Financing Post-COVID Relief, Recovery and Reform in Africa: Examining the Impacts of SDR Channeling from High-income Countries

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INTRODUCTION

Special Drawing Rights (SDRs) are international reserve assets, representing a basket of five currencies—the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. They were created and used by the International Monetary Fund (IMF) to supplement the reserve assets of Member Countries when needed. Under its Articles of Agreement, IMF may allocate SDRs to Member Countries in proportion to their IMF quotas.

The most recent SDR allocations were completed on 31 March 2021, where a total of SDR204.1 billion were allocated, of which SDR13.145 billion (6.43% of the total) were allocated to African countries. This is equivalent to US$18.66 billion allocation for the entire continent of Africa, out of a world allocation of SDR204.198 billion or about US$290 billion equivalent.

In March 2021, IMF Managing Director, Kristalina Georgieva, issued a statement regarding IMF’s intention to boost the total SDR allocation to US$650 billion to “add direct liquidity boost to countries without adding to their debt burden”. In addition, at the 2021 Spring Meetings, the International Monetary and Financial Committee (IMFC) expressed its support for the proposal by the managing director to raise the total SDR allocation.

This brief argues that although IMF’s efforts are laudable and welcome, under the current circumstances, the proposed new level of total SDR allocation is insufficient for Africa. It cannot adequately address the post-COVID recovery financing gap faced by the continent. Africa will need additional support from the upper income countries.
IMF has estimated that Africa will face a post-COVID recovery financing gap of **US$285 billion**, representing the amount needed by countries for emergency stimulus packages, to jumpstart their economies, strengthen national health systems, and implement social safety net programs for the most vulnerable segments of society. At **US$18.66 billion**, the current SDR allocation to Africa represents only 5.40% of the continent’s total financing gap, leaving 94.59% of the total need to be mobilized.

With the new proposed allocation of US$650 billion and applying the current proportion of holdings by African countries in the world total, the continent’s US dollar equivalent of new SDRs would amount to **US$33.20 billion**. While this amount is certainly an improvement over the current situation, it would still only represent 11.65% of the total estimated financing gap for Africa. The upshot of this analysis is two-fold: First, SDRs can constitute an important strategic tool for widening the fiscal space for African countries as they seek to mobilize sufficient resources to jumpstart their economies. Second, the current or even new proposed levels of allocation are far below what would significantly alleviate the continent’s post-COVID financing needs.

Table 1 summarizes the analysis.

### Table 1. Impact of Proposed SDR Allocation on Africa’s Fiscal Space

<table>
<thead>
<tr>
<th>Total Allocation(^{a})</th>
<th>% Africa SDR Holdings(^{b})</th>
<th>Total Africa Holdings(^{a})</th>
<th>% Finance Gap(^{b}) Covered</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>290</td>
<td>5.11</td>
<td>14.81</td>
<td>5.20</td>
<td>Current as of March 31 2021</td>
</tr>
<tr>
<td>650</td>
<td>5.11</td>
<td>33.20</td>
<td>11.65</td>
<td>In process</td>
</tr>
</tbody>
</table>

\(^{a}\) In billions of USA\(^{b}\) In percentage

Source: IMF, and author’s calculations
IMPACT OF POST-ALLOCATION CHANNELING

In its communique expressing support for the current proposed SDR allocation increase, the IMFC called upon the “upper income Member States” to explore “ways for voluntary post-allocation channeling of SDRs to support recovery efforts of members.” This analysis will focus on two country groupings most representative of the “upper income Member States”: the G-7 countries and the G-20 countries. It will examine the potential impact of voluntary agreement on G-7 or G-20 post-allocation channeling of unused SDRs by Member States on Africa’s fiscal position.

As of the March 2021 allocations, the SDR holdings of the G-7 countries was about **SDR92.46 billion**, representing 45% of total allocations. Similarly, the SDR holdings share of 19 individual countries of the G-20 totaled **SDR127.85 billion**, representing 63% of the total allocations. It is reasonable to assume that African countries will continue their efforts to mobilize resources from various sources, including taking advantage of the tentative return to global economic growth, to raise, eventually, 50% of the post-COVID recovery financing. This implies that the proportion of the financing gap that needs to be covered through SDRs channeling will be about **US$142.5 billion**.

**Effects of Voluntary Channeling of Unused SDRs towards Africa by G-7 Countries**

Table 2 presents two scenarios: the impact of voluntary channeling of 25% and 50%, respectively, of the G-7 SDR allocations towards Africa. As already mentioned, the current total SDR allocation is **US$290 billion**, therefore, channeling 25% of the G-7 SDR proportionate holdings would raise the total available to African countries by an equivalent of **US$32.83 billion**. This which would reduce the financing gap by 23%. If 50% of the G-7 SDR holdings were to be channeled, then this would raise the total available to Africa by **US$65.66 billion**, covering 46% of the financing gap. By the same token, with the newly proposed SDR allocation of **US$650 billion**, under the same scenarios, African countries would see their SDR allocations increase by **US$73.59 billion**, helping to reduce the financing gap by 51%, if 25% of G-7 countries allocations were channeled, and less than 50% of the G-7 allocations would need to be channeled to cover the remaining financing gap.channeling will be about **US$142.5 billion**.
Table 2. Effects of G-7 Countries Voluntary Channeling of Unused SDRs towards Africa

<table>
<thead>
<tr>
<th>Impact on Africa</th>
<th>0% G-7 Channeling</th>
<th>25% G-7 Channeling</th>
<th>50% G-7 Channeling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Africa SDR allocations (US$ billion)</td>
<td>0</td>
<td>32.83</td>
<td>65.66</td>
</tr>
<tr>
<td>% Reduction in Financing Gap</td>
<td>0</td>
<td>23.04</td>
<td>46.08</td>
</tr>
</tbody>
</table>

Total SDR allocation = US$290 billion; % of G-7 = 45%; Financing gap = US$142.5 billion

Table 3 presents the results if the 19 individual G-20 Member States agree to channel their unused SDRs towards Africa. Given the size of this country grouping, and, therefore, the size of its total proportion of the SDR holdings, the scenarios analyzed in this case involve assumptions of 25%, 35% and 50% channeling depending on the total allocations. Hence, at the current level of total SDR allocations of US$290 billion, 25% channeling of the G-20 SDRs would raise Africa’s total availability by US$45.40 billion, reducing the financing gap by 31%.

Similarly, 50% channeling of the G-20 SDRs would raise the African total by US$90.8 billion, reducing the financing gap by 63%. Likewise, when the total SDR allocation is increased to $650 billion, then under the scenario of 25% channeling of the G-20 SDRs, the total SDRs available for Africa will increase by US$101.75 billion, reducing the financing gap by 71%. A 35% channeling under this scenario would almost cover all the remaining financing gap, as defined in this analysis.
ACCESS AND USE OF ADDITIONAL SDR UNDER THE POST-ALLOCATION CHANNELING AGREEMENT

Post-allocation channeling of the upper-income Member States can help buttress Africa's fiscal position and help free resources to address the most urgent post-COVID recovery needs faced by the continent. The two IMF-managed trust funds should have their resources augmented with additional resources from IMF. Such resources should be deployed urgently to ensure that African economic recessions are not protracted to become depressions due to constrained fiscal resources and space.

Unused SDRs from high-income countries should also be directed to eligible multilateral development institutions (MDIs), including the IMF, World Bank and African Development Bank. These can be used to enhance their lending facilities and intermediation capabilities, improving access to low-cost financing for African countries.

Moreover, considering the need for accountability and impactful use of such reallocated SDRs, the additional SDRs can be earmarked for specific purposes, including significantly boosting the continent’s COVID-19 vaccines procurement capacity, investment in strengthening health care and education systems of countries, and progress towards the Sustainable Development Goals (SDGs).

In addition to these SDRs allocations, African countries are committed to undertake major reforms to increase their capacities to mobilize domestic financial resources for investment in social and economic priorities.

<table>
<thead>
<tr>
<th>Impact on Africa</th>
<th>0% G-20 channeling</th>
<th>25% G-20 channeling</th>
<th>50% G-20 channeling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Africa SDR Allocations</td>
<td>0</td>
<td>45.40</td>
<td>90.79</td>
</tr>
<tr>
<td>(US$ billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>%Reduction in Financing Gap</td>
<td>0</td>
<td>31.86</td>
<td>63.71</td>
</tr>
</tbody>
</table>

Source: IMF, and author’s calculations