SPECIAL DRAWING RIGHTS AND REALLOCATION FOR LOW INCOME COUNTRIES

BANQUE AFRICAINE DE DEVELOPPEMENT
AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND
FONDS AFRICAIN DE DEVELOPPEMENT

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

AFRICAN DEVELOPMENT BANK AND IMF SPECIAL DRAWING RIGHTS

The International Monetary Fund (IMF) approved a new general allocation of US$650 billion in new Special Drawing Rights (SDRs) to its members.

The initiative – which is the Fund's largest-ever allocation of monetary reserves – has provided significant resources to IMF member countries, in support of their efforts to combat the effects of the Covid-19 pandemic. The allocation significantly increased IMF member countries' foreign exchange reserves, reducing their reliance on more expensive domestic or external debt at a time of unprecedented pandemic-induced challenges.

Global leaders and other prominent voices have been encouraging advanced economies to channel some of their SDR allocation to developing countries, to allow them to structure a credible response to the challenges created by the pandemic, among others.

SDR ALLOCATION TO AFRICA

About $277 billion out of the new allocation of $650 billion will go to the G7 countries. African countries can expect to receive just $33 billion in total. The United States, Japan, China, and Germany have all individually received larger allocations than the whole of Africa.

The new SDR allocation is nonetheless expected to have important macroeconomic benefits for African countries. It is a unique instrument that supports all IMF members, boosts reserves, helps build confidence, and sends a powerful signal of a cooperative multilateral response to the Covid-19 crisis.

The provision of unconditional reserves will help African countries – most of which are currently liquidity-constrained – to address the fallout from the Covid-19 crisis. It will limit the need for adjustment through contractionary and/or distortionary policies, and it will allow greater scope for a countercyclical response. It will also provide scope for spending on African countries' crisis response, helping to protect the most vulnerable and avoiding significant and permanent economic output losses. Overall, the allocation is expected to foster systemic stability and economic resilience.

WHY ADVANCED ECONOMIES SHOULD CHANNEL SDRs TO THE AFRICAN DEVELOPMENT BANK

As the pandemic is still unfolding, the SDR General Allocation presents a unique opportunity for the African continent. The African Development Bank has a mandate to reduce poverty and improve the continent's social and economic growth. It has a pristine credit rating. The Bank is a prescribed holder of SDRs and is one of the best conduits for redeploying a portion of the SDRs that must come to the African continent.

- **A multiplier effect:** For every $10 billion channelled through the African Development Bank in the form of equity-like loans, the Bank can on-lend $30 billion to $40 billion into the continent.

- **Attractive rates:** The African Development Bank's AAA rating allows it to provide finance to African countries at interest rates that are far more attractive than what they can possibly obtain on their own through commercial financing. This is clearly a positive in terms of debt management considerations.

- **Strengthening public development banks throughout the continent** The African Development Bank can play a key role in strengthening the balance sheet of African public development banks through additional equity funding. Public development banks serve as the bridge between the government and the private sector. They can provide urgent and counter-cyclical responses during crises through a wide-range of products and instruments. They can assume and mitigate risks associated with medium-to long-term finance, and they can close financing gaps that private banks are unable or unwilling to satisfy.

- **Direct investments in the productive economies:** Through its High 5 core priorities in infrastructure development, industrialization, agriculture, energy, integration and human development, the African Development Bank is helping millions of Africans and putting the continent on a sustainable road to meet the UN Sustainable Development Goals and the African Union's Africa we want. Special care will be given to such cross-cutting issues as climate mitigation, gender, governance, youth issues, and job creation.

- Through the use of their concessional lending arms, like the **African Development Fund** in the case of the African Development Bank Group, multilateral development banks can invest and transform even the most vulnerable and fragile countries. Channelling SDR resources to the African Development Bank Group will, among other things, help improve access to water and sanitation services, finance vital health infrastructure, expand social protection networks and create much needed job opportunities.

- The African Development Bank and the African Development Fund are both **prescribed holders** of SDRs. In other words, they are allowed to hold and use SDRs. To best benefit from this, the African Development Bank Group has devised two mechanisms for rechannelling SDRs into the continent: one is through the African Development Bank, and the other is through the African Development Fund.

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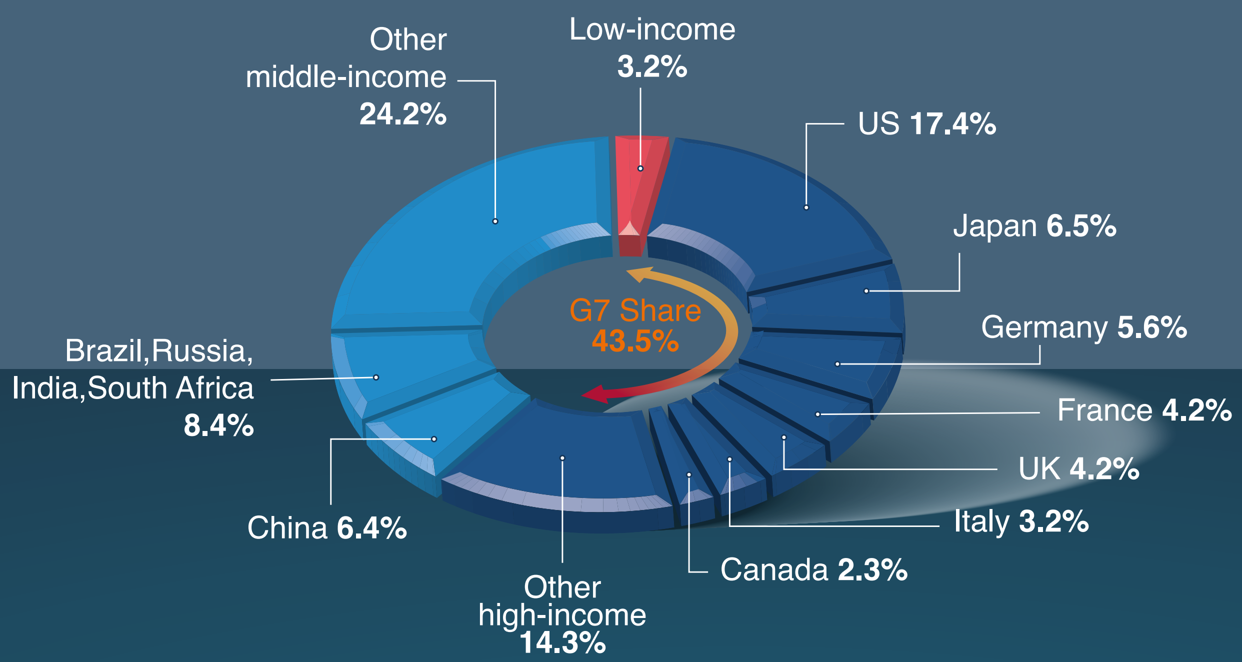
LOW- INCOME COUNTRIES' SMALL SHARE OF SDR ALLOCATIONS

Shares in allocation of special drawing rigts(%)



The African Development Bank Group as a conduit for SDRs – the African Development Bank is a platform that can leverage SDR allocations to Africa and magnify their impact. It will further impact Africa's development agenda. Long-term loans from SDR potential lenders to the African Development Bank Group, structured to be accounted for as equity, will bring the continent closer to its aspirations.

Deploying the SDRs in support of Africa's recovery - With 57 years of results and experience, the African Development Bank is uniquely positioned to continue promoting the economic recovery of the African continent. It continues to help address Africa's critical challenges, to finance quality and sustainable investments, and in its quest to put Africa back on a sustainable, inclusive and greener growth track.

If advanced economies were to channel SDR resources to the African Development Bank Group, the Bank Group would leverage this through capital market borrowings and redeploy these resources to the continent. These are resources that will support its High 5s, its operational priorities, and its Ten-Year Strategy.

This prescription would entail financing transactions that would contribute to (1) lighting up and powering the African continent; (2) feeding Africa; (3) integrating African countries and regions; (4) industrializing the continent; and (5) improving the quality of life of the people of Africa.

These five priority areas, combined with four cross-cutting themes (gender, fragility, governance, and climate change) are critical to the success of the African Union's Agenda 2063 and to the attainment of the United Nations' Sustainable Development Goals.