its cumulative SDRs allocation. Countries using their SDRs and therefore holding SDRs below their allocation pay interests; countries holding SDRs above their allocation earn interests.
- So far, there have been 3 General Allocations (1970-72; 1979-81; 2009 -> to address the GFC and totalled \$250bn).
- Approval of a new allocation is first proposed by the Managing Director, then supported by the Executive Board; it requires an 85 percent majority of voting power by the Board of Governors.

How can SDRs be used?

- Once SDRs are allocated to a country, they are listed as reserves, and are under the management of the country's Central Bank.
 - They can be kept as reserves, bolstering a country's savings and creditworthiness; they can borrow more and at better terms.
 - They can be exchanged for hard currency and be used for imports and for budgetary financing, helping pay for public investment.
- SDRs can be converted into hard currency through a system of swaps managed by the IMF (called designation mechanism).
- No. of SDRs transactions has been growing over time; in general and also post-2009, developing countries use SDRs more frequently and in larger magnitudes for their BoP needs; developed countries hold them as part of their reserve portfolios.



How could a new SDRs issuance face the multiple Covid-19 crisis?

- A new issuance of SDRs by the IMF would build up the level of foreign currency reserves in the central banks, so making it possible for developing countries:
 - borrow at lower interest rates and engage in more affordable way;
 - address any BoP imbalance/pay for imports;
 - increase fiscal space for public spending in Covid-19 response and recovery, including vaccines and strengthen healthcare system.



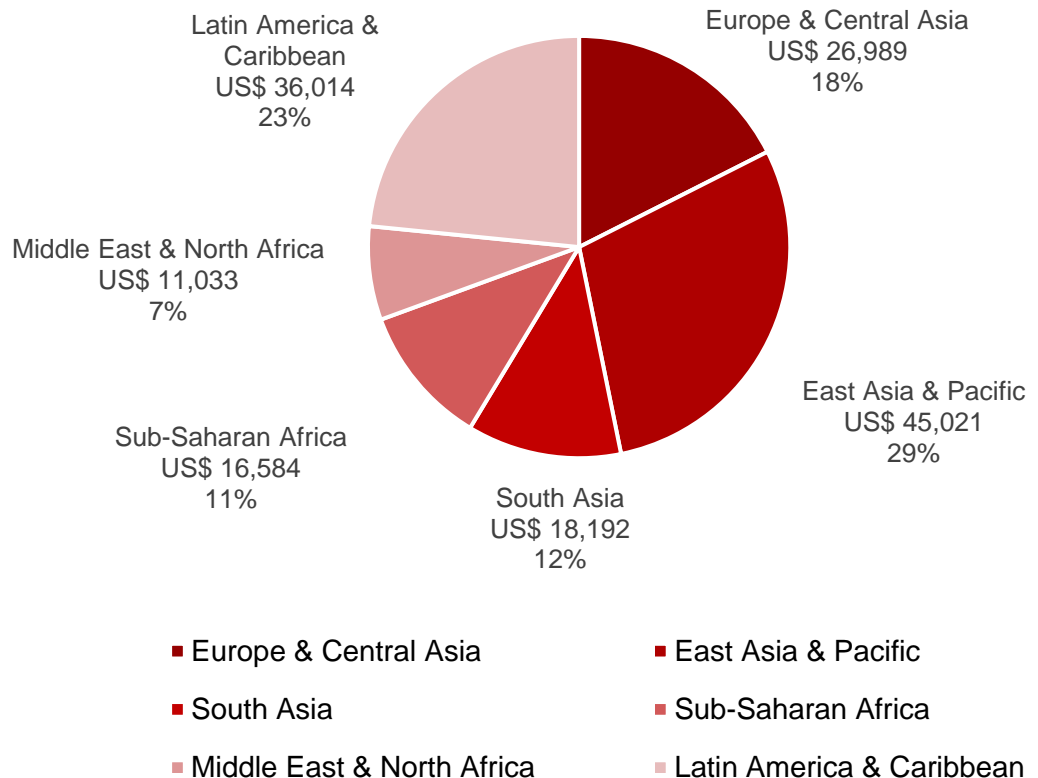
How much SDRs have been called for?

- In March 2020, UNCATD called for a new issuance of SDRs equivalent to \$1 trillion
- ECA's Executive Secretary Vera Songwe called for an issuance of \$500 billion
- The G20 Italian Presidency declared to support an issuance of \$500 billion
- G7 is talking of an allocation of \$650bn
- AFRODAD, Eurodad and 220+ organisations call for new issuance of US\$3 trillion
- Statement on Debt Relief for Green and Inclusive Recovery is supported by 23 former Central Bank Governors and former Finance Ministers



How does a \$500bn SDRs issuance looks like?

- 31% (about US\$ 154 bn) would go to developing countries
- 1% (US\$5 bn) would go to low income countries
- 11% (US\$ 16.6 bn) would go to SSA
- 1.74% (US\$8.7 bn) would go to SADC countries



Source: Eurodad calculations based on Refinitiv

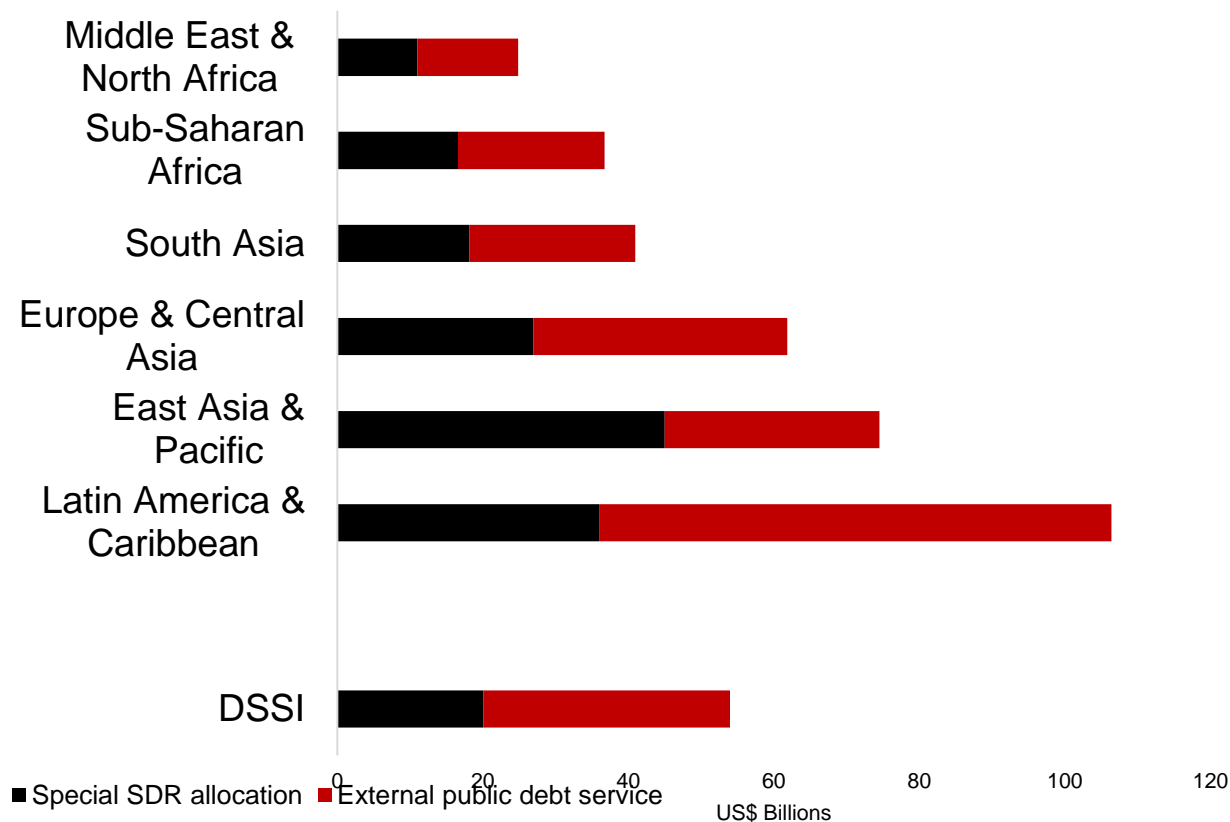
Source: Eurodad calculations based on Refinitiv



External public debt of developing countries in 2021 would be twice as much (US\$ 345 bn) as projected SDRs allocation.

Risk that all additional resources are used to meet debt service.

US\$ 500 billion special SDR allocation in relation to external public debt service US\$ Billions (2021)

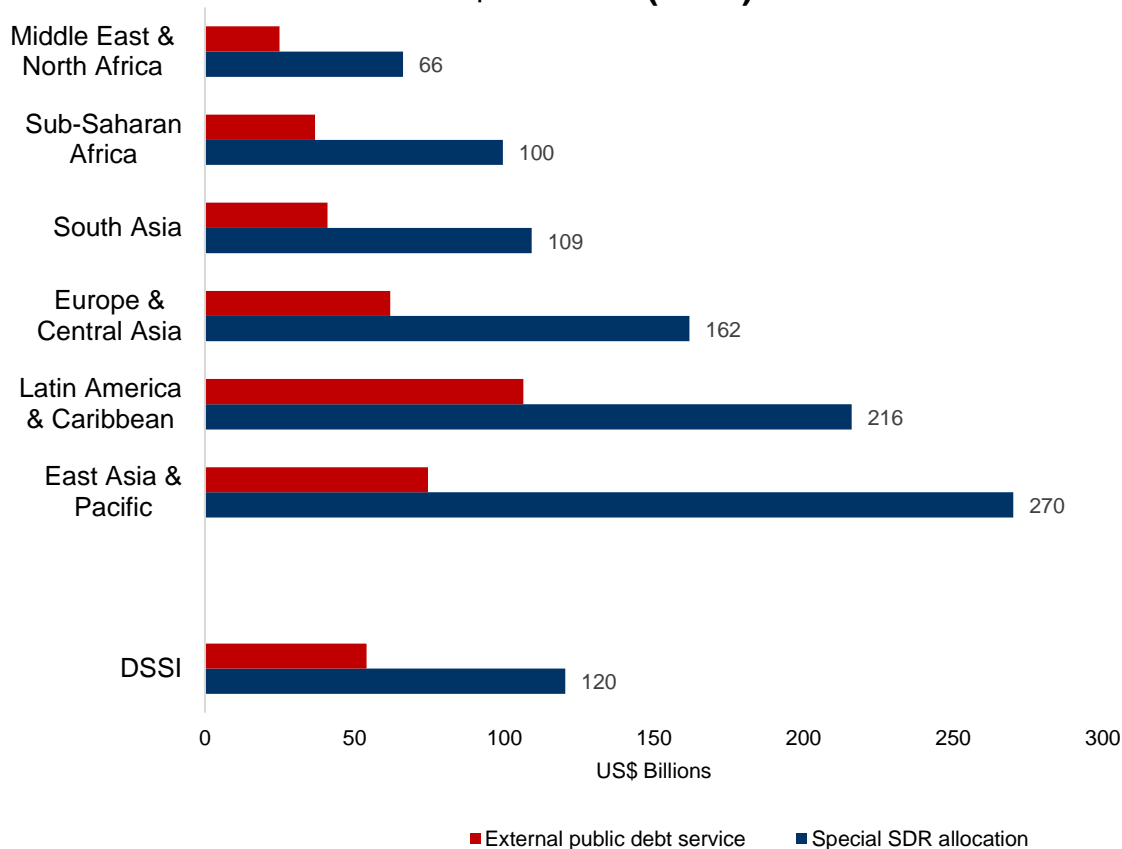


Source: Eurodad calculations based on Refinitiv

How does a US\$3 trillion SDRs issuance looks like?

- Developing countries would get around US\$ 922.9 billion
- SSA would get around US\$ 100 bn
- SADC countries would get around US\$52 bn
- In all regions and for DSSI countries the amount of SDRs allocated would be larger than projected external public debt service in 2021.

US\$3 trillion special SDR allocation in relation to external public debt service US\$ Billions (2021)



Source: Eurodad calculations based on Refinitiv

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What is the politics behind a new allocation of SDRs? What is going on at the G20 level?

- US administration now in favour (\$500bn-\$680bn-2trn); emphasis on accountability.
- G20 Italian Presidency supporting \$500 bn; G7 talking about \$650bn
- IMF keen to make the case for a large allocation (amount tbc)
- There is still room to push for a large allocation (possibly 2 allocations, 11th and 12th period)

Discussion on re-allocation of SDRs

- Regardless of the amount of the new allocation, most SDRs would go to developed countries
- There is a discussion on how this additional liquidity could be used to help developing countries address the Covid-19 crisis and finance a just transition. There are some constraints:
 - SDRs are a reserve asset, not a currency to fund specific projects.
 - The use and reallocation of SDRs by northern countries is purely voluntary.
 - No conditionality can be applied to SDRs.
- IMF recommends allocating excess SDRs to the PRGT, but this means turning them into IMF loans with conditionalities.
- Other options being considered: climate fund, vaccines, social protection fund + debt relief. Risk that it replaces ODA.
- Make the case for additional liquidity to be used to create fiscal space and invest in Covid-19 recovery and just transition that is fair and equitable.

Resources

- IMF 2009, Guidance Note to Staff on Treatment and Use of SDR Allocation
- <https://www.cgdev.org/blog/what-best-way-allocate-new-sdrs>
- <https://www.cgdev.org/publication/how-might-sdr-allocation-be-better-tailored-support-low-income-countries>
- Summer 2020: Special Drawing Rights: International Monetary Support for Developing Countries in Times of the COVID-19 Crisis, Kevin Gallagher, José Antonio Ocampo and Ulrich Volz. [Journal article](#) / [article for Brookings](#) / see also [Debt Relief for a Green and Inclusive Recovery report and statements](#)
- Volz, Ulrich & Ahmed, Sara Jane (2020): [Macrofinancial Risks in Climate Vulnerable Developing Countries and the Role of the IMF – Towards a Joint V20-IMF Action Agenda](#). London, Rotterdam, and Bonn: SOAS Centre for Sustainable Finance, Global Center on Adaptation, and Munich Climate Insurance Initiative