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Options Paper on
SDR Reallocations for Africa

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Executive Summary

Reallocations of special drawing rights (SDRs) raise important issues that need to be addressed to optimize potential benefits for vulnerable countries in Africa. These include:

- Identifying the vulnerabilities and priority needs facing countries on the continent that could be addressed with recycled SDRs;
- Designing and implementing reallocation schemes which optimize their potential for helping meet Africa's priority development and governance needs, while fostering a quick, inclusive, and sustainable recovery for vulnerable countries;
- Setting the optimal size of voluntary contributions consistent with the magnitude of the needs of recipient countries and
- Developing effective SDR reallocation mechanisms taking into account donors' desire to preserve the reserve asset characteristics of the SDRs to be recycled.

Our paper reviews a variety of vehicles through which recycled SDRs could be channeled to help meet critical needs of vulnerable African countries. More specifically, we analyze the benefits and challenges associated with rechanneling these resources through on-lending mechanisms involving the IMF as well as prescribed and non-prescribed holders. While the political odds of securing multilateral SDR donations are currently low, we also explore the practicality of potential vehicles not involving SDR on-lending.

The paper identifies key challenges facing African countries that could be addressed building on SDR reallocations. To overcome these challenges, we outline a comprehensive action plan to be implemented in the short to longer term. There is, in our view, an urgent need for African governments and civil society along with their peers around the world, including from G7 and G20 countries to work together to build consensus on the best way to use recycled SDRs for vulnerable African countries.

Proposed approach

We propose a two-step approach to optimize the benefits of SDR reallocation for African countries.

First Step:

The first step to take in the near term is to work with African civil society organizations and governments to quickly and fully mobilize the pledged $100 billion of recycled SDRs and make sure that these resources are rapidly and effectively used to meet the urgent needs of African countries. To this end SDR transfers to the Poverty Reduction and Growth Trust (PRGT) and the planned Resilience and Sustainability Trust (RST) rank high among the most practical solutions. However, there are a number of conditions that need to be met for these options to produce expected positive outcomes and concerned stakeholders in the continent along with their partners need to work collaboratively and continuously to ensure these conditions are met.

<u>Poverty Reduction and Growth Trust (PRGT)</u>
First, it is imperative to ensure that access of vulnerable African countries to PRGT facilities is more adequate. Achieving this outcome requires that the PRGT is sufficiently funded to better

respond to the concessional financing needs of low-income countries (LICs). This will help avoid the pre-COVID sub-optimal situation in which these countries' access to this trust fund was more determined by their relatively small quota rather than their extensive external stability and development needs.

Second, PRGT arrangements should be designed in a more flexible manner to optimize their growth impact in eligible African countries. Introducing appropriate flexibility in PRGT program design will involve striking the right balance between adjustment and financing in LICs. Excessive and abrupt adjustment should be avoided at all costs and program countries should own their adjustment strategies. As illustrated by the IMF watchdog, more gradual adjustment paths are usually more appropriate in countries with limited capacities.[1] It will be also important that IMF safeguards such as access limits and conditionality are revisited on a continuous basis to ensure that these do not give rise to onerous and noncritical conditions that place an unnecessary and unsustainable burden on PRGT program countries.

Third, SDR reallocations to the PRGT should contribute to maintaining the access levels achieved at the onset of COVID-19, while aiming to help strengthen social protection programs and spending needs in priority sectors such as education, health, and infrastructure. PRGT programs and resources should also seek to address liquidity and solvency needs in countries facing growing debt vulnerabilities.

<u>Resilience and Sustainability Trust (RST)</u>

Fourth, RST financing should be extended to vulnerable countries in Africa and other regions on highly concessional terms, notably through longer maturities and very low interest rates. This would partly reflect the fact that countries under RST-supported programs will provide services to the entire world by contributing to the delivery of global public goods against global ills such as climate change and pandemics. Moreover, the cost of efforts to combat climate change would not only be high but also spread over a very long period. Given these considerations, a repayment period of about 40 years would be appropriate, as is the case for credits extended from the World Bank's IDA on regular terms. Given the challenges of securing a multilateral SDR donation initiative as well as the very low SDR interest rate, recycling SDRs as loans with very low interest rate (such as the current SDR rate of 0.05 percent) could prove rewarding at this juncture.

To enhance the impact of recycled SDRs, the IMF should closely collaborate with the World Bank and AfDB as well as African civil society organizations and governments to ensure that the RST is appropriately designed and implemented. The World Bank and AfDB should complement RST funding by making use of their own resources in the immediate future to support projects that emerge from National Resilience and Sustainability Plans (NRSPs). The IFIs and development partners should provide technical assistance and build capacity for civil society and governments to come up with realistic NRSPs. The NRSP would be approved by the National Parliament and commented on, but not approved by the Boards of the IMF, the World Bank and African Development Bank. The IMF would support efforts to carve an envelope for investment in resilience and sustainability. The World Bank and African Development Bank would support projects within the NRSP consistent with the fiscal space the IMF helped identify.

[1] Independent Evaluation Office of the IMF: Evaluation on Growth and Adjustment in IMF-Supported Programs (2021)

Moreover, since IMF funding is almost always catalytic and build on strong programs (or positive assessments in the Article IV consultations), MDBs and other development partners are likely to complement funding under the PRGT and RST.

Second step:
If we can make quick headway in the above direction, then a case can be more easily made to the G7 and G20 to recycle more SDRs to address the needs of vulnerable countries. This builds on the premise that results may need to be shown before additional funds are made available, especially since there have recently been significant contributions to the concessional arms of the World Bank and Africa Development Bank as well as large capital increases.

We estimate that the additional financing needed to achieve optimal lending capacities for the PRGT and the RST is likely to exhaust the pledged $100 billion of recycled SDRs. With these resources mainly supporting the PRGT and RST, the proposed second step would then be for governments to work with civil society to ensure that these resources are effectively used, demonstrate their high impact, and press for additional reallocations or new issuances of SDRs for the benefit of MDBs and other relevant prescribed and non-prescribed holders in support of their efforts to help African countries address their priority needs and contribute to the delivery of critical global public goods.

In this regard, rechanneling SDRs to MDBs will be particularly effective in helping optimize the ultimate impact of SDR allocations. Because of the significant leverage effects of their financing, MDBs could play a critical role in using SDRs to boost financing for vulnerable countries, including by mobilizing private finance. SDR transfer to these institutions would also be an opportunity to benefit from their comparative advantage in terms of expanding social protection programs, supporting vulnerable households and SMEs, and addressing infrastructure bottlenecks.

Ultimately, the effectiveness of the proposed two-step approach builds on the ability of African countries to mount a national response with the involvement of civil society instead of a top-down approach under which governments act alone. It also requires building programs around national consensus instead of promoting technocratically superior strategies developed by the IMF and the World Bank staff with weak country ownership.

If African countries can demonstrate that additional assistance from the RST is visibly enabling community-based action against climate change, this would lay the foundation for all countries with strong reserve positions to recycle all their recently acquired SDRs to support the RST and other MDB efforts to support resilience and sustainability. Recipient countries could be asked to bear the interest costs in perpetuity, thereby facilitating SDR transfers at no cost for donating countries. Such an initiative could help recycle up to about 280 billion and 440 billion if implemented by G7 and G20 member countries respectively, thus making significant levels of additional financing available to vulnerable countries at very affordable rates.

1. Introduction:

On August 2nd, 2021, the Board of Governors of the IMF approved a general allocation of Special Drawing Rights (SDRs) equivalent to US$650 billion to boost global liquidity. With this largest SDR allocation in the history of the IMF, Africa received about $33 billion worth of new SDRs, providing governments across the continent with potential additional financing in support of their efforts to achieve domestic priorities. Given the specific rules guiding general SDR allocations, this additional external financing was unevenly distributed across countries, regions, and income groupings on the continent (Table 1):

- Sub-Saharan Africa received $23 billion of which about a third was allocated to South Africa and Nigeria alone.
- Low-income African countries secured about $6.5 billion, which is equivalent to 1 percent of the general allocations to IMF member countries and a bit less than 20 percent of the total amount allocated to Africa's 54 countries.
- Lower-middle income countries secured $19 billion, representing about 57 percent of allocations.
- A third of initial SDR allocations to Africa benefited the 34 IDA-eligible countries, while the remainder was claimed by blend and IBRD countries.

Notwithstanding this uneven distribution, the IMF SDR issuance provided African countries with much-needed additional resources. The SDRs resulted in a very significant increase in reserves for a small number of African countries. For example, the allocation increased reserve coverage by 3,020 percent in Zimbabwe, by over 500 percent in Equatorial Guinea, and by over 200 percent in Burundi (Figure 1). Most Sub-Saharan African countries saw more modest but still useful improvement in reserve coverage going from 111 percent in Zambia to 3% percent in Mauritius and Libya.

Several countries took steps to use their SDR proceeds to meet various priority needs. At the time when the SDR allocation became effective on August 23, 2021, only about 92 million people were administered COVID-19 vaccination doses across Africa, with less than 5 percent of the population being fully vaccinated.[2] Against this background, a number of African governments expressed their intent to allocate part of the proceeds to meet critical health spending needs.

However, SDR allocations are expected to cover only a small part of the current financing shortfall facing African countries. According to the IMF, Africa's additional financing needs for COVID response is estimated at around $285 billion through 2025, including $135 billion for low-income countries.[3] In addition, countries in the region are faced with other priority needs arising notably from high public debt, security threats, infrastructure development as well as climate mitigation, adaptation and resiliency efforts.

[2] https://www.statista.com/statistics/1232773/total-number-of-covid-19-vaccination-doses-in-africa/

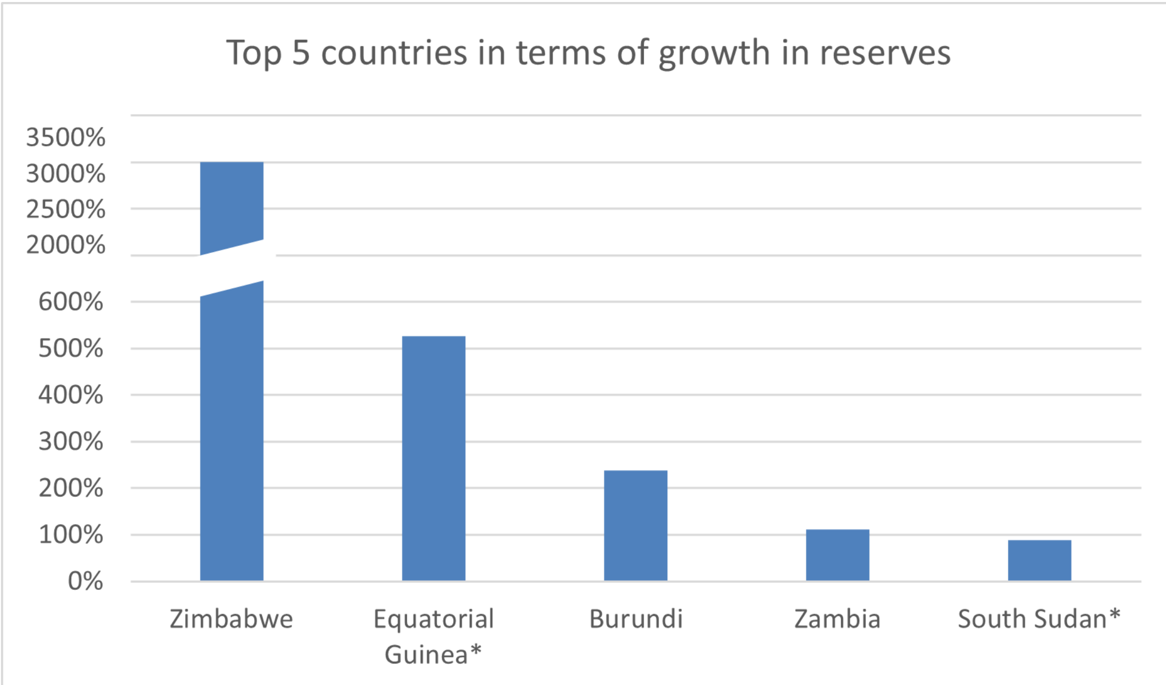
[3] IMF Managing Director's remarks at Summit on the Financing of African Economies, May 18, 2021: https://www.imf.org/en/News/Articles/2021/05/18/sp051821-remarks-at-financing-african-economies-conference

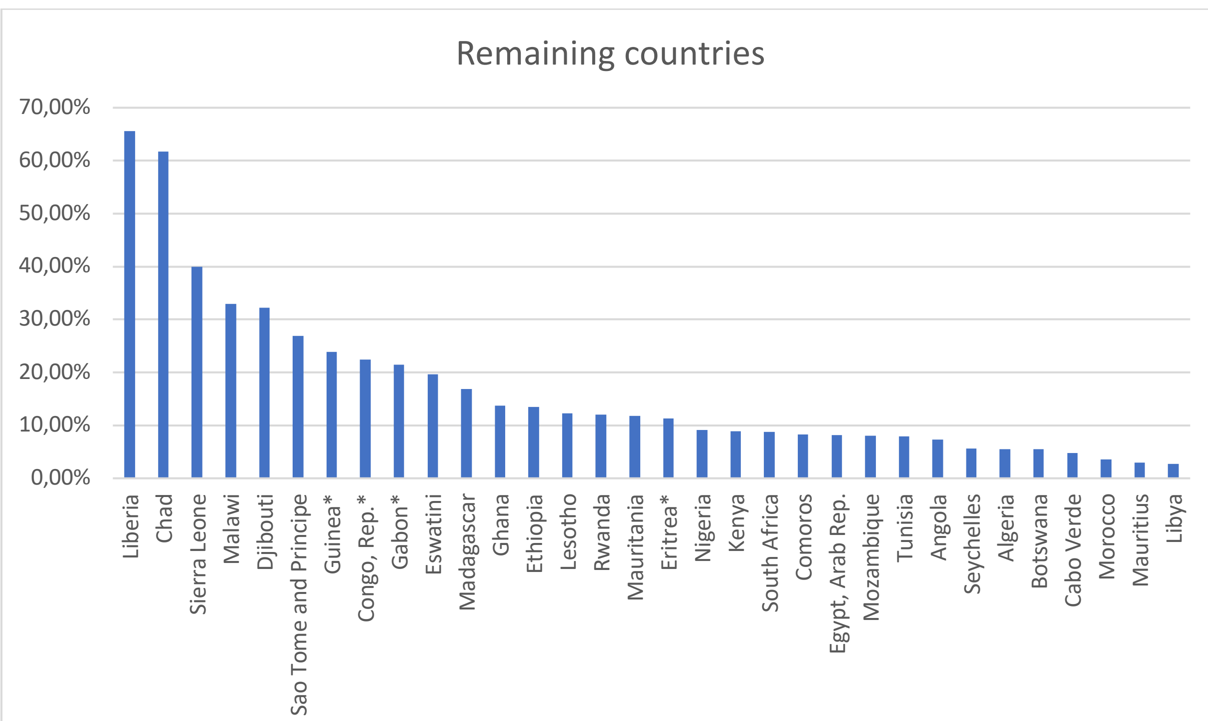
Table 1: Africa—IMF Quota Shares and SDR Allocations by Region, Income and Lending Category

Member	**Number of countries**	**Quota (In % of total)**	**$650 bn SDR Allocations (In $ billion)**
AFRICA	**54**	**5.12**	**33.28**
South Africa and Nigeria	*2*	*1.16*	*7.54*
*Top 7 recipients**	*7*	*2.76*	*17.94*
By Region			
North Africa	6	1.51	9.82
Sub-Saharan Africa	48	3.61	23.47
Excl. Nigeria and South Africa	*46*	*2.45*	*15.93*
By Income			
Low-income countries (LICs)	23	1.01	6.58
Lower-middle income countries (LMICs)	23	2.94	19.12
Upper-middle-income countries (UMICs)	6	1.13	7.35
High-income countries (HICs)	2	0.04	0.23
IMF Lending Category			
PRGT	39	2.12	13.75
Non-PRGT	15	3.01	19.53
World Bank Lending Category			
IDA	34	1.76	11.44
Blend	6	0.88	5.69
IBRD	14	2.49	16.15

Source: IMF and authors' calculations.

Figure 1: Change in reserve following the SDR Allocation to African countries





Source: Authors' calculations based on the World Bank and IMF data.
Note: The baseline year is 2020, except for countries with an asterisk for which only 2019 data were available.

In this context, the plan endorsed last June by the G7 to reallocate $100 billion of new SDRs to low-income countries (LICs), small island developing states and the most vulnerable middle-income countries could be a welcome opportunity to mobilize additional financing to meet the urgent needs of African countries. If implemented, this plan which was reaffirmed by G20 Leaders at the recent meeting in Rome will materialize the global ambition by the international community of mobilizing $100 billion of voluntary SDR contributions for countries most in need.

But successful implementation of the G7 plan in Africa will require effectively addressing a variety of key issues related notably to the optimal allocation of recycled SDRs and the design of programs that could be financed from these assets.

The paper is structured as follows. The next section outlines the main issues raised by SDR reallocations for Africa. The third section explores the pros and cons of SDR recycling options involving not only the IMF but also prescribed and non-prescribed SDR holders. In addition, it examines potential rechanneling mechanisms in a thorough manner, including those not involving on-lending. In the fourth section, design and implementation issues triggered by SDR rechanneling are discussed in a thorough manner. The final section concludes.

1. Key Issues Raised by SDR Reallocations for Africa

SDR reallocations raise several key issues that need to be addressed to optimize its benefits for vulnerable countries in Africa.

1.1. Vulnerabilities and Needs

A first issue to be addressed relates to the types of vulnerabilities and priority needs currently facing Africa that could be addressed with recycled SDRs. Clearly, responding to the COVID-19 crisis is a key priority for most countries in the continent. Since the onset of the pandemic African policymakers have continued to take major steps to improve access to vaccines, relying on supplies from bilateral partners and multilateral initiatives such as COVAX and the African Vaccine Acquisition Trust (AVAT).[4] At the same time, some countries initiated efforts to strengthen local manufacturing and distribution capacities, including South Africa, Rwanda, and Senegal. Forty-eight SSA governments are expected to require at least $12.5 billion to vaccinate 70% of their population, defined globally as the minimum coverage to achieve herd immunity.[5]

Besides pandemic management, many governments are faced with various additional priority needs which predated the COVID-19 crisis and will likely remain pressing even after the latter is resolved. These include:

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[4] COVAX is co-led by the Coalition for Epidemic Preparedness Innovations (CEPI), Gavi and the World Health Organization (WHO), with UNICEF acting as a key delivery partner. AVAT was established in November 2020 by the African COVID-19 Vaccine Acquisition Task Team as part of the African Union's COVID-19 Vaccine Development and Access Strategy, and its goal of vaccinating at least 60 percent of the African population with safe and efficacious vaccines against COVID-19.

[5] Jison Yoo, Katelyn; Nataliya De Francisco Serpa and Amparo Gordillo-Tobar. Calculating Sub-Saharan Africa's COVID vaccination financing gap. World Bank Blog dated May 11, 2021 available at: https://blogs.worldbank.org/health/calculating-sub-saharan-africas-covid-vaccination-financing-gap

- *Boosting infrastructure investments*. The African Development Bank (AfDB) estimated Africa's infrastructure financing gap to be in the range of $68-$108 billion a year.
- *Strengthening social safety nets, including cash transfers for the most vulnerable segments of the population*. Drawing on a sample of 27 countries, UNICEF points out that coverage of cash transfers announced in response to COVID would expand coverage by 8%, on average, from 6.5% to 14.4%. This suggests that planned temporary expansions could boost the coverage of cash programs to 11% of the population in select LICs, on average, and to 18% in select LMICs.[6]
- *Addressing debt vulnerabilities, notably by reducing borrowing costs and averting potential liquidity and solvency crises facing a growing number of African countries*.
- *Supporting adaptation and mitigation efforts*. At the recent COP26 summit held in Glasgow, the African Group of Negotiators on Climate Change called for $1.3 trillion annual climate finance to be mobilized by the international community for the continent from 2025.[7]

1.2. Design and implementation schemes

Another important issue is to determine the way SDR reallocation should be designed and implemented to optimize its potential for helping meet Africa's priority development and governance needs, while fostering a quick, inclusive, and sustainable recovery for vulnerable countries.

African ministers of finance and economy recently called for the on-lending of 20-35 percent of recycled SDRs to support access to COVID-19 vaccines, boost IMF lending capacity, put in place UNECA's Liquidity and Sustainability Facility, and support lending by regional and multilateral development banks.[8] In September 2021, France committed to reallocate to Africa 20 percent of its share of the $650 billion SDR issuance. More recently at the Forum on China-Africa Cooperation (Focac) which took place in November 2021, China announced an action plan that included around US$40bn of commitments for the continent, including $10 billion in the form of SDRs equivalent to about a quarter of the country's initial allocations.

At its latest meeting held in the margin of the October 2021 IMF and World Bank annual meetings, the International Monetary Financial Committee (IMFC)—the IMF advisory body—expressed support for the IMF's efforts to explore options for voluntary channeling of SDRs to the benefit of low-income, small island developing states and vulnerable middle-income countries, notably through the PRGT and the forthcoming Resilience and Sustainability Trust (RST). G20 Leaders also voiced their support for these efforts. They welcomed the IMF's efforts to scale up its

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[6] Cummins, Matthew. Cash Transfers: A Lifeline for Children and Economies in Sub-Saharan Africa in 2021. UNICEF Eastern And Southern Africa Regional Office Social Policy Working Paper, January 2021 at chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/viewer.html?pdfurl=https%3A%2F%2Fwww.unicef.org%2Fesa%2Fmedia%2F7871%2Ffile%2FCash-Transfers-Lifeline-for-Children-Economies-SSA-2021.pdf&clen=2400907&chunk=true

[7] https://www.bloomberg.com/news/articles/2021-11-04/africa-wants-climate-finance-boost-as-rich-nations-miss-target?sref=C2Y9J5cW

[8] Statement by African Ministers of Finance and Economy on the IMF: https://allafrica.com/stories/202110010999.html

concessional lending capacity under the Poverty Reduction and Growth Trust (PRGT) and urged the institution to rapidly set up the new Resilience and Sustainability Trust (RST).[9]

Size and scope

A critical question is whether the targeted size of voluntary contributions is consistent with the magnitude of the potential needs of vulnerable countries. Ahead of the October 2021 annual meetings, IMF management estimated a need for additional funding to scale up the PRGT, including loan resources in the range of $28-$50 billion and a grant support of about 2.2 billion.[10] At the same time, research from the Center for Global Development (CGD) estimates that at least $50 billion should be mobilized from the SDR allocation to fund the establishment of a Global Resilience Trust at the IMF.[11]

The pledged $100 billion will be fully used up within the IMF to replenish the PRGT and establish the proposed RST. This means a larger recycling of SDRs will be required if allocations are to be made through the instruments of other prescribed SDR holders, let alone non-prescribed holders. However, G20 and especially G7 countries who will be in the lead in recycling SDRs would need to be convinced that they need to do more. Unless very strong arguments can be mobilized for going beyond $ 100 billion of SDR recycling, the policymakers that will need to decide on increasing allocations are likely to take a wait-and-see attitude.

The most effective way of making the case for additional SDR recycling will be for the available $100 billion to be both rapidly used and to produce unambiguous positive results. In addition, any institutions that would like to benefit from SDR recycling will also need to demonstrate that their programs have visible positive impact which can be magnified with more financing.

1.3. Reallocation mechanisms

There is merit in identifying SDR reallocation mechanisms that could be more effective, while taking into account donors' desire to preserve the reserve asset characteristics of the SDRs to be recycled. This raises several questions. Should recycled SDRs be only on-lent? Is there any realistic and sustainable way part of these resources might be donated given the interest payments arising from the use of SDRs? These questions are addressed below.

2. Pros and Cons of SDR Recycling Options

At first glance, countries with strong reserve positions that do not need the new SDR allocation could donate their SDRs to support countries in need. For reasons that are explained in several

[9] See G20 Rome Leaders' Declaration: https://www.g20.org/wp-content/uploads/2021/10/G20-ROME-LEADERS-DECLARATION.pdf

[10] https://www.brettonwoodsproject.org/2021/10/making-the-most-of-special-drawing-rights-approaches-to-maximise-impact-and-create-a-sustainable-and-just-recovery/

[11] See John Hicklin (2021): Taking the Lead: Rechanneling SDRs to Create and Leverage a New Global Resilience Trust at the IMF. https://cgdev.org/publication/taking-lead-rechanneling-sdrs-create-and-leverage-new-global-resilience-trust-imf. The IMF has been tasked to do this by the G20 and G7 under the name Resilience and Sustainability Trust (RST).

CGD papers, the nature of the SDR makes donations complicated and subject to political approval that may take time or be difficult to secure.[12] This is why past recycling of SDRs to support LICs has taken the form of loans.

Governments with the political will and capital to donate their excess SDRs should be applauded. However, chances for such donations to take place as part of a multilateral initiative are limited given the insistence of potential donors to preserve the reserve asset characteristics of the SDRs. As there will be few—if any—such cases, we will assume in this paper that recycling takes the form of loans of SDRs, whether for vehicles within or outside the IMF.

Moreover, since speed is of the essence in a crisis, our paper focus on proposals that can be quickly implemented. This means not only assuming that loans will be the vehicle chosen but also recycling will primarily go, at least initially, to existing vehicles, perhaps with some tweaks. At the same time, new vehicles may be required where the current arrangements do not cover vulnerable middle-income countries and small island developing states that are not LICs.

In this section, we look at vehicles which would be most effective in using recycled SDRs to meet the critical needs of African countries. More specifically, we explore how recycled SDRs could be channeled through potential on-lending mechanisms involving the IMF, prescribed and non-prescribed holders. While the odds of securing multilateral SDR donations are low, this section also explores vehicles not relying on SDR on-lending mechanisms.

2.1. IMF vehicles

2.1.1. On-lending to IMF Poverty Reduction and Growth Facility (PRGT)

The easiest and fastest way to provide support to African LICs would be for countries with excess SDRs to collectively on-lend part of their holdings to the Poverty Reduction and Growth Facility (PRGT). The IMF projects that lending commitments under the PRGT will reach SDR 21 billion but demand could peak at over SDR 30 billion in a worst-case scenario. To ensure that the Fund can meet this demand, the members of the IMF with plentiful reserves will need to provide SDR 12.6 billion as loans.[13]

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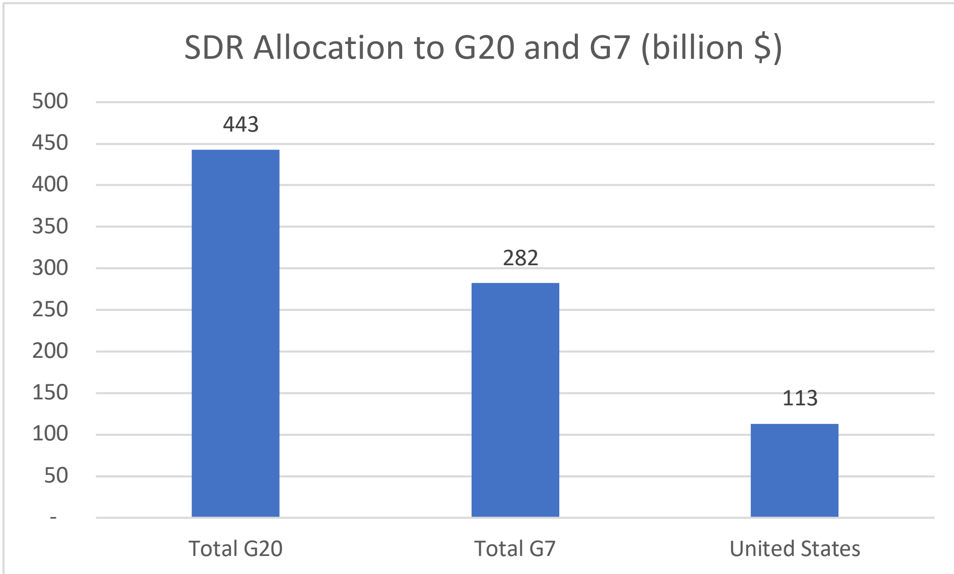
[12] For example, Andrews, David, Hicklin John and Plant, Mark. Three Ways New SDRs Can Support the IMF's Lending to Low-income Countries. Center for Global Development, April 29, 2021

[13] Factsheet: Fund concessional support for low-income countries—responding to the pandemic, July 2021 at https://www.imf.org/-/media/Files/Topics/LICs/prgt-reforms-factsheet-july-2021.ashx

Figure 2: SDR allocation to G20 and G7 countries



To sustain the PRGT over the medium term and support a "green" recovery and build resilience, additional resources of around $28–50 billion are needed according to Pazarbasioglu and Ramakrishnan (2021).[14][15] These sums would amount to half the pledges to recycle $100 billion and less than one fifth of SDRs allocated to G7 countries and slightly more than one-tenth of allocations to G20 countries.

So as a first and quick step G7 and G20 members could be pressed to lend an additional portion of their new SDRs to replenish the firepower of the PRGT. This would allow for rapid response to the needs of African LICs whilst leaving a significant amount of SDRs to be deployed to other facilities in the IMF and/or to other prescribed holders.

A simple way to ensure adequate burden sharing would be for G20 countries to contribute to SDR reallocation according to their IMF quota (which is also the same as the share of the $650 billion received). If not all members with unused SDRs participate, the same burden sharing according to quota could be applied to any subset of countries willing to lend their newly allocated SDRs.

Keeping PRGT lending at zero interest will require SDR 2.8 billion in subsidies.[16] The IMF can mobilize SDR 0.5 billion from its resources. The rest could come from budgetary grants, donation of remuneration on SDR holdings, foregoing some or all remuneration on SDRs lent to the PRGT[17]

[14] See Ceyla Pazarbasioglu and Uma Ramakrishnan (2021): Sharing the Recovery: SDR Channeling and a New Trust

[15] This effort has already begun. At the time of the IMF-World Bank Annual Meetings held last October, IMF management indicated that about $15 billion were already transferred from existing resources to the scale-up of the PRGT. https://www.brettonwoodsproject.org/2021/10/making-the-most-of-special-drawing-rights-approaches-to-maximise-impact-and-create-a-sustainable-and-just-recovery/

[16] Factsheet: Fund concessional support for low-income countries—responding to the pandemic, July 2021 at https://www.imf.org/-/media/Files/Topics/LICs/prgt-reforms-factsheet-july-2021.ashx

[17] The UK has capped the interest it will receive at 0.005 percent. See Poverty Reduction and Growth Trust 2020-21 borrowing agreements with the Government of Canada as represented by the Minister of Finance and the People's Bank of China, IMF Staff report, July 2021

and/or make deposits to a new Deposit and Investment Account. The funds in the Deposit and Investment Account would be invested and returns above the remuneration to depositors would subsidize the PRGT. If warranted by long-term PRGT subsidy needs, the IMF should also consider gold sales.

Andrews (2021) suggests that the United Kingdom and possibly other countries could use their SDR allocations to facilitate a donation at no budgetary cost without donating the SDRs.[18] Depending on the rules in each country, this could be achieved by substituting SDRs for hard currency reserves.

The IMF has the tools and the means to provide rapid and low-cost support to LICs. The PRGT provides loans with no interest. Moreover, the IMF enables LICs in a stronger economic position to blend resources from the PRGT (its concessional window) and its General Resources Account (GRA) which is the normal non-concessional lending window. At end June 2021, 53 of 69 eligible LICs had received IMF financial assistance in support of their response to the COVID-19 pandemic with SDR 10 billion disbursed with no interest.[19] Moreover, 29 LICs received debt service relief totaling SDR 520 million for the period April 2020 to October 2021. Annex Table 1 shows assistance to all Sub-Saharan countries (not just LICs), totaling SDR 19.4 billion. The lending to Sub-Saharan Africa in 2020 was 13 times more than the annual average over the previous decade.[20]

Emergency support was provided through the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI). The Fund can support post-COVID recovery through the Extended Credit Facility (ECF) which provides multi-year funding to promote sustainable and inclusive growth.

Recent reforms should facilitate the access of LICs, notably the increase in access limits by 45 percent and the extension of the zero-interest rate policy.

2.1.2. On-lending to IMF Resilience and Sustainability Trust (RST)

In their Rome declaration, the G20 Leaders called "on the IMF to establish a new Resilience and Sustainability Trust (RST)—in line with its mandate—to provide affordable long-term financing to help low-income countries, including in the African continent, small island developing states, and vulnerable middle-income countries to reduce risks to prospective balance of payments stability, including those stemming from pandemics and climate change." At the same time, they advocated for the new RST to preserve the reserve asset characteristics of the SDRs channeled through it.

In the interest of speed and given the consensus in the G20, African countries would benefit from a rapid setting up of the RST especially since potential donors' stated desire to preserve the reserve asset characteristics of the SDRs implies a preference for SDR on-lending over donations. Compared to the PRGT, the RST expands coverage to vulnerable middle-income countries and

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[18] Andrews, David (2021). Can Special Drawing Rights Be Recycled to Where They Are Needed at No Budgetary Cost? Center for Global Development, April 21, 2021

[19] See Factsheet: Fund concessional support for low-income countries—responding to the pandemic, July 2021 at https://www.imf.org/-/media/Files/Topics/LICs/prgt-reforms-factsheet-july-2021.ashx

[20] The IMF's response to COVID-19, April 8, 2021 at https://www.imf.org/en/About/FAQ/imf-response-to-covid-19

small island developing states. This suggests that zero interest lending may be difficult to achieve as donors are more willing to subsidize LICs than countries with higher income even if they are vulnerable. Moreover, it will make more sense having the RST quickly provide additional liquidity than delaying its operations until grants are mobilized to subsidize interest payments. In the current low interest environment with the SDR interest rate at 0.05 percent, the cost of access to RST funding is much less important than access to liquidity. Critically, the RST could offer more medium-term support to build resilience to natural disasters as well as pandemics and other shocks.

The OECD sets out the parameters for an effective RST: "The establishment of the RST through a rechanneling of the recent SDR allocation is of critical importance. To play a key role in global climate action, the RST will need to be scaled up over time through additional SDR issuances and rechanneling efforts, with replenishment and expansion through hard currency contributions. The scale of the RST needs to be proportionate to the response required by the climate crisis and the development needs of the membership. The IMF can't make the global climate crisis adapt to its instrumentation, it must adapt its instrumentation to address the climate crisis and development goals. An ambitious and well-designed RST could do just that."[21]

In this light, we propose the following innovative approach. The RST could be more effective if access required a resilience and mitigation strategy that is produced by the government in consultation with civil society and adopted by the national parliament. The World Bank and the IMF could provide technical assistance and capacity building to ensure that the country strategy is robust, realistic and fits within the macro-framework. As part of Article IV consultations or an IMF-supported program, the IMF would carve out the fiscal space available for a multi-year resilience and mitigation program. Within this fiscal space the Government would work with Civil Society to propose specific interventions supported by appropriate reforms. To strengthen the impact and ownership of RST-supported programs, part of the resources required to build resilience could be mobilized by the country through domestic mobilization efforts such as tax measures, particularly green taxes, and/or a reorientation of spending, with emphasis on eliminating carbon related subsidies.[22] The balance would come from the RST, World Bank financing, and other development partner support.

The IMF would monitor adherence to the macro-framework with emphasis on the resource mobilization commitments by the country. This could be done without new conditionality or requiring an IMF supported program as part of Article IV consultations or existing program reviews. The World Bank would take up key interventions in the strategy as part of its project portfolio. Bank-financed projects could benefit from parallel financing by other development partners. The Country Resilience and Mitigation Strategy would not formally be endorsed by the Boards of either the Fund or the World Bank. The staff would, however, offer their assessment in relevant documents to the Executive Boards of these two institutions (Article IV or program review in the Fund and Country Partnership Framework (CPF) and project documents in the case of the

[21] Making Special Drawing Rights work for climate action and development by Members of the Task Force on Climate, Development, and the International Monetary Fund. October 7, 2021 at https://oecd-development-matters.org/2021/10/07/making-special-drawing-rights-work-for-climate-action-and-development/

[22] According to Nature, fossil fuels are still being subsidized, receiving some $554 billion per year between 2017 and 2019, by one estimate. See https://www.nature.com/articles/d41586-021-02846-3

World Bank). This is a similar approach to how the IMF and World Bank treat national development plans.

Access to the RST would only depend on adherence to the macro-framework, particularly carving out the agreed fiscal space from tax and spending measures. The amount of disbursement would be related to the funding required for World Bank financed projects. In line with the catalytic nature of IMF support, the RST would finance for each project the same contribution as the Government. The World Bank would work with the African Development Bank and other development partners to mobilize parallel funding for the projects it sponsors.

The above approach avoids excessive conditionality related to building resilience, promotes ownership by Government and Civil Society and provides an incentive for vulnerable states to rethink their tax and expenditure policies. It also offers a practical way for World Bank expertise to turn ideas into implementable projects and offers a framework for the IMF and World Bank financing to be catalytic and promote parallel financing by other development partners. Incidentally, this is also a way to recycle SDRs to the World Bank and African Development Bank without the complications of a formal legal transfer. The two Banks would benefit from SDR recycling because the RST would provide financing towards the projects they support.

Given that the RST would be available to a larger list of countries than the PRGT and that it will support reform over the medium term, it will need significant resources. According to the UN Environment Program (UNEP) in its Adaptation Gap Report 2020, developing countries already need $70 billion per year to cover adaptation costs, and will need $140 billion-$300 billion in 2030.[23] This is why it is important to be ambitious in setting up the RST. If the RST catalyzes government action, civil society support and development partner financing to successfully build resilience and promote adaptation, further recycling of SDRs to the RST should be a high priority once the initial allocation is taken up.

An IMF staff paper forecast demand of $30 billion to $50 billion for the new trust over 10 years, assuming income-based eligibility for all 69 countries eligible for the PRGT, 15 small developing states and 55 middle-income countries.[24] If US$ 50 billion of SDRs are recycled as loans to the RST and the RST is catalytic (governments eligible for RST support make the same contribution as the RST and development partners double this), this would provide US$ 200 billion towards building resilience. The government contribution would come from fiscal space created by introducing green taxes and eliminating fossil fuel subsidies as well as broader tax reform and more efficient public spending.

If take-up is strong, the IMF can more easily invite members with strong external positions to recycle more of their unused SDRs (beyond the initial $100 billion) to support the RST.

[23] https://www.unep.org/resources/adaptation-gap-report-2020

[24] Reuters October 14, 2021. G20 backs IMF chief's new trust to reach broader range of countries in need. https://www.reuters.com/business/imf-chief-expects-members-reach-100-bln-target-shifting-reserves-vulnerable-2021-10-13/

2.2. Vehicles of prescribed holders, including the World Bank and AfDB

Currently there are 15 prescribed holders: 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 and the International Development Association, Islamic Development Bank, Nordic Investment Bank, and International Fund for Agricultural Development).[25]

In principle some of the newly allocated SDRs could be recycled to any of these institutions. As noted by Andrews and Plant (2021), rechanneling SDRs to prescribed holders could be relatively easy compared to other institutions that need an 85 percent approval by the IMF's Executive Board to achieve a similar status. Such a move would not require converting SDRs to hard currency. It is ultimately a political decision and once secured overcoming the technical challenges would be relatively straightforward.

While donations of SDRs would practically be excluded given the G20s and G7s decisions that SDRs need to preserve their characteristic as reserve currencies, it is still possible for SDRs to be loaned to prescribed holders using a similar approach to the PRGT within the IMF. [26]

In fighting COVID or climate change, there is no obvious benefit to recycle SDRs to the central banks and intergovernmental monetary institutions that are prescribed holders. Loaned SDRs could be used to increase the lending capacity of the financial institutions that are prescribed holders. However, since this process is complicated relative to using within the IMF, there would need to be a strong imperative.

Nevertheless, should member governments of these financial institutions be willing to spend political capital to augment their lending capacity using SDRs, one option would be to substitute their foreign exchange reserves with the new SDRs and use the "liberated" foreign exchange to either provide capital or subsidize lending operations.

2.2.1. On-lending or capital injection to the World bank

On behalf of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development[27], Ali Salehabadi, Governor of the Central Bank of the Islamic Republic of Iran, stated that "The World Bank Group (WBG) can scale up their operational and lending capacity to

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[25] Questions and answers on special drawing rights (SDRs). August 23, 2021 at https://www.imf.org/en/About/FAQ/special-drawing-right

[26] As explained earlier, donations result in a liability by the donating country since interest on allocations can no longer be offset by interest earned on holdings. Moreover, donating SDRs mean they are no longer part of the donating country's reserves which violates the principles set out by the G20 and G7 for recycling.

[27] https://www.imf.org/en/News/Articles/2021/10/11/communique-intergovernmental-group-of-twenty-four-on-international-monetary-affairs-and-development

support developing countries' Nationally Determined Contributions under the Paris Agreement, and enhance sustainable, resilient, and inclusive development." He also urged "The WBG and other MDBs should use the strength of their balance sheets, to the fullest extent possible while maintaining financial sustainability and credit ratings, to scale up lending over the medium- and long-term in order to meet the exceptional financing needs in low- and middle-income countries, including FCS and small states. We welcome the WBG's scaled-up COVID-19 response and proposed financing for the Green, Resilient and Inclusive Development (GRID) approach. We call for an ambitious IDA20 Replenishment to support a strong recovery in low-income countries as well as to strengthen assistance to fragile and conflict-affected states, small states and countries experiencing unprecedented migration flows, forced displacement and refugee challenges. We urge the WBG to increasingly adopt innovative solutions—such as de-risking instruments and blended finance—to leverage more private financing, especially for sustainable infrastructure investments. The 2018 IBRD-IFC Capital Package did not anticipate the enormous financing needs of middle-income countries, which have been hit hard by the pandemic crisis. We ask the WBG to develop a medium-term strategy of engagement with middle-income countries, considering their evolving landscape and circumstances."

It is noteworthy that the G24 did not call for either a capital increase for the WBG or for the recycling of SDRs to augment the lending capacity of the World Bank. This adds to the widely shared belief that the WBG may have adequate resources at this time in view of its recent capital increase and IDA replenishment. In April 2018 the WBG shareholders endorsed an increase of $7.5 billion in paid-in capital for IBRD and $5.5 billion in paid-in capital for IFC, through both general and selective capital increases, as well as a $52.6 billion callable capital increase for IBRD.[28] The boost in capital was supported by a broad range of internal measures including operational changes and effectiveness reforms, loan pricing measures, and other policy steps. These actions complement the strong commitment of contributors to IDA, the concessional arm of the WBG. In addition to the IDA18 replenishment, IDA was authorized to tap the capital market. Consequently, the combined financing arms of the WBG are expected to increase average annual capacity from $60 billion to nearly $100 billion between FY19 and FY30, benefiting all Bank Group members across the income spectrum.

In response to COVID-19, the WBG announced that it deployed over $157 billion to fight the pandemic's health, economic, and social impacts over the period April 1, 2020 – June 30, 2021.[29] As such, this was the largest crisis response of any such period in the WBG's history and represents an increase of more than 60% over the 15-month period prior to the pandemic. The WBG indicated that its commitments and mobilizations in fiscal year 2021 (July 1, 2020 – June 30, 2021) amounted to almost $110 billion (or $84 billion excluding mobilization, short-term financing, and recipient-executed trust funds).[30]

[28] World Bank press package April 21, 2018. World Bank Group Shareholders Endorse Transformative Capital Package at https://www.worldbank.org/en/news/press-release/2018/04/21/world-bank-group-shareholders-endorse-transformative-capital-package

[29] A distinction is required between commitments and disbursements. Duggan, Morris, Sandefur and Yang (2020) found that although World Bank lending accelerated in 2020, with new loan commitments up 118 percent year on year in the first seven months of 2020, actual disbursements were up only 31 percent.

[30] World Bank Press Release July 19, 2021. World Bank Group's $157 Billion Pandemic Surge Is Largest Crisis Response in Its History at https://www.worldbank.org/en/news/press-release/2021/07/19/world-bank-group-s-157-billion-pandemic-surge-is-largest-crisis-response-in-its-history

However, the WBG and other multilateral development banks may need additional funding down the road, notwithstanding capital increases. For instance, in view of growing constraints on donor contributions, the WBG will rely increasingly on market financing for IDA replenishment purposes. Recycled SDRs could help reduce this reliance. So, depending on demand in the eligible developing countries for projects that build resilience, there may be an eventual need for financing. If direct contributions are not politically feasible, there may be merit in considering rechanneling SDRs to the World Bank.

2.2.2. On-lending or capital injection to other MDBs and prescribed holders such as the AfDB

To combat the crisis, the African Development Bank (AfDB) has deployed a UA7.4 billion envelope ($10 billion) COVID-19 Rapid Response Facility (CRF) which provides flexible support for sovereign and non-sovereign operations including:

- $5.5 billion for sovereign operations in AfDB countries;
- $3.1 billion for sovereign and regional operations in ADF countries and
- $1.5 billion for non-sovereign operations (private sector) in all African countries.

These resources come from the ADF and ADB windows of the AfDB Group, special funds, unutilized ADF-14 resources, front loaded ADF-15 resources, and repurposed resources of cancellable loans.[31]

The AfDB has in principle the firepower to support its members' efforts to fight Covid because of a more than doubling of its capital from $93 billion to $298 billion in November 2019[32] and a successful African Development Fund-15 replenishment of $7.6 billion in December 2019, a 32 percent increase from ADF-14.[33] In the days before announcing its Covid Response Facility, the AfDB further enhanced its lending capability by launching a $3 billion social bond.[34]

Nevertheless, there have been some concerns that there was a very small share of paid-in capital on the part of a number of AfDB shareholders. So, this "firepower" is not readily available but needs to be leveraged from financial markets based on the callable capital increase. In this context, the AfDB would benefit from being on the receiving end of any potential rechanneling of SDRs to MDBs. However, it is broadly the same shareholders who want the Bank to rely more on market borrowing that will need to make potential decisions on on-lending SDRs to the Bank. Once the AfDB exhausts its firepower and has a track record of effective projects building resilience in

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[31] Afrika, Jean Guy. AfDB's COVID Response at chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/viewer.html?pdfurl=https%3A%2F%2Fwww.wto.org%2Fenglish%2Ftratop_e%2Fdevel_e%2Fa4t_e%2Fafdb_presentation_covid_response_facility_presentation_updated.pdf&clen=825878&chunk=true

[32] Egypt Today November 2, 2019. AfDB shareholders approve landmark $115 billion capital increase at https://www.egypttoday.com/Article/3/77396/AfDB-shareholders-approve-landmark-115-billion-capital-increase

[33] ADF-15 replenishment: Donors commit $7.6 billion, a 32% boost from last replenishment, in support of Africa's low-income, fragile, countries at https://www.afdb.org/en/news-and-events/press-releases/adf-15-replenishment-donors-commit-76-billion-32-boost-last-replenishment-support-africas-low-income-fragile-countries-33074

[34] 'Saving lives and livelihoods' – reflecting on one year of the African Development Bank's Covid-19 Response Facility at https://www.afdb.org/en/news-and-events/saving-lives-and-livelihoods-reflecting-one-year-african-development-banks-covid-19-response-facility-43214

Africa, it could get a sympathetic hearing to receive unused SDRs. In the short run, the best way for this institution to make a claim for SDRs is to use its current capacity to put in place projects that have a high impact in fighting Covid and climate change.

In this connection, by April 1st, 2021, the AfDB approved a total of $4.1 billion for all operations under the Covid-19 Response Facility and disbursed a total of $3.7 billion (90% overall disbursement). Funding was also provided to the World Health Organization, which received $2 million in emergency assistance to reinforce its capacity to help African countries contain the pandemic and mitigate its impacts.

2.3. Vehicles involving non-prescribed SDR holders

SDRs can only be held by prescribed holders. For other institutions to have this privilege, either they would need to be prescribed by the IMF or the latter would need to change its rules. Both would require a vote by countries holding 85 percent of quota and the support of the United States is essential to reach this threshold.

The G7 and G20 have indicated that they want recycled SDRs to keep their reserve asset characteristics and at this stage there seems to be no clear compelling arguments that could convince them to change their views. On-lending SDRs to regional development banks such as the West African Development Bank (BOAD) and the South African Development Bank (SADB) is more complicated than getting their shareholders to increase their capital. Moreover, the World Bank and AfDB are better placed to provide the combination of financing, technical assistance/capacity building and strengthening of institutions that will be required to combat climate change, future pandemics and unforeseen shocks.

However, if regional development banks can secure political support for making them prescribed holders, they can benefit from recycled SDRs along the same lines as MDBs. An alternative would be for these regional institutions to work on co-financing schemes with the WBG or AfDB using SDRs on-lent to these MDBs. Here again, this would be an indirect way of recycling SDRs without confronting the legal difficulties inherent in an explicit transfer. Another avenue in the case of BOAD could consist in rechanneling SDR funds through the BCEAO which is one of its shareholders and a prescribed SDR holder. However, regional development banks would need to convince the G7 (and perhaps the G20) that their interventions are either as effective as—or complementary to—those of the MDBs.

2.3.1. Afreximbank and the Africa Finance Corporation

The case for Afreximbank and the Africa Finance Corporation (AFC) to benefit from recycled SDRs appears to be even weaker. In addition to the challenge of gaining the status of prescribed holders, each institution may face specific obstacles to attract such assets. AFC is majority private sector owned which raises political as well as practical issues for it to benefit from subsidies or grants. There is no imperative to provide concessional financing to AFC instead of the many other private sector entities operating in Africa.

In the case of Afreximbank, its mission is to provide trade finance whereas the SDR allocations are intended in the first instance to respond to Covid and in the medium term to support African economies to be more resilient. To be included in the list of regional institutions through which SDRs could be rechanneled, this pan-African bank would need to demonstrate how its operations could help make progress toward these goals.

2.3.2. The Liquidity and Sustainability Facility (LSF)

In March 2020, the United Nations Economic Commission for Africa (UNECA) set up in partnership with PIMCO the Liquidity and Sustainability Facility (LSF) with the objective of making the sovereign African bond market more liquid and reduce borrowing costs for African sovereigns.[35] UNECA advocated for up to $30 billion of SDRs to be used to fund the LSF.

Gabor and Simeoni[36] point out that one critical stumbling block facing the LSF relates to the fact that there was limited political appetite from OECD central banks to provide the $50-100bn in senior lending to the facility. They also argue that the macro-financial risks remain under appreciated, notably the cyclical liquidity for African sovereign issuers of collateral, perverse incentives for African countries to prioritize foreign currency debt (Eurobonds), and institutional conflicts between the commercial managers of the LSF and national central banks.[37]

The recycling of SDRs requires the same comfort from key policymakers in the G7 and G20 as direct support from their own aid budget. Just because countries have SDRs they do not immediately need does not mean that they will be willing to lend or donate these assets whilst being unwilling to use their aid budgets. Even abstracting from the problems highlighted by Gabor and Simeoni, the same reluctance to fund the LSF make loans of SDRs unlikely. This reluctance will be further compounded by the need to designate the LSF as a prescribed holder of SDRs. This designation may have unintended consequences and the G7 and G20 would be wary of designating new holders in the absence of a strong case.

If the enthusiasm of African Governments for the LSF is genuine and not based on others paying for it, they can either invest part of their own allocation or explore ways to mobilize alternative funding other than SDRs. This should allow the LSF to demonstrate its value added. If the benefits of the LSF offset the counter arguments, it will then be easier to make a case to the G7 that they should consider recycling unused SDRs in support. If all Sub-Saharan Governments invested 5 percent of their SDR allocation this would give $1.7 billion to jump start the LSF. Capitalization of the LSF by African countries should allow its benefits to be checked out and if these are significant, a case could be made for using a second round of SDR recycling to match what African countries contributed.

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[35] UN ECA. March 23, 2021. ECA launches LSF, a vehicle for debt management and fiscal sustainability at https://www.uneca.org/stories/eca-launches-lsf%2C-a-vehicle-for-debt-management-and-fi scal-sustainability

[36] Gabor, Daniela and Crystal Simeoni. Time to tap SDRs to boost African bond liquidity? Financial Times, March 12, 2021 at https://www.ft.com/content/d1751724-e66b-4b00-96f1-6b13e7257e78

[37] Gabor and Simeoni argue that the LSF threatens to create cyclical improvements in liquidity by increasing the costs of repo funding the sovereign bonds. In their views, the LSF risks increasing African countries' vulnerability to foreign currency debt, while its haircut changes may undermine monetary policy autonomy in African countries and create conflicts of interest for the private administrators. According to these authors, this means the LSF could perversely shrink fiscal space and poor countries' capacity to rebuild after the COVID19 pandemic."

2.4. Vehicles not relying on on-lending mechanisms

Countries pay interest on their cumulative SDR allocations and earn interest on their holdings of SDRs. If they donate SDRs, they no longer receive interest on the donated SDRs but are still liable to pay forever the interest for the allocation. Mobilizing the funds to pay the interest may raise accounting and financial issues and parliamentary approval. This is why countries have favored lending their unused SDRs rather than donating them. As previously noted, the G20 and G7 have mandated that recycling of SDRs respect its reserve characteristics, making donations more unlikely. At this juncture, it is also noteworthy that the benefit of a donation is low relative to a loan of SDRs since interest on SDRs is relatively low (currently 0.05 percent).

Under these circumstances the time and effort needed to secure donated SDRs may prove costly given the urgent need for support for African LICs, Small Island Developing States and vulnerable middle-income countries. However, while any multilateral initiative is likely to rely on recourse to SDR on-lending mechanisms, African countries could explore the possibility of securing potential SDR donations from their bilateral partners. To incentivize such donations, it might be for instance useful to consider burden-sharing mechanisms through which recipient countries could bear interest charges on donated SDRs.[38]

Alternatively, SDRs from countries with strong reserve positions could be transferred to African countries to help meet their priority needs. In return, each recipient country would consent to pay in perpetuity interest on the amount of recycled SDRs it is granted. Such a scheme would allow significant levels of recycled SDRs to be made available at very low interest rates to vulnerable countries and at no cost for donating countries. If implemented, it could help recycle up to about 280 billion from G7 countries and about 440 billion from G20 countries at a 0.05 percent interest rate which is the current SDR rate. Senior African government officials expressed their strong interest in contracting perpetual loans backed by recycled SDRs which compare very favorably with alternative funding sources available to their countries.

3. Design and implementation issues

This section further elaborates on design and implementation issues that were previously discussed as part of the review of options. As previously noted, key challenges facing African countries include:

- the immediate and urgent need to access and distribute vaccines;
- the more medium-term need to build up systems resilient to future shocks including climate change and pandemics;
- the continuous need to close infrastructure gaps, address debt vulnerabilities, and beef up social protection, including safety nets and cash transfers for the most vulnerable segments of the population. In this connection, the Covid-19 pandemic has further exacerbated pressures for African governments to strengthen social protection systems and meet social demands for decent living standards.

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[38] See Sembene (2021).

To address these challenges building on SDR reallocations, a comprehensive action plan needs to be implemented in the short to longer term.

In the immediate term:

The urgency is to respond to the COVID-19 crisis. But first-best solutions to overcome the crisis and build resilience may take more time to become a reality since they require consensus at a high level (85 percent of the IMF quota). For instance, pursuing prescription of new holders is likely to be a protracted endeavor that may not have immediate payoffs unless the benefits are not only huge but also seen to be very important to a large majority of the G20 and all the G7. Given the very low interest rate on SDRs and given the mandate for SDR recycling to respect the nature of the SDR as a reserve asset, the immediate priority should be to focus on SDR on-lending schemes rather than donations.

In the current context, it may therefore be more practical to focus on solutions where consensus is clear rather than pressing for an approach that may be superior but unlikely to generate consensus. This implies that the development community should for now focus on an approach endorsed by potential donors from the G7 and G20 and only press for going outside this framework if the benefits of alternatives are much greater than working within the currently set parameters. This leaves the focus on what the IMF can do with recycled borrowed SDRs.

The key option in the immediate term which is strongly supported by potential contributors is to strengthen the lending capacity of the PRGT. To optimize the ultimate impact of the increase in the PRGT firepower, African governments and CSOs should join forces with their partners to ensure that the design of PRGT facilities and access to concessional resources are tailored to the current and prospective crisis-response and recovery needs of countries across the continent.

The IMF should aim to at least maintain its PRGT commitments and disbursements at the level reached since 2020. High access to these concessional resources must be facilitated to help LICs respond to the pandemic crisis, while advancing their reform programs aimed at supporting vulnerable households and businesses and addressing spending needs in priority sectors, including education, health, and infrastructure.

Encouragingly, the IMF has shown itself to be more agile and innovative at the onset of the pandemic.[39] The relaxation of access rules and beefing up the PRGT will go a long way to help the most vulnerable African countries secure immediate assistance. Moreover, the IMF can play a catalytic role in mobilizing the World Bank, African Development Bank and other development partners to not only provide financing but to build capacity. So, the first priority is to recycle SDRs to give the PRGT the fire power it needs (as discussed above).

With IMF support, African governments will need to take necessary steps to make inroads toward their social and economic development objectives. Progress toward more social equity will require forcefully addressing governance weaknesses. For instance, Human Rights Watch (HRW) points out that corruption may hinder the effectiveness of cash transfer and food assistance programs

[39] The IMF's response to COVID-19, April 8, 2021 at https://www.imf.org/en/About/FAQ/imf-response-to-covid-19

introduced by many governments from Africa and other regions at the onset of the pandemic crisis to close gaps in social protection coverage.[40] According to HRW, the programs introduced or expanded in Ghana, Kenya, Nigeria, and Uganda reached only a fraction of vulnerable households, partly as a result of corrupt and clientelist practices by some local officials and politicians.

In the short to medium term:

In this time horizon, the biggest and fastest return will come from recycling SDRs to properly fund the Resilience and Sustainability Trust. The scale of the RST needs to be proportionate to the response required by the climate crisis and the development needs of the membership and we urge that whatever balance is left after funding the PRGT is recycled to the RST. In parallel it is important for the voice of Africa including civil society to be heard in the design of the RST.

For the RST to be most impactful, the IMF needs to collaborate with the World Bank and other regional MDBs, notably the African Development Bank in the case of Africa. The design and implementation of this facility must build on the expertise and comparative advantage of these institutions. Critically, collaboration between the IMF, the World Bank and AfDB in the context of the RST should aim to support African voices making themselves heard and building ownership of key, and often difficult, reforms. This would be essential to avoid excessive conditionality, promote ownership by Government and Civil Society, and provide an incentive for vulnerable states to rethink their tax and expenditure policies. Consequently, this approach will be faster and more effective than the experience with the PRGT and debt relief.

The RST needs to support the reforms that are needed to make African countries more climate and health resilient with more social equity and better governance. Neither the IMF nor the World Bank approve national development plans or Government Programs, although the staff and the Board do express their views and provide advice on how to best implement those parts that will contribute to social and economic development.

On their part, African governments and civil society need to press for a resilience program that is home grown (albeit with technical assistance and capacity building from the IMF, World Bank, African Development Bank and other partners). The resilience program should be the result of extensive internal consultation, build in safeguards against bad governance and be adopted by the parliament. The IMF will, as part of Article IVs or within IMF supported programs, carve out the fiscal space for implementation and the World Bank and African Development Bank will mobilize other development partners to take up specific projects with high return within the plan.

The approach outlined above will yield quicker results in the short run compared to the difficulties from trying to find ways to secure SDR donations or to recycle SDRs outside the IMF.

In the longer term (Beyond the $100 billion)

[40] Human Rights Watch. Africa: Covid-19 Aid Falling Short Rise in Poverty, Hunger Shows Need to Expand Social Protection, October 12, 2021 at https://www.hrw.org/news/2021/10/12/africa-covid-19-aid-falling-short

Since the resources needed for boosting the PRGT lending capacity and establishing the proposed RST could exhaust the pledged $100 billion of SDRs, a greater amount of recycled SDRs than currently pledged would need to be mobilized to allow other prescribed SDR holders to play a direct role in on-lending these resources.

Indeed, recycling additional SDRs beyond current G20 commitments as well as securing additional aid will be facilitated if the PRGT and RST successfully support efforts by African stakeholders to make necessary institutional changes and demonstrate the benefits of investing into African resilience with equity through successful projects and within a sound macroeconomic framework.

While making headway in this direction, African stakeholders and their partners should work to lay the foundations for transferring SDRs to other selected prescribed holders, including the World Bank and AfDB. Following recent replenishment of their concessional arms and capitalization, both the World Bank and African Development Bank seem to be adequately resourced to support the short-term operations, at least for now. But going forward these institutions will clearly need more funding, notably from recycled SDRs, to better support efforts by vulnerable African (and other developing countries) to build health and climate resilience and secure inclusive, sustainable and green post-COVID economic recovery. In particular, success on the latter front requires that these institutions be adequately resourced to facilitate effective implementation of the African Continental Free Trade Area (CFTA) and the African Union's productive transformation agenda.

At the same time, it will be of paramount importance for MDBs to apply the lessons drawn from past responses and recommendations of official institutions and civil society organizations. This means that the focus for the medium term should be on the RST rather than the PRGT since climate change is where the world will collectively have to focus. Moreover, to the extent that beneficiaries of the RST would be undertaking action with a large positive benefit to the global community, conditionality should be appropriately streamlined, with the emphasis put on (i) a sound macro-economic framework, as assessed by the IMF and (ii) sustainable investment in projects emerging from the National Resilience and Sustainability Plan or other relevant projects, with the assistance of the World Bank and AfDB. In parallel, these MDBs should ensure that the selected projects have wide Civil Society support in addition to Government co-financing from the budget.

Such a framework would set the stage for the full recycling of all unused SDRs from the recent SDR allocation. These resources would allow a quantum jump in the response to climate change by the most vulnerable countries on the planet, yet to the benefit of all countries.

4. Conclusion

In the medium term another recycling of the $650 billion SDRs will be helpful to support resilience to climate change and future shocks including pandemics in vulnerable countries, while enhancing prospects for strong, inclusive and sustainable growth. To build political support for such additional recycling, it is important to rapidly mobilize the committed $100 billion and ensure that this financing effectively helps address urgent financing needs in vulnerable African countries. In this regard, speed and effectiveness are of paramount importance at this juncture. It could be more practical and productive to build on a framework on which consensus is already strong in the G20 and especially the G7 (who will provide the bulk of the financing) than to press with possibly superior technical solutions that will take time to convince them.

This means that, firstly, up to $50 billion of the $100 billion should be used to fully fund the PRGT so it has the resources to finance low-income countries within the enhancements already adopted by the IMF. Secondly, the balance should be used to fully fund the proposed RST. Civil society organizations and African governments need to work together to ensure that the access rules to the RST allow rapid access and use and finance actions that demonstrate that additional financing makes a difference.

The World Bank, IMF and other development partners should provide capacity building and technical assistance to governments and civil society in vulnerable countries (LICs, SIDS and vulnerable MICs) so they can put together a Resilience and Sustainability Plan (RSP) that is adopted by parliament after extensive consultations to build national consensus.

The IMF and World Bank boards would provide their views on these national action plans as they do for national development plans but their endorsement would not be needed. Instead, as part of the formulation of the plan the IMF would agree with the government on the fiscal space available in each year of a given planning period that would be updated annually. Such fiscal space could be created by a combination of financing provided by IFIs and other development partners, rationalization of expenditure, and revenue mobilization, especially green taxes. The focus on eliminating fossil fuel subsidies where relevant.

Access to the RST would depend on remaining within the macro-framework agreed with the Fund as part of Article IVs or program reviews. The World Bank and the AfDB would turn the best proposals in the RSP into projects and development partners would be mobilized to parallel finance. The amount of funding from the RST would be dependent on the fiscal effort made by the country within its RSP and would be used within the national budget to provide counterpart funding for specific projects that the World Bank and African Development Bank lead.

The above approach would use the comparative advantage of civil society, governments, parliaments, IFIs and development partners, incentivizing them to come up with practical and implementable plans that benefit from strong domestic ownership and adequate financing. Once the results from the RST and the revamped PRGT can be demonstrated and the funds allocated used up, they could press for a second and more ambitious round of SDR recycling. As part of this reallocation, there would be a strong case for directly rechanneling SDRs to the World Bank and AfDB to enable them to expand their lending for resilience. Other institutions and special vehicles could also be allowed to access this funding with support from African governments. However, the key before we get there is to have the RST up and running as soon as possible and for vulnerable countries to demonstrate the difference that international funding can make.

Next steps

There is an urgent need for African governments and civil society along with their peers, including from G7 and G20 countries to work together to build consensus on the best way to use recycled SDRs for Africa. Firstly, making sure that the PRGT is rapidly and adequately funded is likely to be a key element of the consensus as this seems to be well underway.

Secondly, the RST needs to be up and running soon. But collective action may be crucial to ensure that this facility enables adequate access, is appropriately designed, promotes country ownership, and avoids the use of noncritical and excessive conditionality.

To support the proposals in this paper, a few countries can be taken as pilots for putting together a country owned Resilience and Sustainability Plan that can be implemented with financing from the RST, MDBs and other development partners. Local civil society will have a key role to ensure that resources go where required and corruption is minimized. International civil society organizations and development partners can provide technical support to ensure high quality and implementable proposals emerge.

With the support of government and local and international civil society organizations development partners could be requested to support the RSP for the pilot countries as a regional project that would be extended to other African Countries that express interest.

Annex 1: IMF COVID-19 Financial Assistance to Sub-Saharan Africa (April 2020 – September 2021)

	Type of emergency financing						Amount approved		Date of approval
	Concessional			Non-concessional					
Country	EFF	RFI	SBA	RCF	ECF	SCF	Million SDR	Million US$	
Angola	X						540.4	765.66 [3]	September 16, 2020
Benin		X		X	X		76.01 41.3 82.54	103.3 [3] 59.35 [3] 118.61 [3]	May 15, 2020 December 21, 2020 December 21, 2020
Burkina Faso				X			84.28	115.3 [3]	April 14, 2020
Cabo Verde				X			23.7	32 [3]	April 22, 2020
Cameroon	X			X X	X		165.6 110.4 483	226 [3] 156 [3] 689.5 [3]	May 4, 2020 October 21, 2020 July 29, 2021
Central African Republic				X			27.85	38 [3]	April 20, 2020
Chad				X X			49.07 84.12	68.49 [3] 115.1 [3]	July 22, 2020 April 14, 2020
Comoros, Union of the		X		X			2.97 5.93	4.05 [3] 8.08 [3]	April 22, 2020 April 22, 2020
Congo, Democratic Republic of the				X	X		266.5 1,066	363.27 [3] 1,520 [3]	April 22, 2020 July 15, 2021
Côte d'Ivoire			X	X			216.8 433.6	295.4 [3] 590.8 [3]	April 17, 2020
Equatorial Guinea, Republic of		X					47.25	67.38 [3]	September 15, 2021
Eswatini, Kingdom of		X					78.5	110.4 [3]	July 29, 2020

Ethiopia, The Federal Democratic Republic of		X					300.7	411 [3]	April 30, 2020
Gabon	X	X X					108 108 388.8	147 [3] 152 [3] 553.2 [3]	April 9, 2020 July 31, 2020 July 28, 2021
Gambia, The				X	X X		15.55 35 20	21.3 [3] 47.1 [3] 28.8 [3]	April 15, 2020 March 23, 2020 January 15, 2021
Ghana				X			738	1,000 [3]	April 13, 2020
Guinea				X			107.1	148 [3]	June 19, 2020
Guinea-Bissau				X			14.2	20.47 [3]	January 25, 2021
Kenya	X			X	X		542.8 407 1,248	739 [3] 577.26 [3] 1,770.09 [3]	May 6, 2020 April 2, 2021 April 2, 2021
Liberia				X			36.17	49.98 [3]	June 5, 2020
Lesotho		X		X			23.24 11.66	32.6 [3] 16.5 [3]	July 29, 2020 July 29, 2020
Madagascar, Republic of				X X	X		122.2 122.2 219.96	165.99 [3] 171.9 [3] 312.4 [3]	April 3, 2020 July 30, 2020 March 29, 2021
Mali				X			146.67	200.41 [3]	April 30, 2020
Malawi				X X			66.44 72.31	91 [3] 101.96 [3]	May 1, 2020

									October 2, 2020
Mozambique, Republic of				X			227.2	309 [3]	April 24, 2020
Namibia		X					191.1	270.83 [3]	March 31, 2021
Niger				X			83.66	114.49 [3]	April 14, 2020
Nigeria		X					2,454.5	3,400 [3]	April 28, 2020
Rwanda				X X			80.1 80.1	111.06 [3] 109.4 [3]	June 11, 2020 April 2, 2020
São Tomé and Príncipe, Democratic Republic of				X	X		9.03 1.48	12.29 [3] 2.08 [3]	April 21, 2020 July 27, 2020
Senegal		X	X	X		X	215.73 107.87 453	294.7 [3] 147.4 [3] 650 [3]	April 13, 2020 June 7, 2021
Seychelles	X	X					22.9 74	31.23 [3] 105.63 [3]	May 8, 2020 July 29, 2021
Sierra Leone				X X			103.7 35.26	143 [3] 50.37 [3]	June 3, 2020 March 15, 2021
South Africa		X					3,051.2	4,300 [3]	July 27, 2020
South Sudan					X X		36.9 123	52.3 [3] 174.2 [3]	November 11, 2020 March 30, 2021
Sudan					X		1,733.05	2,472.7 [3]	June 29, 2021
Tanzania		X		X			397.8	$567.25 [3]	September 7, 2021
Togo					X		71.49	97.1 [3]	April 3, 2020

Uganda				X	X		361 722	491.5 [3] 1,000 [3]	May 6, 2020 June 28, 2021
TOTAL AMOUNT APPROVED	Note: red crosses signify the augmentation of an existing emergency financing						19,375.89 million SDR	27,111.79 million US$	

Source: https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#AFR

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