United Nations
Economic Commission for Africa

Guide to the special drawing rights of the International Monetary Fund and recommendations for change

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A. Introduction

The purpose of the present guide is to assist African policymakers and other stakeholders in better understanding the basics of the special drawing rights issued by the International Monetary Fund (IMF), in order to make informed decisions about access to, and the use of, those assets. Following the latest general allocation of special drawing rights, which took place in August 2021, the guide is aimed at helping to achieve consensus on the way in which special drawing rights should be recycled from developed countries to developing and emerging countries, in particular those in Africa. The guide is, therefore, intended to be a useful resource for readers interested in exploring ways to use special drawing rights to support the mobilization of finance to achieve the Sustainable Development Goals and implement Agenda 2063, the Africa We Want, of the African Union.

1. What are special drawing rights?

Special drawing rights are an international reserve asset issued by IMF and allocated to its member countries to supplement their official reserves. They are a supplementary reserve asset, which the institution unconditionally allocates to all or part of its membership when it determines that there is a need to boost global liquidity.

Although special drawing rights are not a currency, they represent a potential claim by their holder on the freely usable currencies of IMF members and can be exchanged for those currencies at the discretion of their holder.

Since their creation in 1969, special drawing rights have been the unit of account of IMF and a number of other multilateral organizations, such as the African Development Bank. Some obligations denominated in special drawing rights are issued in financial markets.

2. What is the value of special drawing rights?

The value of special drawing rights has evolved over time. When the reserve asset was first introduced in the context of the Bretton Woods system, its value was defined in relation to gold: one special drawing right was worth 0.888671 grams of fine gold, which, at that time, was equivalent to $1.

Since the dismantlement of the Bretton Woods system, the value of special drawing rights has been tethered to a basket of major currencies and has been calculated daily using market exchange rates.[1] Currencies included in the basket are selected on the basis that they are commonly used in global transactions and are issued by the foremost exporters globally.

The composition of the basket has evolved since the creation of the special drawing right. In 1974, the basket included 16 currencies; in 1981, the number of currencies was reduced to 5; in 1999, the euro was added to the basket, replacing the deutsche mark and the French franc; and, in 2016, the Chinese renminbi was included.

Five currencies are presently included in the basket: the United States dollar, the euro, the renminbi, the yen and the pound sterling.

1 To determine the value of a special drawing right in relation to the dollar, IMF uses the spot exchange rates observed at around noon, London-time. The value is computed daily, except on IMF holidays or whenever IMF is closed.

The composition of the basket is subject to a review by the IMF Executive Board at least every five years. Following the last review, which was concluded in May 2022, the Board determined that, with effect from 1 August 2022, the five currencies included in the basket would be weighted in line with their roles in international trade and finance, as shown in table 1:[2]

Table 1 Currencies and their weighting in the special-drawing-right valuation basket for a five-year period starting on 1 August 2022

	Weighting (per cent)	Number of units of currencya
United States dollar	43.38	0.57813
Euro	29.31	0.37379
Renminbi	12.28	1.0993
Yen	7.59	13.452
Pound sterling	7.44	0.08087

Source: *IMF (n.d.).*

[a] *The daily valuation of the special drawing right is dependent on the number of units of each of the currencies in the valuation basket, which will stay the same for the five-year valuation term that started on 1 August 2022. The number of units of currency is calculated in accordance with the principles of continuity and stability of the value of the special drawing right. The calculations ensure that the value of the special drawing right in dollars is the same for both the previous and new valuation baskets on the transition day.*

3. What is the special-drawing-right interest rate?

IMF member countries earn the special-drawing-right interest rate on their holdings of special drawing rights and pay the special-drawing-right interest rate on their cumulative allocation. When using their special drawing rights, countries are charged that rate on the difference between their cumulative allocation and their remaining holding of special drawing rights. Conversely, they earn interest when their holding of special drawing rights exceeds their cumulative allocation.

The change in the special-drawing-right interest rate reflects not only the changes in the shares of currencies in the valuation basket, but also the changes in the interest rates on each financial instrument in that basket.

Until the first quarter of 2022, the special-drawing-right interest rate remained at approximately its floor level of 0.05 per cent per year,[3] owing to low international interest rates. With the recent wave of rate increases, however, the special-drawing-right interest rate has been revised upwards, reaching 2.916 per cent by 26 December 2022 and 3.697 per cent by 1 May 2023.

Low-income countries can mitigate the risk associated with increases to the special-drawing-right interest rate by borrowing from the Poverty Reduction and Growth Trust, the concessional window of IMF, which currently offers facilities at a zero rate of interest, such as the Extended Credit Facility, Rapid Credit Facility and Standby Credit Facility. Middle-income countries may find it less costly to use special drawing rights than to contract non-concessional lending from IMF, especially when the special-drawing-right interest rate compares favourably with the rates applicable to IMF facilities.

The remainder of the present guide is structured as follows: section B is focused on the main administrative rules and regulations of IMF that govern the allocation, reallocation and use of special drawing

2 For further information on the decision by the Executive Board, see IMF, "IMF Executive Board concludes quinquennial SDR valuation review and determines new currency weights for SDR valuation basket", 14 May 2022.

3 IMF stipulates that the minimum interest rate for special drawing rights is 0.05 per cent. If the calculated interest rate is less than 0.05 per cent, the interest rate for special drawing rights will be 0.05 per cent.

rights. Sections C and D contain explanations of the ways in which special drawing rights are allocated and used, with an emphasis on the latest general allocation of special drawing rights that was made by in 2021. In section E, the practical options for reallocating special drawing rights to Africa are explored. Recommendations for changes to the allocation and administration of special drawing rights are provided in section F and throughout the guide.

B. What are the main administrative rules and regulations governing the allocation, cancellation, reallocation and use of special drawing rights?

The rules relating to the conduct of operations and transactions regarding special drawing rights are outlined in the Articles of Agreement of the International Monetary Fund.

1. When and why are special drawing rights allocated and who makes the decisions about the allocation and cancellation of special drawing rights?

Under the Articles of Agreement, IMF is entitled to proceed with the allocation of special drawing rights when it determines that there is a long-term global need to supplement the official reserves of countries.

According to article XVIII, section 1 (a), of the Articles of Agreement, which lays out the rules related to the allocation and cancellation of special drawing rights, in "all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world".

Recommendation:

IMF established the system of special drawing rights in 1968 to help to develop the official reserves of IMF members and to provide regular injections of liquidity to the global economy. To accomplish that aim, IMF envisioned allocating special drawing rights every five years and in cases of unexpected major developments. Even though the circumstances of the international monetary system have changed since the demise of the gold standard, IMF members continue to require special drawing rights.

General allocations should be made during all five-year basic periods, and IMF should clarify and operationalize the provision on unexpected major developments contained in the Articles of Agreement, in order that special allocations be made automatically when certain thresholds are breached, such as during force majeure shocks, global technical recessions and a reversal of global capital flows.

The allocation of special drawing rights is conditional on the strong support from the IMF membership. To be effective, the allocation requires the approval of 85 per cent of the votes of the IMF Board of Governors, of which Africa holds only 6.54 per cent.

2. Who can hold special drawing rights?

IMF is statutorily obligated to allocate special drawing rights to its member countries that have consented to participate in its Special Drawing Rights Department. Currently, all IMF members are participants in that Department, and, therefore, all 190 members can receive allocations.

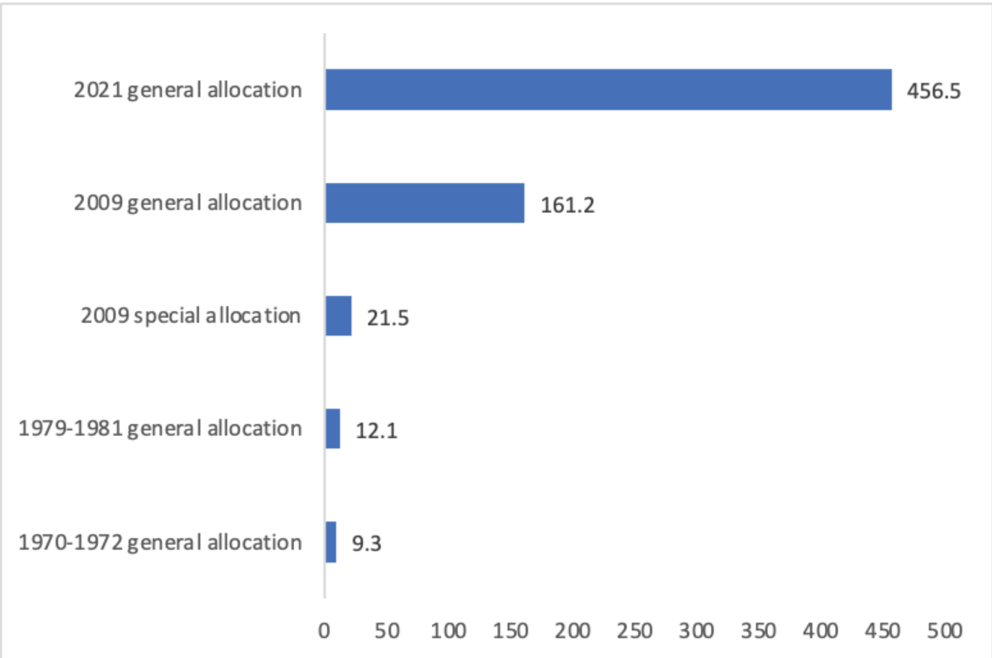
Special drawing rights can be held only by countries, IMF and selected official entities referred to as "prescribed holders", which are neither participants in the Special Drawing Rights Department nor IMF members.

There are currently 15 prescribed holders, including four central banks (European Central Bank, Bank of Central African States, Central Bank of West African States and Eastern Caribbean Central Bank), three intergovernmental monetary institutions (Bank for International Settlements, Latin American Reserve Fund and Arab Monetary Fund) and eight development institutions (African Development Bank, African Development Fund, Asian Development Bank, International Bank for Reconstruction and Development, International Development Association, Islamic Development Bank, Nordic Investment Bank and International Fund for Agricultural Development).

3. What are the types of allocations of special drawing rights?

IMF is authorized under the Articles of Agreement to allocate special drawing rights through either a general allocation, which benefits its entire membership, or a special allocation, which can benefit selected members under specific circumstances. Since the creation of special drawing rights, IMF has made five allocations, of which four were general allocations and one was a special allocation.

Figure I: General and special allocations of special drawing rights (Billions of special drawing rights)



Source: *IMF (n.d.).*

The first general allocation, of around 9 billion special drawing rights, occurred between 1970 and 1972. The second general allocation totalled 12 billion special drawing rights and took place between 1978 and 1981. The third general allocation was made in 2009, at the onset of the global financial crisis, when a total of 161 billion special drawing rights were distributed among members. The latest and largest general allocation, amounting to 456 billion special drawing rights, occurred in August 2021 amid the coronavirus disease (COVID-19) pandemic.

In 2009, IMF approved a special allocation of special drawing rights for countries that became IMF members subsequent to the second allocation, giving them the opportunity to participate in the system of special drawing rights on an equitable basis.

4. How can special drawing rights be reallocated?

In addition to general and special allocations, countries and prescribed holders can acquire special drawing rights through an exchange or reallocation from one country to another. Exchange takes place voluntarily through the Special Drawing Rights Department, where countries, prescribed holders and IMF can hold, sell or buy special drawing rights.

Special drawing rights can be exchanged for freely usable currencies in transactions by agreement, primarily through Voluntary Trading Arrangements, which are bilateral agreements between IMF and special-drawing-right participants or prescribed holders, in which the parties agree to buy and sell special drawing rights within certain limits. By 31 August 2022, Voluntary Trading Arrangements existed between IMF and 39 special-drawing-right participants and 1 prescribed holder, and the buying and selling capacities of the Voluntary Trading Arrangements were estimated by IMF (2022a) to amount to some 237 billion and 134 billion special drawing rights, respectively.

IMF is authorized to designate members to acquire special drawing rights from other participants in the Special Drawing Rights Department in the event that it is deemed necessary, in particular for the facilitation of transactions in special drawing rights.

In theory, special drawing rights can be transferred from one IMF member or prescribed holder to another through donations or loans. In practice, however, transfers of special drawing rights have typically been loans because the specific nature of those reserve assets, and IMF polices applicable to them, make donations politically and financially challenging. By donating special drawing rights, countries are required not only to pay interest in perpetuity on the amount donated, but also to sacrifice the interest that they would have collected by holding on to them. A recommendation in relation to the transfer of special drawing rights through donations and loans is provided in section E of the present guide.

Countries may choose to lend or donate special drawing rights directly to IMF, thereby providing the institution with additional concessional or non-concessional loan resources. Many countries have traditionally lent part of their holding of special drawing rights to the Poverty Reduction and Growth Trust, which is the concessional window of IMF.

C. How were allocations of special drawing rights distributed to African countries?

Under its Articles of Agreement, IMF is entitled to make general allocations of special drawing rights under specific circumstances. Such allocations must be distributed to countries in proportion to their share of IMF quotas.[4] Since the cumulative share of quotas of African countries is currently approximately 5 per cent of all quotas, the continent is entitled to receive an equivalent proportion of any IMF general allocation of special drawing rights.

Under the general allocation of 456.5 billion special drawing rights, which was equivalent to about $650 billion, that was issued by IMF in August 2021, Africa received about $33 billion. Table 2 illustrates the distribution of that allocation across countries, regions and income groupings on the continent.

Table 2: International Monetary Fund quota shares and allocations of special drawing rights to Africa, by selected countries, region and level of income

	Number of countries	Quota (percentage of total)	Share of $650-billion general allocation (billions of United States dollars)
Africa	54	5.12	33.28
South Africa and Nigeria	2	1.16	7.54
Top nine recipients [a]	9	3.11	20.22
Region			
North Africa	6	1.51	9.82
Sub-Saharan Africa	48	3.61	23.47
Sub-Saharan Africa, excluding Nigeria and South Africa	46	2.45	15.93
Income level			
Low-income countries	23	1.01	6.58
Lower-middle income countries	23	2.94	19.12
Upper-middle-income countries	6	1.13	7.35
High-income countries	2	0.04	0.23

Source: *IMF (2023b), IMF (2023c) and Economic Commission for Africa (ECA) calculations.*

Note: *In accordance with the methodology of the World Bank (Serajuddin and Hamadeh, 2020), low-income countries are defined as those countries with a gross national income (GNI) per capita of $1,035 or less in 2019; lower-middle income countries are those with a GNI per capita between $1,036 and $4,045; upper-middle income countries are those with a GNI per capita between $4,046 and $12,535; and high-income countries are those with a GNI per capita of $12,536 or more.*

[a] *In descending order of size of allocation, the nine countries are: South Africa, Nigeria, Egypt, Algeria, Libya, the Democratic Republic of the Congo, Zambia, Morocco and Angola.*

4 The primary source of financing of IMF is quotas. Each member of IMF is allotted a quota in proportion to its position in the global economy. Quotas help to determine the maximum quantity of financial resources members must contribute to IMF, their voting power in IMF decisions and the maximum quantity of loans they can obtain from IMF under normal access.

The following uneven patterns of distribution of the general allocation are noteworthy:

(a). Africa received only approximately 5 per cent of the overall allocation of special drawing rights, on the basis of the cumulative quota shares of African countries. The United States of America received $113 billion, or 17 per cent, of the overall allocation. In a global context, about 77 per cent, or $500 billion, of the allocation went to the members of the Group of 20 and other countries with advanced economies, such as the Kingdom of the Netherlands, Sweden and Switzerland;

(b). Cumulatively, the top nine recipients in Africa, namely, in descending order, South Africa, Nigeria, Egypt, Algeria, Libya, the Democratic Republic of the Congo, Zambia, Morocco and Angola, received $20 billion, which is equivalent to about 60 per cent of the total allocation to Africa. Each one of those countries was allocated over $1 billion in special drawing rights;

(c). Sub-Saharan Africa received about $23.5 billion, of which almost one third, about $7.5 billion, was allocated to, in descending order, South Africa and Nigeria;

(d). The 23 African low-income countries were allocated about 1 per cent, about $6.5 billion, of the total general allocation, which is less than either the combined share that went to South Africa and Nigeria or the share that went to the six African upper-middle-income countries.

Recommendation:

The quota formula should be reformed at the next quota review in 2023 with a minimum target of achieving parity in the quota shares of advanced economies and emerging-market and developing countries, and of doubling the quota share of the low-income countries from 3.3 per cent to 6.6 per cent.

D. How were special drawing rights used by African countries?

IMF member countries are entitled to deploy special drawing rights allocated by IMF at their discretion. The reserve assets have been used in various ways to support the fiscal and monetary objectives in recipient countries. Special drawing rights can be used in four main ways: to boost reserves; to obtain freely usable currencies; to support national budgets, in particular by funding public expenditure or paying down non-IMF debt; and to reduce debt owed to IMF.

In their research into the ways in which countries across the world used the special drawing rights from the latest general allocation, from 23 August 2021 to 31 July 2022, Arauz and Cashman (2022) reached the following conclusions:

(a). Overall, special drawing rights were used by 105 countries, of which 104 were low-income or middle-income countries;

(b). Excluding the use of special drawing rights as reserves, 15 countries used special drawing rights in three ways, 27 countries used them in two ways, and 58 countries used them in one way;

(c). The most common way in which special drawing rights were used was for fiscal purposes; at least 69 countries included special drawing rights totalling $80.4 billion in their government budgets or used them for fiscal purposes;

(d). In all, 42 countries exchanged special drawing rights for freely usable currency for a total of $16.3 billion;

(e). A total of 79 countries used $10.9 billion of special drawing rights to repay, to some degree, debt due to IMF, including 34 countries which used $8.9 billion for that purpose to a significant degree.

The analysis suggests that Africa used special drawing rights more than any other region, both by the number of countries and the take-up rate. In sub-Saharan Africa, the aggregate fiscal use totalled about 77 per cent of the allocation, special drawing rights used for currency exchange totalled 14 per cent and IMF debt repayment totalled 3 per cent.

The present guide provides a comprehensive update on the estimated use of special drawing rights by all 54 African countries during the year following the general allocation in August 2021. It reflects data compiled on the use of special drawing rights, using the information made available by Arauz and Cashman (2022), the monthly snapshot by IMF of country financial positions,[5] and other sources.

1. Use of special drawing rights for fiscal purposes in Africa

Table 3 provides detailed information at the country level on the use of special drawing rights for fiscal purposes in Africa. The following trends are noteworthy:

(a). The use of special drawing rights for budgetary purposes was predominant across Africa;

(b). Forty countries used 83 per cent of their 2021 general allocation for fiscal purposes on average;

5 The country financial positions published monthly by IMF provide data on the changes in holdings of special drawing rights by member countries.

(c). Twenty-six countries used nearly all, or, in some cases, an amount even exceeding, their allocation, for fiscal purposes;

(d). Of the $27 billion of special drawing rights that was allocated to the 47 African countries that used at least some of their allocation for fiscal purposes, about $20 billion, or 74 per cent of the total, was used for that purpose.

Table 3: Use of special drawing rights for fiscal purposes by African countries, August 2021–July 2022 (Millions of United States dollars)

	Estimated allocation	Fiscal use [a] Amount	Share of allocation (percentage)
Angola	1 010	497	50.0
Benin	169	166	100.0
Burkina Faso	164	162	100.0
Cabo Verde	32	32	100.0
Cameroon	377	213	57.9
Central African Republic	152	140	41.2
Chad	191	184	100.0
Comoros	24	24	99.9
Congo	221	278	125.8
Côte d'Ivoire	888	873	100.0
Democratic Republic of the Congo	1 455	503	50.0
Egypt	2 781	2 118	83.1
Equatorial Guinea	215	210	100.1
Ethiopia	410	404	101.3
Gambia	85	20	24.0
Ghana	1 007	330	33.3
Guinea	292	150	52.2
Guinea-Bissau	39	38	100.0
Kenya	741	728	100.0
Liberia	353	347	100.0
Madagascar	334	328	100.0
Malawi	189	181	100.0
Mali	255	250	100.0
Mauritania	176	166	97.6
Mozambique	310	305	100.0
Niger	180	177	100.0
Nigeria	3 351	3 294	100.0
Rwanda	219	215	100.0
Sao Tome and Principe	20	20	100.0
Senegal	442	434	100.0
Seychelles	31	31	100.0
Sierra Leone	283	56	20.0
Somalia	223	84	43.1
South Africa	4 165	4 094	100.0

	Estimated allocation	Fiscal use [a] Amount	Share of allocation (percentage)
South Sudan	336	210	63.7
Togo	200	197	100.0
Tunisia	744	643	102.1
Uganda	493	242	50.0
Zambia	1 335	1 313	100.0
Zimbabwe	965	281	29.6

Source: *IMF (2023c), Arauz and Cashman (2022) and ECA calculations.*

Note: *Some countries, such as the Sudan, cannot access their holdings of special drawing rights because they are under sanctions.*

[a] Some countries used special drawing rights that they held prior to the general allocation in 2021, hence the values for the share of allocation do not always represent a linear relationship between the estimated allocation and the amount used for fiscal purposes in respect of each country.

Most countries in sub-Saharan Africa allocated a part of their holdings of special drawing rights to their pandemic response or to social spending. According to Cashman, Arauz and Merling (2022), at least 41 sub-Saharan countries used special drawing rights for various types of public spending, including vaccine procurement and pandemic relief, ration cards, welfare payments, wages and budget support.

2. Use of special drawing rights to acquire currency and to repay International Monetary Fund debt

Table 4 provides an illustration of the extent to which the special drawing rights that were allocated in August 2021 were used to acquire currency and to repay IMF debt by 44 African countries.

Those 44 African countries used, on average, 42 per cent of their allocation of special drawing rights to acquire currency or to repay IMF debt. Thirteen of the countries used nearly all their allocation — more than 90 per cent — for those purposes.

Twenty-two of the countries exchanged over $6 billion of special drawing rights for currency. Cabo Verde, the Central African Republic, Chad, the Comoros, Djibouti, Equatorial Guinea, Ethiopia, Guinea, Malawi, Mauritania, Sao Tome and Principe and the United Republic of Tanzania used nearly all their allocation for that purpose. The Congo used more than its allocation for currency exchange.

Thirty-five of the countries used $1.4 billion in total to repay debt due to IMF. None of them used more than 25 per cent of their allocation for that purpose.

Table 4: Use of special drawing rights for currency exchange and repayment of International Monetary Fund debt by African countries, August 2021–July 2022 (Millions of United States dollars)

		Currency exchange		IMF debt repayment	
	Total allocation	Amount	Share of allocation (percentage)	Amount	Share of allocation (percentage)
Angola	1 010	–	–	83	8.2
Benin	169	–	–	4	2.4
Burkina Faso	164	–	–	15	9.1
Burundi	210	80	38.1	–	–
Cabo Verde	32	32	100.0	–	–
Cameroon	377	213	56.5	1	0.3
Central African Republic	152	140	92.1	4	2.6
Chad	191	184	96.3	7	3.7
Comoros	24	24	100.0	–	–
Congo	221	278	125.8	–	–
Côte d'Ivoire	888	–	–	186	20.9
Democratic Republic of the Congo	1 455	503	34.6	–	–
Djibouti	43	43	100.0	1	2.3
Egypt	2 781	2 118	76.2	566	20.4
Equatorial Guinea	215	210	97.7	1	0.5
Eswatini	107	–	–	1	0.9
Ethiopia	410	404	98.5	5	1.2
Gabon	295	71	24.1	30	10.2
Gambia	85	–	–	2	2.4
Ghana	1 007	–	–	123	12.2
Guinea	292	284	97.3	5	1.7
Guinea-Bissau	39	–	–	2	5.1
Kenya	741	–	–	99	13.4
Lesotho	95	–	–	5	5.3
Liberia	353	–	–	10	2.8
Madagascar	334	–	–	9	2.7
Malawi	189	181	95.8	5	2.6
Mali	255	–	–	10	3.9
Mauritania	176	166	94.3	9	5.1
Morocco	1 221	–	–	23	1.9
Namibia	261	–	–	2	0.8
Niger	180	–	–	11	6.1
Nigeria	3 351	–	–	38	1.1
Rwanda	219	–	–	22	10.0
Sao Tome and Principe	20	20	100.0	1	5.0
Senegal	442	–	–	4	0.9
Seychelles	31	–	–	2	6.5
Sierra Leone	283	–	–	14	4.9
Somalia	223	84	37.7	–	–

	Total allo-cation	Currency exchange		IMF debt repayment	
		Amount	Share of alloca-tion (percentage)	Amount	Share of alloca-tion (percentage)
South Africa	4 165	–	–	13	0.3
South Sudan	336	210	62.5	–	–
Tunisia	744	643	86.4	105	14.1
United Republic of Tanzania	520	520	100.0	–	–
Zimbabwe	965	281	29.1	–	–

Source: *Arauz and Cashman (2022), IMF (2023c), IMF article IV staff reports from 2022 available at https://www.imf.org/en/Publications/SPROLLs/Article-iv-staff-reports#sort=%40imfdate%20descending and ECA calculations.*

Note: *Some countries, such as the Sudan, cannot access their holdings of special drawing rights because they are under sanctions.*

3. What lessons have been learned from the use of special drawing rights?

Table 5 is a summary of the various uses of the special drawing rights from the general allocation in August 2021 across all 54 African countries. The following key messages can be drawn from that table:

The general allocation provided most African Governments with much-needed liquidity for their response to the COVID-19 crisis. Out of 54 African countries, 48 appear to have used part or all of their allocation to acquire currencies, support national budgets or reduce their debt to IMF. The amount of special drawing rights that were allocated to those 48 countries proved insufficient to address their overall liquidity needs, as illustrated by the high take-up rate of special drawing rights across the continent compared with other regions.

Special drawing rights were most widely used for fiscal purposes, reflecting the limited fiscal space available in many African countries at the time of the allocation. Overall, fiscal use of special drawing rights amounted to about $20 billion of the total allocation to Africa of $33 billion. About half of all African countries used nearly all their allocation for that purpose.

The pandemic crisis weakened the external position of several countries considerably, creating a significant need to increase reserves. At least 10 countries used more than 90 per cent of their allocation to boost reserves. Six of those countries, namely Algeria, Botswana, Eritrea, Libya, Mauritius and the United Republic of Tanzania, used their entire allocation in that way. Other countries that used more than 90 per cent of their allocation to increase their reserves included Eswatini, Lesotho, Morocco and Namibia. It appears that about $5 billion of the total allocation to Africa were used to boost reserves, based on the estimates reported in table 5. That amount, however, could be overestimated, as the use of special drawing rights for currency exchange or debt repayment, is not necessarily additive with, or may be categorized as, fiscal uses.

Many central banks had to intervene in the foreign exchange market during the crisis. The acquisition of foreign currency accounted for about $6.7 billion of all the special drawing rights that were allocated to African countries.

Table 5: Use of special drawing rights for fiscal purposes, currency exchange and International Monetary Fund debt repayment by African countries, August 2021–July 2022 (Millions of United States dollars)

		Fiscal use		Currency exchange		IMF debt repayment	
	Estimated allocation	Amount	Share of allocation (percentage)	Amount	Share of allocation (percentage)	Amount	Share of allocation (percentage)
Algeria [a]	2 665	–	–	–	–	–	–
Angola	1 010	497	50.0	–	–	83	8.2
Benin	169	166	100.0	–	–	4	2.4
Botswana [a]	189	–	–	–	–	–	–
Burkina Faso	164	162	100.0	–	–	15	9.1
Burundi	210	–	–	80	38.1	–	–
Cabo Verde	32	32	100.0	32	100.0	–	–
Cameroon	377	213	57.9	213	56.5	1	0.3
Central African Republic	152	140	41.2	140	92.1	4	2.6
Chad	191	184	100.0	184	96.3	7	3.7
Comoros	24	24	99.9	24	100.0	–	–
Congo	221	278	125.8	278	125.8	–	–
Côte d'Ivoire	888	873	100.0	–	–	186	20.9
Democratic Republic of the Congo	1 455	503	50.0	503	34.6	–	–
Djibouti	43	–	–	43	100.0	1	2.3
Egypt	2 781	2 118	83.1	2 118	76.2	566	20.4
Equatorial Guinea	215	210	100.1	210	97.7	1	0.5
Eritrea [a]	15	–	–	–	–	–	–
Eswatini	107	–	–	–	–	1	0.9
Ethiopia	410	404	101.3	404	98.5	5	1.2
Gabon	295	–	–	71	24.1	30	10.2
Gambia	85	20	24.0	–	–	2	2.4
Ghana	1 007	330	33.3	–	–	123	12.2
Guinea	292	150	52.2	284	97.3	5	1.7
Guinea-Bissau	39	38	100.0	–	–	2	5.1
Kenya	741	728	100.0	–	–	99	13.4
Lesotho	95	–	–	–	–	5	5.3
Liberia	353	347	100.0	–	–	10	2.8
Libya [a]	2 145	–	–	–	–	–	–
Madagascar	334	328	100.0	–	–	9	2.7
Malawi	189	181	100.0	181	95.8	5	2.6
Mali	255	250	100.0	–	–	10	3.9
Mauritania	176	166	97.6	166	94.3	9	5.1
Mauritius [a]	142	–	–	–	–	–	–
Morocco	1 221	–	–	–	–	23	1.9
Mozambique	310	305	100.0	–	–	–	–
Namibia	261	–	–	–	–	2	0.8

	Estimated allocation	Fiscal use		Currency exchange		IMF debt repayment	
		Amount	Share of allocation (percent-age)	Amount	Share of allocation (percent-age)	Amount	Share of allocation (percentage)
Niger	180	177	100.0	–	–	11	6.1
Nigeria	3 351	3 294	100.0	–	–	38	1.1
Rwanda	219	215	100.0	–	–	22	10.0
Sao Tome and Principe	20	20	100.0	20	100.0	1	5.0
Senegal	442	434	100.0	–	–	4	0.9
Seychelles	31	31	100.0	–	–	2	6.5
Sierra Leone	283	56	20.0	–	–	14	4.9
Somalia	223	84	43.1	84	37.7	–	–
South Africa	4 165	4 094	100.0	–	–	13	0.3
South Sudan	336	210	63.7	210	62.5	–	–
Sudan [a, b]	604	–	–	–	–	–	–
Togo	200	197	100.0	–	–	–	–
Tunisia	744	643	102.1	643	86.4	105	14.1
Uganda	493	242	50.0	–	–	–	–
United Republic of Tanzania [a, c]	543	–	–	543	100.0	–	–
Zambia	1 335	1 313	100.0	–	–	–	–
Zimbabwe	965	281	29.6	281	29.1	–	–

Source: *Arauz and Cashman (2022), IMF (2023c), IMF article IV staff reports from 2022 available at https://www.imf.org/en/Publications/SPROLLs/Article-iv-staff-reports#sort=%40imfdate%20descending, and ECA calculations.*

Note: *Exchange or debt relief uses of special drawing rights are not necessarily additive with fiscal uses.*

[a] *Estimate based on net changes in holdings from 23 August 2021 to 31 July 2022.*

[b] *The Sudan is among the countries that cannot access their holdings of special drawing rights because of sanctions.*

[c] *According to IMF (2022d), the United Republic of Tanzania intends to use its allocation of special drawing rights of about $543 million to boost reserves by investing in money market instruments and treasury bonds of the United States of America.*

The general allocation offered African countries a convenient way to use special drawing rights to repay debt due to IMF. Less than 5 per cent, or only about $1.4 billion, of special drawing rights, however, was used for that purpose.

Nearly all African countries were able to benefit from the general allocation. The Sudan was unable to access its special drawing rights, however, owing to sanctions.

E. What are the practical options for reallocating special drawing rights to Africa?

The donation of special drawing rights could prove politically and financially costly without an agreement on burden sharing between the donor and the recipient. Countries with an excess of special drawing rights have thus far insisted on the need to preserve the characteristics of special drawing rights as reserve assets in any potential reallocation scenarios.

Given those circumstances, lending has traditionally proved to be the most practical way to reallocate special drawing rights and has been routinely used to boost the resources of the Poverty Reduction and Growth Trust.

Although IMF has remained the only entity through which special drawing rights have been channelled to date, they could, in theory, be lent through other institutions, including the prescribed holders. Section E provides an analysis of each of the potential options for reallocating special drawing rights.

1. International Monetary Fund vehicles

IMF currently offers two options for lending special drawing rights to low-income countries: the Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust.

The Poverty Reduction and Growth Trust, through which concessional financial assistance is provided, has been proved to be a reliable mechanism to lend special drawing rights to eligible low-income countries. The Trust has three lending facilities: the Extended Credit Facility, the Standby Credit Facility and the Rapid Credit Facility. The loans from the Extended Credit and Standby Credit Facilities currently carry a zero rate of interest, have a grace period of 5.5 years and 4 years, respectively, and finally mature after 10 years and 8 years, respectively. The grace period and final term length of loans under the Rapid Credit Facility are the same as those under the Extended Credit Facility, namely 5.5 years and 10 years, respectively.

According to IMF (2023a), the Poverty Reduction and Growth Trust faces a shortfall of 1.2 billion special drawing rights, or about \$1.6 billion, in pledges for subsidy resources and 3.5 billion special drawing rights, or about \$4.7 billion, for loan resources to complete the first stage of its 2021 funding strategy.

Recommendation:

1. The Poverty Reduction and Growth Trust could provide a relatively quick way for members of the Group of 20 and other countries to fulfil their pledge to reallocate some of their allocation of special drawing rights to vulnerable countries. By August 2022, 39 African countries are eligible to benefit from IMF concessional resources and are thus scheduled to benefit from any channelling of special drawing rights through the Trust. The further reallocation of special drawing rights through the Trust would target the specific needs of eligible countries.

2. IMF should implement a broad burden-sharing funding campaign and redouble efforts to ensure that developed economies step up their commitments and fulfil their pledges in a timely manner.

3. Some of the gold reserves of IMF should be sold.

4. The administrative cost reimbursement of the Trust should be terminated.

The Resilience and Sustainability Trust was established by IMF in April 2022 and was made operational in October 2022 to help countries to overcome longer-term structural challenges arising, notably, from climate change and pandemic preparedness. Under the Trust, the Resilience and Sustainability Facility was established by IMF to provide policy support and longer-term financing, with a view to strengthening resilience, sustainability and external stability in eligible countries. Arrangements under the Facility have a 20-year term and a 10.5-year grace period. The first beneficiaries of the Facility had been approved by the Executive Board of IMF by February 2023 and included Bangladesh, Barbados, Costa Rica and, from Africa, Rwanda.

To be eligible for disbursements from the Trust, the borrowing country must have a regular IMF programme or credit line in place. Furthermore, countries must have a sustainable level of debt. The interest rate for disbursements from the Trust will be positive, which may become more problematic when debt burdens and interest rates rise. As global interest rates increase, the interest rates for disbursements from the Trust may also increase significantly. To make borrowing from the Trust for the most vulnerable low-income countries concessional, an interest rate cap should be implemented. Interest-rate caps should also be introduced for loans to middle-income countries.

Recommendation:

1. Interest rate hikes by central banks around the world have led to an increase in the special-drawing-right interest rate, which is determined by the interest rates for the financial instruments of each component currency in the special-drawing-right valuation basket. As a result, the interest rates on loans obtained by middle-income countries and low-income countries should be capped.

2. Strengthen efforts to mobilize resources for the Resilience and Sustainability Trust to allow for greater IMF lending with longer terms.

2. Vehicles external to the International Monetary Fund

Prescribed holders

Special drawing rights can be channelled either through IMF or through entities that are designated as prescribed holders. Currently, there are 15 prescribed holders, as listed in section B of the present guide.

In theory, special drawing rights could be channelled to such prescribed holders as multilateral development banks to increase their lending capacity. There have been calls for such a move to be completed, building on an approach similar to the lending mechanism implemented by IMF under the Poverty Reduction and Growth Trust. In practice, however, progress in that regard has been complicated by the desire of potential contributors to preserve the reserve asset characteristics and, in some cases, by institutional hurdles and the domestic regulations under which central banks operate.

Recommendation:

The channelling of special drawing rights through multilateral development banks can support lending. The initiative of the African Development Bank to recycle special drawing rights, through the establishment of its hybrid capital model, is a welcome move in that direction. For its first round of finance, the Bank needs 2.5 billion special drawing rights; ideally, it would receive 500 million special drawing rights from each of five donors. Although many countries have expressed interest in lending, by April 2023 none had made specific commitments to do so. Lending special drawing rights through market mechanisms can lower the cost of borrowing and leverage critical investment in countries with market access.

Non-prescribed holders

To receive special drawing rights, any institution or entity that is not already a prescribed holder would first need to acquire that status, which requires the supporting vote of 85 per cent of the Executive Board of IMF.

That high bar would need to be reached for several proposals to be implemented, including some of the reallocation modalities for special drawing rights proposed by the Economic Commission for Africa and the Economic Commission for Latin America and the Caribbean (2022), such as those aimed at creating a fund for middle-income countries to finance investment projects related to the Sustainable Development Goals, funding the Liquidity and Sustainability Facility that was initiated by the Economic Commission for Africa and the Pacific Investment Management Company, enhancing the lending capacity of development banks and bolstering regional financing institutions.

Under the existing rules and regulations of IMF, any of those modalities may be implemented only if they attract broad political support beforehand. The same support would be needed to enable relevant entities to become prescribed holders, if they were not already.

Hypothetically, non-prescribed holders could access special drawing rights indirectly through prescribed holders. Co-financing schemes backed by special drawing rights could be developed through the involvement of prescribed and non-prescribed holders. The possibility of implementing such schemes, however, might be remote, given the panoply of political and technical issues that would need to be addressed beforehand.

Although multilateral initiatives are likely to favour lending mechanisms for special drawing rights for the reasons indicated above, countries could explore obtaining donations of special drawing rights from bilateral partners.

Recommendation:

To incentivize donations of special drawing rights, and in accordance with the suggestion by Sembene (2022), consideration should be given to the burden-sharing mechanisms through which recipient countries could bear interest charges on donated special drawing rights.

Some African officials have called for the introduction of perpetuity bonds backed by special drawing rights while special-drawing-right interest rates remain relatively low. That approach would involve countries borrowing special drawing rights and bearing the associated interest costs in perpetuity, thus enabling transfers of special drawing rights to proceed at no cost for the donor countries.

3. Practical options for the reallocation of special drawing rights

The Economic Commission for Africa and the Economic Commission for Latin America and the Caribbean (2022) have estimated that the median rate of utilization of special drawing rights by members of the Group of Seven is 5.9 per cent, which is much lower than the rate for Africa, which hovers at 52.4 per cent. Members of the Group of Seven and the Group of 20 received about $280 billion and $440 billion, respectively, from the general allocation of special drawing rights in August 2021, as is shown in table 6. On the basis of the estimated utilization rate, members of the Group of Seven could potentially reallocate $266 billion of special drawing rights to vulnerable countries.

Table 6: Allocation of the general allocation of $650 billion of special drawing rights to the members of the Group of Seven and Group of 20 and the potential for reallocation

	Quota (percent-age)	Amount (billions of United States dollars)	Potential for reallo-cation (billions of United States dollars)
Group of Seven			
United States of America	17.4	113.4	106.7
Japan	6.5	42.1	39.6
Germany	5.6	36.4	34.3
France	4.2	27.6	25.9
United Kingdom of Great Britain and Northern Ireland	4.2	27.6	25.9
Italy	3.2	20.6	19.4
Canada	2.3	15.1	14.2
Total Group of Seven	43.5	282.69	266.0
China	6.4	41.7	39.2
Total Group of Seven plus China	49.9	324.4	305.2
Group of 20	68.11	442.715	416.6

Source: *IMF (2021) and ECA calculations.*

Given the urgency of the development needs arising from overlapping crises, an immediate focus may need to be put on the modalities of reallocation that can be implemented quickly, thus enabling the rapid access by developing countries, in particular low-income countries, to additional liquidity that is backed by special drawing rights.

In that context, IMF vehicles could prove to be a low-hanging fruit. Members of the Group of 20 have made it clear that part of the $100 billion of special drawing rights that they have pledged to reallocate to low-income countries, small developing States and vulnerable middle-income countries will be channelled through the Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust. It has been estimated that, by November 2022, about $60 billion of special drawing rights had been pledged (Sembene and McNair, 2022).

Although IMF concessional facilities offer practical options for reallocating special drawing rights to Africa, they also present challenges that need to be overcome in order to optimize the benefits of reallocation. While the programme design of IMF for low-income countries has improved in recent years, it still has a number of shortcomings that need to be addressed to enhance its effectiveness and impact. Mansour and Sembene (2021) have noted that the factors that constrain the effectiveness of facilities provided through the Poverty Reduction and Growth Trust include insufficient lending capacity, inadequate access policies and weak programme design. Those authors have thus underscored the importance of carefully reviewing IMF safeguards, notably access limits and conditionality, to ensure that they do not place an unnecessary and unsustainable burden on the programme countries of the Poverty Reduction and Growth Trust.

There is merit in strengthening the Resilience and Sustainability Trust and revisiting its related access limits to better support countries in their response to long-term challenges triggered by climate change. As noted by Sembene and McNair (2022), however, that objective would require overcoming the low risk appetite of the Executive Board of IMF with regard to issues associated with low-income countries. The close collaboration between IMF and the World Bank Group remains critical for the effective design and implementation of programmes supported by the Resilience and Sustainability Trust, but it should not be taken for granted.

If attempts to channel special drawing rights through multinational development banks face significant technical and political hurdles, channelling special drawing rights through non-prescribed holders might prove to be even more challenging, given the higher level of political support that that approach requires and the complex technical issues that it raises. In the current context, therefore, efforts by African countries and bilateral partners should, in the near term, be geared towards channelling special drawing rights through multinational development banks, in addition to through IMF vehicles.

Mansour and Sembene (2021) propose a two-step approach to optimizing the benefits of the reallocation of special drawing rights for African countries. The first step should be taken in the near term and concerns working with African civil society organizations and Governments to mobilize quickly and fully the $100 billion of recycled special drawing rights that have been pledged by the Group of 20 and making sure that the bulk of those resources are rapidly and effectively used to meet the urgent needs of African countries. Mansour and Sembene (2021) consider transfers of special drawing rights to the Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust to be among the most practical options for reallocation, even though both steps of their two-step approach need to be taken in parallel to enhance the design and implementation of IMF access policies and programmes supported by IMF.

The second step is for Governments to work with civil society to ensure that all allocations of special drawing rights are used effectively, to demonstrate their high impact and to press for additional reallocations, or possibly new issuances, of special drawing rights for the benefit of multinational development banks and other relevant prescribed and non-prescribed holders that are seeking to help African countries to address national priority needs and to contribute to the delivery of critical public goods.

F. Conclusion

The general allocation of special drawing rights in August 2021 provided welcome liquidity to African countries at a time when they faced acute financing needs during the COVID-19 pandemic. The special drawing rights were predominantly used for fiscal purposes against the backdrop of eroding policy buffers. To a lesser extent, the assets helped to boost reserve coverage in the face of weakening external positions.

The additional liquidity that the allocations of special drawing rights provided, however, remained relatively limited in comparison with the considerable financing needs associated with the multiple and overlapping crises plaguing Africa.

In that context, recycling special drawing rights from countries with strong external positions could provide much-needed resources to vulnerable African countries. There is merit, therefore, in prioritizing the proposals for the reallocation of special drawing rights that can be quickly implemented. Although IMF vehicles offer readily available modalities for reallocation, channelling special drawing rights to multinational development banks is a critical complementary option that must be operationalized as soon as possible.

More generally, there is ample scope to reshape the system of special drawing rights to optimize its contribution to the global financial safety net. The allocation periods, the formula for the allocation of special drawing rights and even the voting system used by IMF, including the number of votes from developing nations, could all be reviewed.

To make progress in that direction, African policymakers and stakeholders must keep abreast of the developments, rules and regulations relating to special drawing rights, and advocate changes thereto and to the global financial architecture.

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