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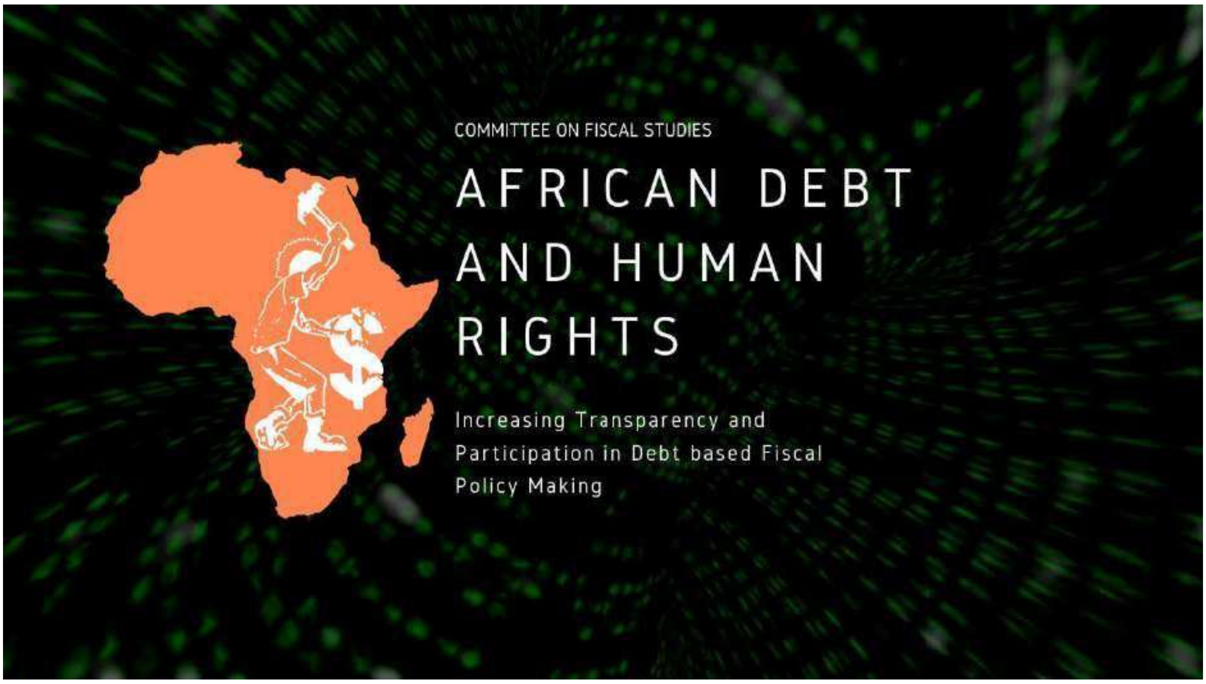
Special Drawing Rights And Its Impact On Economic Justice, Towards Reconstructing The New African Economic Order



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Special drawing rights and its impact on economic justice, towards reconstructing the new African economic order

Summary

Foreign debt continues to undermine Africa's progress towards the attainment of human rights. Consequently, this research paper considers whether funds accessible through Special Drawing Rights (SDR) can be allocated towards African States facing revenue shortfalls instead of relying on foreign debt. It also looks at how SDR can support reconstruction of a new economic order in Africa. The paper finds that SDR allocation offers some sort of financial relief to African States who are members of the International Monetary Fund. The paper argues that a huge SDR allocation has the potential to support reconstruction of a new economic order in Africa. To achieve this, African States should continue to push for a fairer SDR allocation system, redistribution of unused SDRs to debt distressed African nations and formation of a Resilience and Sustainability Trust that will offer unconditional and cost free loans. In the meantime, there is a need for strong domestic reforms and debt restructuring even on humanitarian basis since financing by the international community seems to be a challenge.

Key words: Africa, Economy, Finance, Foreign Debt, Human Rights, International Monetary Fund, SDR

1. Introduction

Africa faces revenue generation challenges due to its low tax base, illicit financial flows (IFFs), and debt service. To overcome its revenue constraints, Africa heavily relies on foreign debt, attracting Foreign Direct Investment (FDI) and making tax reforms to broaden its fiscal net. Africa must resolve its fiscal constraints and overreliance on foreign debt if it is to discharge its responsibility under its fiscal contract.[1] Overreliance on foreign debt has had implications on the African socio-economic realities and has undermined Africa's progress towards the attainment of human rights. To make matters worse, Covid-19 brought new financial needs to this world and the situation has been much worse for African States. Consequently, the objective of this research paper is to suggest policy measures to seek out available but locked out revenue streams for Africa to access and to repay its foreign debt. The paper focuses on the Special Drawing Rights (SDR) fund, considering whether the fund can be allocated towards African States facing revenue shortfalls instead of relying on foreign debt and towards the achievement of human rights.

Developing countries are struggling to refinance their debts and pay Covid-19 related expenses among others (Laskaridis 2021; Tooze 2021). Covid-19 exacerbated these challenges. In many countries, it led to an increase in financial needs, worsened transparency, and accountability issues, inflicted long-term scars on the global economy and weakened the ability for countries to meet future reserve needs (IMF 2021). In addition, debt and the pandemic reduced the capacity of the states to respond and discharge people's constitutional economic and social rights. The global public and private debt hit a new record of US$270 trillion in the third quarter of 2020 (IIF 2020). All these have a devastating impact on social, political, health, economy and justice in Africa.

In trying to deal with above challenges and to improve financial positions and reserves of its member states the International Monetary Fund (IMF) on 23 August 2022, implemented a general allocation of Special Drawing Rights (SDRs) worth US$650 billion (SDR 456 billion)

[1] The fiscal contract, in essence, alludes to the common understanding in a society of how much its members can expect to benefit from State action and how much they expect to contribute to it through paying revenue

(IMF 2021a; Georgieva 2021). This is seen as a historic financial boost to counter the Covid-19 crisis (IMF 2021b). It substantially boosted the reserves and liquidity of the IMF's member countries, without adding to their debt burdens (IMF 2021f). Unfortunately, African countries with estimated external debt of US$ 702 billion in 2020 (see Appendix 1), needed US$265 billion to respond to the pandemic, but received an estimated US$33 billion (5%) only (Pandey 2021). This comes after the United Nations Conference on Trade and Development (UNCTAD) had called for new issuance of SDRs equivalent of US$1 trillion. The Economic Commission for Africa through African Finance ministers also called for the issuance of US$500 billion of SDR. The G20 Italian presidency, the African Forum and Network on Debt and Development, European Network on Debt and Development and other 220 plus organisations supported these calls for the issuance of SDR in the sum of US$3 trillion (Nyamudzanga 2021a). The allocation was also supported by other scholars and the USA which have the veto power (IMF 2021c; Collins and Truman 2020; Munevar, Mariotti and Chiara 2021).

These SDRs were distributed in proportion to participants' paid fund quota shares. If we look at the historical background of Africa, it has suffered setbacks such as slave trade, colonisation and resource extractivism which weakened its economic capacity to contribute towards SDR reserves. Accordingly, meagre contribution of SDR quotas are offered to African States in comparison to developed countries.[2] However, it is appreciated that the $650 billion SDR allocation in August 2021 has helped support economic stability by supplementing members' reserves (IMF 2022a). The paper analyses the impact of SDRs on economic justice, foreign debt, human rights and how they can support reconstruction of new economic order in Africa. It uses extensive review of SDRs literature, IMF reports (its financial operations series, financial statements, central bank reports, Fund's annual and quarterly financial reports etc) and recent articles on SDRs (Mariotti 2022; IMF 2022a; Pforr, Pape and Murau 2022b).

The paper proposes Africa specific approaches towards containing the debt menace which can be helpful towards directing policy change at the global level. It also raises knowledge and awareness of fiscal issues resulting from SDR, foreign debt and human rights. The paper will assist several civil society organisations to conduct evidence based advocacy and influence policy not only at national but at regional and global levels. Accordingly, section 2 begins by an explanation of the African fiscal landscape focusing on the incidences of foreign debt and human rights. In section 3, SDRs as a financing tool is evaluated. Section 4 analyses the interplay between SDR, foreign debt and economic justice. Recommendations are offered in section 5 and section 6 concludes the paper.

2. African Fiscal Landscape: Foreign Debt and Human Rights

Most African countries have huge foreign debts that have resulted in excessive debt servicing to the extent of them paying more than the official development assistance they are receiving (OHCHR 2022). Prior to the 2010 debt crisis, the emerging and developing economies experienced three waves of debt accumulation from 1970-89, 1990-2001, and 2002-09 which ended with financial crises (WB 2021). Since 2010, emerging and developing economies have experienced another wave of historically large, rapid and more broad-based debt accumulation than in the previous three waves (Kose, et al. 2020). In about 9 out of 10

[2] Of which most of the developing countries were the Colonizers of Africa who happen to contribute the greater part of the IMF paid fund quota shares.

emerging market and developing economies (EMDEs), debt is now higher than it was in 2010(WB 2021). In half of the EMDEs, debt is now more than 30% of gross domestic product (GDP) (Kose, Ohnsorge, et al. 2021). For decades the world has faced multiple calamities including health, economic, social and human rights crises (Li 2021). The foreign debts have reached unsustainable levels, encumbering sustainable development and poverty eradication. Excessive debt servicing reduces the ability of African states to promote economic, social and cultural rights. Foreign debt delayed development progress and poverty reduction that forced some African countries to either pay debts or provide public services (Li 2021). Tax payers are carrying a debt burden as developing countries use more tax revenue to service their debt (Li 2021).

Foreign debt has a huge impact on African states' fiscal space, yet prior to 2011 the impact was not being viewed from a human rights lens OHCHR n.d). African States are obliged to manage their fiscal affairs and to adopt economic policies that respect, protect and fulfil all human rights (OHCHR n.d). The introduction in 2011 of the UN Guiding Principles on Foreign Debt and Human Rights, contributed and promoted the search for an equitable and lasting solution to the debt crisis in line with the political commitments of the international community, consistent with the human rights obligations of all States (OHCHR 2011). Para eight (8) of the Guiding Principles on foreign debt and human rights states that:

> *"Any foreign debt strategy must be designed not to hamper the improvement of conditions guaranteeing the enjoyment of human rights and must be directed, inter alia, to ensure that debtor States achieve an adequate level of growth to meet their social and economic needs and their development requirements, as well as fulfilment of their human rights obligations"* (OHCHR 2011).

This section of the UN Guidelines acknowledges the link between foreign debt and human rights. Para 8 requires that lending and borrowing activities should refrain impacting sovereign human right obligations. In this paper, SDRs can be a source of revenue that African States can use to reduce the unsustainable foreign debt and its negative effect on human rights. In addition, SDRs allocation are cost free and can improve the financial position of a Member State without increasing its debt which means they are in line with the above section of the UN Guidelines.

Covid-19 triggered multiple social, economic and human rights crises, affecting millions of people (Li 2021). The pandemic led to increase in foreign debt levels reducing the capacity of the states to respond and discharge people's constitutional economic and social rights. Covid-19 demonstrated how much debt issues are closely linked to the realization of human rights, it exposed to the international community and governments the connection between debt, available resources and the fulfilment of human rights obligations (Li 2020). The pandemic forced most developing countries to exceed their already record high debt levels in an effort to mitigate economic impact on their citizens and economy (WB 2022). Since most African countries were in a debt crisis, the pandemic simply exacerbated the existing economic, social and human rights crisis. There is overwhelming evidence which shows that most developing countries (including African countries) were facing an imminent debt crisis even before the pandemic (WB 2021; WB 2022; Kose, Ohnsorge, et al. 2021; AFRODAD 2020).

The pandemic then exacerbated foreign debt as additional debt was required to respond to Covid-19. The debt challenges must be addressed to ensure a more effective pandemic response, full realization of human rights and integrate the primacy of human rights over debt service (AFRODAD 2020). Without solutions to deal with unsustainable debt such as sufficient debt relief or injection of liquidity (like SDRs), countries with heavy debt cannot fight the pandemic and protect the human rights of their people as they have very limited fiscal space (Li 2020). Africa heavily relies on foreign debt that prevents full realisation of human rights hence there is need for a financing tool that does not increase foreign debt at the same time guaranteeing the enjoyment of human rights. SDR is one of such financial tools.

3. SDR: As a Financing Tool for African States

SDRs were created in 1969, but their origin can be traced back to the Bretton Woods system (Solomon 1996; Boughton, Isard and Mussa 1996). IMF was formed in 1944 and its unit of account is the special drawing right (SDR). The use of the SDR system as a mechanism to redistribute foreign exchange reserves within the Bretton Woods System began in the 1960s (Solomon 1996; Pforr, Pape and Murau 2022b). The shortage of US$ denominated financial instruments under the Bretton wood system led to the development of the SDR system (Depres, Kindleberger and Salant 1966). The SDR system brought basket currencies made of U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. This somehow solved the challenge of the Bretton Woods system. The Group of Ten (G10) agreed upon the French initiative to strengthen the credit nature of the fund, which led to the change of name from Reserve Drawing Rights (RDRs) to SDRs (Solomon 1996). SDRs are better analysed as a system instead of viewing them as a financial instrument or unit of account (Murau, Pape, and Pforr 2021). The SDR system is a web of interlocking balance sheets of 206 members in which SDR instruments are held and traded (Pforr, Pape and Murau 2022a). To have a better understanding of SDR as a financial tool, the subsequent subsections will answer the following questions: What SDRs are? Who accesses them? Who pays into the fund? How are SDRs distributed? What is their legal architecture? The section will then end with discussion on SDR as a financing tool to African states.

3.1. What is SDR?

The SDR is an international reserve asset that was created by the IMF in 1969 to supplement other reserve assets of member countries and was initially intended to be an asset held in foreign exchange reserves under the Bretton Woods system of Fixed exchange rates (IMF 2021c). Generally, reserve assets are high credit quality and liquid assets held by a country’s monetary authorities for meeting balance of payment financing needs, for interventions in currency exchange markets and for other related purposes (IMF 2009a). SDRs function like a credit line, functionally equivalent to a country's foreign exchange reserves and each country has its laws which control them (Plant 2021). According to the International Organization for Standardization (ISO) 4217, the currency code for SDR is XDR. Most scholars usually discuss SDR instruments as a global costless ‘reserve asset’ that member countries can use with no policy conditionality and without increasing or creating new debt (Mariotti 2022). SDRs can simultaneously be viewed as a financial instrument and a unit of account - XDR (Pforr, Pape and Murau 2022a). Since 1972, the IMF has been using SDR as a unit of account (Williamson 2009). Initially one (1) XDR was equivalent to one US Dollar (US$1) and equal to 0.888671g of gold but now the value of the SDR(XDR) is based on usable currencies or a basket of five currencies that is the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.[3]

When the IMF allocates SDRs, the allocation involves two elements, participants in the SDR Department receive unconditional liquidity represented by an interest-bearing reserve asset (SDR holding) and a corresponding long-term liability to the SDR Department (SDR allocation)[4] (IMF 2021c). The SDR allocation is considered cost-free because the SDR Department pays interest on SDR holdings to each member and levies charges on SDR allocations of each member at the same SDR rate[5] (IMF 2021c). That is why SDR is better viewed as an SDR accounting system because each transaction has a double entry. It is important to note that use of SDR holdings (asset) by members is not cost free since it reduces the SDR holding vis-à-vis its cumulative SDR allocation resulting in interest charges on difference between their cumulative SDR allocations and their SDR holdings (IMF 2021c). However, the interest is very low currently at 0.05% per year.

3.2. Who accesses the SDR?

SDRs are only allocated to IMF members that elect to participate in the SDR Department. Currently all 190 members of the IMF are participants in the SDR Department (IMF 2021c). At the country level SDR are normally listed as reserves under the management of the Ministry of Finance or the Central Bank (IMF 2021c). In addition, there are 15 non-members and official entities who are not participants in the SDR Department, who are prescribed as holders of SDRs under the Articles of Agreement (IMF 2021c). These 15 prescribed holders include the following: 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) (IMF 2018). If we include the IMF itself, especially the SDR department that gives us a total of 206 Members.

3.3. Who pays into it the SDR?

The IMF is a quota-based institution, it relies on the quotas of its 190 members and quotas are the building blocks of the IMF's financial and governance structure (IMF 2021d). When a country joins the IMF, it is assigned an initial quota in the same range as the quotas of existing members (IMF 2021d). Africa lacks economic stamina as individual member countries' quotas broadly reflect their relative weak position in the world economy. The largest member of the IMF is the United States, with a current quota of SDR82.99 billion (about

[3] The value of an SDR is set daily based on a basket of five major international currencies: The U.S. dollar (42%), the euro (31%), the Chinese yuan (11%), the Japanese yen (8%) and the British pound (8%).

[4] An SDR allocation involves two elements: an increase in the SDR Department participants' (currently all Fund members) allocation of SDRs (liabilities) and a matching increase in its holdings of SDRs (assets).

[5] The interest rate on the SDR is based on the sum of the multiplicative products in SDR terms of the currency amounts in the SDR valuation basket, the level of the interest rate on the financial instrument of each component currency in the basket, and the exchange rate of each currency against the SDR. The SDR interest rate for the current week is posted on Sunday morning, Washington D.C. time, on the IMF's website.

US$118 billion), and the smallest member is Tuvalu, with a quota of SDR2.5 million (about US$3.5 million) (IMF 2021d). Each Member is obliged to provide financial resources based on its quota and member's quota determines its maximum financial commitment to the IMF, voting power, and access to IMF financing. According to the quota formula, individual quota is determined by weighted average of economic variability (15%), GDP (50%), International reserves (5%), and openness to the global economy (30%) (IMF 2016). Other sources include interest, purchases, repurchases, acquisitions and remuneration which are not part of this discussion (IMF 2018). Based on the current IMF quota system, 67.44% belongs to high-income countries, 32.56% to middle-income countries, nearly 5% belongs to the African continent and 1.08% to low-income countries (Munevar and Mariotti 2021; IMF 2021c; IMF 2021d).

3.4. What is the SDR's legal architecture?

Articles of Agreement of the International Monetary Fund lays out various rules of operations and transactions regarding the SDRs. It was adopted at the United Nations Monetary and Financial Conference (Bretton Woods, New Hampshire) on July 22, 1944 (IMF 1944). The use of SDRs are up to the states to decide since the IMF's Articles of Agreement stipulate that SDRs are allocated to member countries, not central banks (CBs). The article of agreement was amended seven times since 1944, it complimented by-laws of the fund adopted by the board of governors and supplemented by rules and regulations by the executive board (IMF 2022b). The SDR is an unconditional reserve asset, which means that the decision on how to utilize the SDRs rests with each member country (IMF 2021c).

3.5. How are SDRs distributed and when were they distributed?

SDRs are distributed based on IMF members' quotas which perpetuates existing inequality of the global financial system that is heavily skewed towards rich nations. An allocation requires approval by IMF membership with 85% of the voting power, of which the USA has the veto power since it holds 16.5% of votes (IMF 2021c). To date the fund has allocated a total of SDR 660.7 billion (US$935.7 billion), including four general allocations and a one-time special allocation (2021c). The allocations and respective period of allocation are as follows: SDR 9.3 billion (1970–72); SDR 12.1 billion (1979–81); SDR 161.2 billion was allocated on August 28, 2009; A special one-time allocation after the fourth Amendment special allocation of SDR 21.5 billion took effect on September 9, 2009; and the recent SDR 456.5 billion (US$650 billion) was allocated on August 23, 2021, by far the largest allocation to date (IMF 2021c). Based on the current IMF quota system, 67.44% of the allocations goes to high-income countries, 32.56% to middle-income countries, nearly 5% to African continent and 1.08% to low-income countries (Munevar and Mariotti 2021; IMF 2021c; IMF 2021d; Nyamudzanga 2021b).

3.6. The SDR as a financing tool for African states

SDRs have been a source of finance to 190 nations including a number of African States. In most cases it is the developing countries such as African countries who use XDRs as cheap lines of credit. The recent general allocation of SDRs was to support low and middle-income countries dealing with the economic fallout of the coronavirus pandemic (McNair 2022). It was a financing tool to African countries that come at the appropriate time. Through this facility the African States can borrow or have access to these cheap lines of credit from the IMF under the SDR system via a number of options. African countries received SDR allocations, free of charge, which was a financial and reserves boost without increasing their foreign debt. Although SDRs are not cash, they can be converted into usable currency that can be used to pay foreign debts to promote full realisation of human rights. Likewise, African countries can borrow through transactions by agreement which allow participants and prescribed holders to borrow usable currency through a direct exchange of SDR holdings into usable currency via Voluntary Trading Arrangements (VTA)[6] or residual designation mechanism[7] (IMF 2021f).[8] With this option African states can receive funds at a concessionary rate, without conditionality and without being told how to use the fund. The next option is to use the General Resource Account (GRA) lending facilities which allows the SDR department and member countries to economize on chronically scarce usable currency and to support the non-concessionary lending activities of the GRA (IMF 2021f). With this option African countries can receive funds non-concessionary, with conditionalities and stipulations on how to use funds.

Another way involves IMF-sponsored Trusts, where financially well-off participants, typically developed countries, and prescribed holders lend currency or SDR holdings to Trusts which then provide concessionary lending or debt relief to developing countries like African states (IMF 2021f; Pforr, Pape and Murau 2022b). With this option African countries can receive funds at a concessionary rate, without conditionality however they are told or guided how to use it. IMF-sponsored Trusts harness the SDR system for development purposes and is the basis of the current idea of voluntary channelling being called for by developing countries, scholars and civil society organisations (Mariotti 2022; IMF 2022a; Pforr, Pape and Murau 2022b, McNair 2022). Voluntary channelling is seen as a way to resolve the problem that rich nations receive the majority of any allocation while only a small fraction goes to Emerging Market Economies (EMEs) and Low-Income Developing Countries (LDCs) like African countries (Georgieva 2021). In the past, like during the Global financial crisis, when a new allocation was done, some rich countries had to lend SDRs via the IMF's Poverty Reduction and Growth Trust (PRGT) (Plant 2021). Voluntary channelling may assist but the quota and governance system that is used by IMF is the main trouble causer that must be dealt with (Mariotti 2022).

Additional option that is outside the SDR system is channelling SDRs through multilateral development banks such as African Development Bank and African Development Fund, this could be a perfect conduit for efficiently channelling resources to African countries and other vulnerable economies. However this was challenged by European Central Bank, which argued a conservative position on the need to preserve the "reserve asset status" of SDRs[9] since in this case SDR will be used as equity capital (ECB 2021; Plant 2022). Well whatever the answer is, it is through these ways/options the SDRs can become a financial tool to Africa.

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[6] VTAs are arrangements between the Fund and a group of SDR participants and one prescribed holder who have agreed to exchange SDRs for specific currencies within set trading limits (IMF 2021c; IMF 2021i).

[7] In event that there are not enough voluntary buyers of SDRs, IMF can designate members with strong balance of payments positions to provide freely usable currency in exchange for SDRs (2021i; IMF 2021).

[8] Prior to the 2021 allocation, VTAs guaranteed cumulative access to 72 billion XDR for the purchase and 34 billion XDR for the sale of SDR holdings, of which after the august 2021 allocation they increased to about 234.1 billion XDR and 109.0 billion XDR, respectively (IMF 2021i)

[9] Meaning that they are used for safeguarding financial stability, not for emergency spending

SDRs have two noble characteristics, they create no debt in the recipient African states and come with no conditionality (Mariotti 2022). They benefit all IMF members, providing some breathing space for financially strained African countries. The others advantages of SDRs to the African States (who are members of IMF) are that they create and supplement foreign reserves at a lower cost that alternatives; cover the fiscal gap avoiding economic stagnation and deflation; does not entail immediate rollover risk[10]; service foreign debt or purchase previously issued sovereign debt on the secondary market; reduce its reliance on more expensive domestic or foreign debt for building reserves; and avoid contractionary and distortionary policies in liquidity-constrained African countries. African countries can convert their SDR holdings into hard currency that can be used to pay for imports to improve a country's balance of payments (BOP), or to pay for public investment among others. Increase in foreign reserves held by African countries improves their credit ratings, increasing confidence of private investors about the sustainability of their foreign debt position (S&P Global Ratings 2021).

In addition, improved credit rating lowers borrowing costs and crowding in private sector investments while helping with market re-entry (Songwe 2021). Of particular importance to this paper is the fact that they can be used to service foreign debts and can reduce members' reliance on more expensive foreign debt. IMF members (focusing on African States) can also use SDRs in a range of other authorized operations among themselves (loans, payment of obligations, pledges) and in operations and transactions involving the IMF, such as the payment of interest on and repayment of loans, or payment for quota increases (IMF 2021c; IMF 2021h). Interest is charged for utilisation of SDR holdings but they are substantially lower than the rates African states would typically face on private markets. Moreover, the IMF developed a website that can track how countries are using their SDRs. This tracker promotes transparency and accountability as African countries are putting these SDRs to use (IMF2022c; IMF 2021h).

On the other hand, the disadvantages of SDRs are that they benefit developed countries which have no need for additional liquidity, leaving developing countries in this case African continent with the greatest need. In short, SDR allocation goes to countries that either do not need or do not deserve a boost to their reserves (Collins and Truman 2020). Only 5% of the IMF quotas belong to African countries yet the decision on timing and amount of allocation requires 85% of the votes. This means African have no significant influence on timing and amount of SDR allocation. Besides, SDR allocations do not give African countries access to emergency liquidity arrangements like central bank swap lines (Pforr, Pape and Murau 2022b). Moreover, the current SDR allocation was not enough to raise African countries' reserves to reasonable levels (Mariotti 2022).

Another disadvantage is that inflation may increase as African beneficiaries spend their SDRs. Furthermore, the fact that they don't have conditions attached to them may give room for looting and mismanagement by corrupt government officials. Besides, the process of converting SDR holdings into usable currency is not automatic, it may be a very slow process as compared to financial markets. In addition, IMF Member states pay additional charges to use the GRA lending facilities, these charges cover the cost of financing, administrative expenses, and further compensate arrears (IMF 2020). The utilisation of SDR holdings and

[10] A risk associated with the refinancing of debt

borrowing usable currency via the SDR system comes with interest rate and exchange rate risks (Pforr, Pape and Murau 2022b, IMF 2021c). The interest rates are low at the moment but if they rise in future or if a (African) country's currency against basket currencies depreciates, then refinancing will become more difficult for that African country (Pforr, Pape and Murau 2022b).

A further problem is that the amount that can be converted into usable currency under VTA or designation mechanism has a ceiling, however, the current allocation increased the limit from US$100 billion to US$328 billion (IMF 2021i). This challenge is *"further exacerbated by the fact that usable currency borrowed via the SDR system must be accumulated in the foreign reserves beforehand and cannot be created at spot*" (Pforr, Pape and Murau 2022b). On voluntary channelling the challenge is that based on the current SDR accounting system, transfer of participants' SDR allocation (liability) is not possible unless rich nations give their SDR holdings to LDCs as a gift, that can be harnessed at a cost, however this is real wealth transfer (IMF 2009b; Plant 2021; Pforr, Pape and Murau 2022b). To offer such gifts or cheap loans someone must bear the cost or losses and in such a case developed countries are better placed.

Just to show the shortcomings and injustices of the existing financial architecture, out of the general allocation worth US$650 billion, Group of 7 (G7) countries, most of which had no need for additional liquidity, received 43% of the allocation. The Group of 20 largest economies (G20) received approximately 68% and the remaining 32% was shared by middle and low income countries of which only 3% (US$21 billion) was allocated to low-income countries (McNair 2022). Africa, the continent with the greatest need received an estimated 4.98% (US$32.3 billion) only. The country that received the lowest allocation was Tuvalu which received US$3.41 million only, whilst the United States of America received nearly USD$113 billion which is 17.43% of the total SDR allocation. In Africa (*see appendix 1*), the country that received the lowest amount was Eretria which received US$21.58 million (0.003%), whilst the highest earner was big brother South Africa which received USD4,153 billion (0.641%). There is no single African country that received even 1% of the allocation but the USA got 3.5 times the amount whole Africa received (Nyamudzanga 2021b). In trying to correct the imbalance the G7 and G20 committed to voluntarily channel $100 billion of their SDR allocations to vulnerable countries. However, vulnerable countries are yet to benefit from this initiative.

According to IMF's reports and the IMF SDR tracker, 39 countries have disclosed how they intend to use their SDRs and some African countries are utilising their SDR holding (IMF 2022c). As of February 2022, Africa's collective SDR holding had decreased by SDR3.3 billion.[11] A further analysis shows that SDR holdings of certain African countries increased or remained the same.[12] By end of February 2022, African countries had utilised SDR3.5 billion (US$4.9 billion) of their SDR holdings which is approximately 15% of the $33 billion Africa had received (IMF 2021f; IMF2022c; One n.d.). Cameroon and Egypt are leading in exchanging their SDRs, so far they have exchanged SDR 208 million (82%) of the SDR 254 million that African countries had collectively exchanged. This section focused on the

[11] David Mcnair, Twitter post, March 2022, 9:52 a.m., https://twitter.com/David_McNair/status/1506176966684258304?s=20&t=53Xhk_JAIbnYu3_Ru93x0A

[12] Fourteen African countries saw their SDR holdings increase or stay the same. In total, their SDR holdings increased by SDR217 million (roughly $303 million).

discussion on SDR as a financing tool to African states. Now there is a need to analyse the implication of SDRs on foreign debt and economic justice.

4. SDR, Foreign Debt and Economic Justice

Covid-19 pressed public debt levels to new heights, with the total approaching 100% of GDP globally in 2020, causing tighter financing constraints and rising debt vulnerabilities in many developing countries and emerging markets (IMF 2021f). Some African countries and other developing countries had their financial problems before the pandemic. The IMF estimated that developing countries needed additional US$528 billion to make substantial progress towards the Sustainable Development Goals (SDGs) in five areas: education, health, roads, electricity, water and sanitation by 2030 (IMF 2019a). These five areas are crucial for basic economic and social human rights. Covid-19 worsened the situation as the IMF further estimated that low-income counties alone needed US$200 billion between 2021-25 to step up the response to the Covid-19 health crisis and needed additional US$250 billion to accelerate their income convergence with advanced economies (IMF 2021e; IMF 2021f). Furthermore, a downside scenario of a slower global recovery could add US$100 billion to these financing needs (2021f). Just to sum it all, the pandemic had long-lasting effects on African states, leading to higher debt levels and within the country inequality and poverty (IMF 2021f).

The recent $650 billion SDRs allocation came at a time when Africa was lacking adequate resources to address its debt crises. The allocation brought some relief to some African countries that were facing poverty and inequality. The allocation managed to free some resources for much needed health and recovery efforts (IMF 2021f). At least 99 low- and middle-income countries have used $104 billion SDRs since the August 2021 allocation (IMF 2021f). SDRs increased fiscal pace to spend on Covid-19 vaccines, social protection, education and health among others. However, due to biased rules that governs SDR distribution, Africa receives US$33 billion only and more than US$400 billion in SDRs went to advanced economies that do not need them (Mariotti 2022; Grynspan 2022). To put this amount in perspective, as of March 2022, all developing countries' debt owed to the IMF amounted to $151 billion, equivalent to 38% of advanced economies' newly-received SDRs (Mariotti 2022). This reflects the shortcomings and injustices of the existing financial architecture and does not offer a satisfying way forward unless substantial reforms are implemented (Mariotti 2022). Considering the financial needs estimated by the IMF as indicated in the above paragraph, a mere US$33 billion is not anywhere near to rescue the African continent. Africa must advocate for rich countries to transfer free of cost their SDRs to poorer countries. There is a real need to reform the current SDR allocation system which does not favour developing countries.

Furthermore, the foreign debt of African countries was more than US$702 billion in 2020 yet Africa received an estimated US$32.3 billion only and Sub-Saharan African countries received around US$22 billion only (Pandey 2021). The SDR allocation was just a mere 5% of Africa's 2020 debt and the continent's total public debt serving was around US$37 billion about US$4 more that the SDR allocation received by Africa. If Africa was to use all the funds received to service the foreign debt then the amount received was insufficient (Munevar, Mariotti and Chiara 2021). To make matters worse, Africa's creditors are usually developed countries or come from developed countries and if the SDRs are used to pay creditors, then these developed countries are the major beneficiaries at the expense of suffering African people. Remember they received nearly US$400 billion that is claimed to be idle in their central banks (Grynspan 2022, Mariotti 2022). In addition, Africa needed between US$16 billion to US$21 billion to vaccinate 60 % of its population that alone could require more that 50% of the SDR holdings received by Africa or require almost 100%[13] of the amount received by Sub-Saharan African countries (AU 2020; Mcnair 2022).

Access to SDR is an economic justice issue and has the effect of shaping a new economic order for Africa. Economic justice strives to eliminate the inequality created by capitalism by creating equal opportunities for all members of the economy. It goes beyond national economy to regional and global economy. When it comes to recent SDR allocations, all animals are equal but some are more equal than others.[14] The main question is *"Did the SDR allocation create equal opportunities for all members of the global economy?"* The allocation was not enough to deal with some challenges Africa was facing, not all African countries substantially benefited from this allocation. The allocation never dealt with inequalities caused by quota based mechanisms that are being used by the IMF. Our external debt is huge as a result the recent SDR allocation effect on it is near to nothing. The allocation was basically to assist struggling nations to meet Covid-19 expenditures. Had the SDR allocation been done on a need basis, it would have been the most impactful tool developing countries would have accessed amidst Covid-19 crises.

Rich nations continue to dominate in all economic, social and political issues. On international financial architecture we have the World Bank and IMF dominating the space. On international tax architecture we have the OECD dominating the space. On anti-money laundering initiatives again we have the Financial Action Task Force (FATF) that was assigned by rich nations who are again dominating the space. As long as these developed nations are in control, Africa still has a long way to service its foreign debt and promote human rights. African countries must find ways of avoiding over reliance on these institutions that are controlled by developed nations. Africa might have attained its political independence, but the continent is yet to become economically independent. To conclude this section, the recent SDR amount was too small from the African perspective, considering its huge foreign debts or even the funds required to meet Covid-19 expenditure and to recover from the pandemic. Therefore, there is a need for a way forward.

5. Recommendations: Towards a New African Economic Order

Africa has good initiatives such as the Lagos Plan of Action (LPA), Abuja treaty (AT), Agenda 2063, Africa Mining Vision (AMV) and the recent African Continental Free Trade Area (AfCFTA). In addition, it has a young population and abundant resources just to mention a few. Unfortunately, with all those resources and initiatives the continent is still stuck in foreign debt crisis, facing resource constraints around the progressive achievement of human rights, poverty, and inequality. As a long-term solution, Africa must go back to the drawing board and make sure such initiatives and resources are used to enjoy the potential benefits; to promote economic justice; improve the fulfilment of human rights; to promote sustainable development; and to promote poverty eradication. The above initiatives drafted by Africa's founding fathers, are the prerequisites of the new economic order of Africa. In the meantime,

[13] If Africa use US$21 billion on vaccines as estimated by the African Union

[14] The hypocrisy of governments that proclaim the absolute equality of their citizens but give power and privileges to a small elite.

SDR allocation as *'A shot in the Arm'* is an option worth looking into, and this paper has done that to come up with possible recommendations.

Africa needs policies that will reduce foreign debt to promote economic justice and at the same time respecting, protecting and fulfilling all human rights. Since SDR is an economic justice issue it has the potential to shape a new economic order for Africa and can be the root for a better and more equitable global financial architecture. *How is this possible?* After looking at the African fiscal landscape; SDR as a financial tool in Africa; and looking at its implications on foreign debt and economic justice, this paper proposes the following recommendations.

i. Fairer SDR allocation system - the current IMF quota system is biased and perpetuates existing inequality of the global financial system that is heavily skewed towards rich nations, as such African states should push for substantial reforms in IMF governance in order to have a fairer SDR allocation system. Where possible to come up with a need based SDR allocation system, so that allocations are given to those who need them most.

ii. The current allocation was insufficient to deal with African needs for example dealing with: Covid-19 crisis; foreign debt crisis and dramatic increases in food and energy import costs brought by Russia-Ukraine War. As a result, African states should:
   a) Call for additional SDR allocation (such as the US$3 trillion that was being proposed by 250+ civil society organisations) that is large enough to significantly deal with the above stated crises.
   b) Push for Annual SDR allocations that will assist member countries facing foreign debt crises. This should be on an agreed period say 10 years to allow struggling nations to recover.
   c) Call for debt relief measures and debt cancellation in some cases on humanitarian bases, to supplement and support SDR allocations in order to reduce the human rights crisis in Africa caused by above stated challenges.
   d) Have a multifaceted approach that combines strong domestic reforms to raise revenues; improved efficiency, governance, spending and public financial management and stepped financing by the international community.

iii. Whenever there is an SDR allocation, African states should make use of SDR system as a financial tool by exhausting one or combination of the following options:
   a) *Building foreign reserves* – African states may leave SDR holdings as reserves in the central bank's balance sheet to improve their credit worthiness and make them difficult to be used for budget expenditure. Improvement in creditworthiness improves African states' credit ratings and reduces credit risk, hence reducing borrowing cost and opening new borrowing opportunities.
   b) *Converting their SDR holding (assets) into usable currency.* African countries can convert their SDR holding to usable currency, which can be used for budget expenditure such as paying for imports to improve the country's balance of payments (BOP); supporting the social sectors namely health, education, and the vulnerable groups; supporting country's productive sectors (e.g. mining, agriculture); and for infrastructure investments among others.
   c) *Use their SDR holding for direct payments* among themselves (IMF member states) for instance loans, payment of obligations, pledges; and in operations and

transactions involving the IMF, for example the payment of interest on and repayment of loans, or payment for IMF quota increases.

d) *Seek for concessionary loans or debt relief through sponsored Trusts*. These trusts are financed by well-off participants in mostly developed countries, and prescribed holders who lend currency or unused SDR holdings to these Trusts. It is a moral duty to make use of all resources in times of crisis. The rich nations must make a wealth transfer to EMEs and LDCs through such trusts. These trust include
   - *Resilience and Sustainability Trust (RST)*[15] which is a mechanism to channel unused SDRs from rich to developing countries and dedicate them to a fund that will provide concessional finance to low and middle income countries to address climate change and emergencies.
   - *Poverty Reduction and Growth Trust* (PRGT)[16] where unused SDR are channelled to this Fund to offer concessionary loans. The PRGT offers concessionary lending conditions that are even more favourable than the SDR interest rate – sometimes with interest at 0%.

e) African states can advocate for channelling of SDRs through multilateral development banks such as African Development Bank and African Development Fund. This will create an alternative channelling of SDRs outside IMF and to certain extent expand fiscal space and democratise global financial architecture that is controlled by rich nations. This could also be a perfect conduit for efficiently channelling resources to African countries and other vulnerable economies.

iv. The current absorption capacity of the PRGT and the RST is limited to about $30 billion and about $50 billion respectively - *African states should advocate for huge funding into these trusts and fair distribution of such funds* to tackle post-pandemic debt problems and finance the Green Transition. However, SDR should maintain their unique characteristics of not creating debt and lack of conditionality. Furthermore, the IMF must: find a way to fairly distribute all unused SDRs to struggling nations and encourage the G20 countries to recycle $100 billion in SDRs as promised in May 2021.

v. There is a need to promote transparency and accountability in the use of SDR holdings and they must be spent in the spirit of promoting economic justice, reducing foreign debt but ensuring full realization of human rights. In order to do that:

a) The utilization of SDR holdings must be discussed in parliament for the parliamentarians to play their oversight role, since utilisation of SDR holdings is not free but increases tax burden on their citizens (voters). So their voice matters.

b) Once agreed on how to use the funds, utilization of SDR funds must be channelled towards their intended use, tracked, monitored, and overseen just like the budget process. Citizens and other institutions in Africa must make use of the IMF's SDR tracker (IMF 2022c).

c) The SDR holdings must be used in productive sectors that have meaningful returns so that the returns can be used to service Africa’s huge foreign debt. In order to have better returns, these sectors African governments need to address governance, institutional capacity, and other structural bottlenecks, with policy

[15] RST is estimated to absorb about $50 billion of SDRs over a decade.
[16] Since 2009 the PRGT has offered an interest rate at zero percent (IMF 2019b)

advice and capacity development from the IMF and other development partners (IMF 2021e).

vi. Human rights should always take precedence over debt service. The debt challenges must be addressed to ensure full realization of human rights and integrate the primacy of human rights over debt service. When SDR allocations are limited it's better to spend them on providing crucial public service delivery such as education, health, water and sanitation which are crucial to basic economic and social human rights.

vii. Finally, African governments must not relax and rely on the recent tiny SDR allocation or other external funds from institutions that are controlled by developed/rich nations. Instead, they must use their abundant minerals and other natural resources to domestically mobilise more resources[17] that can be used to finance projects and activities to build forward better as we recover from this ruthless Covid-19 pandemic. Besides, Africa needs to be self-reliant and free itself from shackles of capitalists otherwise foreign debt will continue to undermine the continents' progress towards the attainment of human rights.

6. Conclusion

This paper delivers a comprehensive analysis of SDR as a financial tool that can promote economic justice and promote human rights in Africa. The current allocation did not provide African states with enough financial resources to cover additional financial needs brought by Covid-19. The so-called '*largest allocation in IMF's history*' was not large enough to significantly deal with foreign debt crisis being faced by African countries. Since SDR allocation had little or no effect on foreign debt, the debt continues to undermine Africa's progress towards the attainment of human rights. However small as it was, the SDR allocation to Africa brought some relief to some African countries to deal with the pandemic especially those who were facing debt crisis, poverty, and inequality.

The paper concludes that access to SDR is an economic justice issue and has the potential to shape a new economic order for Africa. Furthermore, it can be the root for a better and more equitable global financial architecture provided that there are crucial reforms to the current quota system which is biased towards rich nations. Adequate and fairly distributed SDRs has the potential to reduce the foreign debt plus its negative externalities in Africa, resulting in fulfilment of human rights obligations of African citizens. Huge SDR allocation, which is larger than Africa's foreign debt can improve financial positions of African countries, it can open windows for debt servicing but it must be noted that interest is charged for utilisation of SDR holdings. African states should continue to push for a fairer SDR allocation system; redistribution of unused SDRs to struggling nations; encourage developed countries to voluntarily channel SDRs to vulnerable countries; and formation of Resilience and Sustainability Trust that will offer unconditional and cost free loans to member states.

[17] This includes tackling illicit financial flows, corruption, money laundering and promoting mineral value edition.

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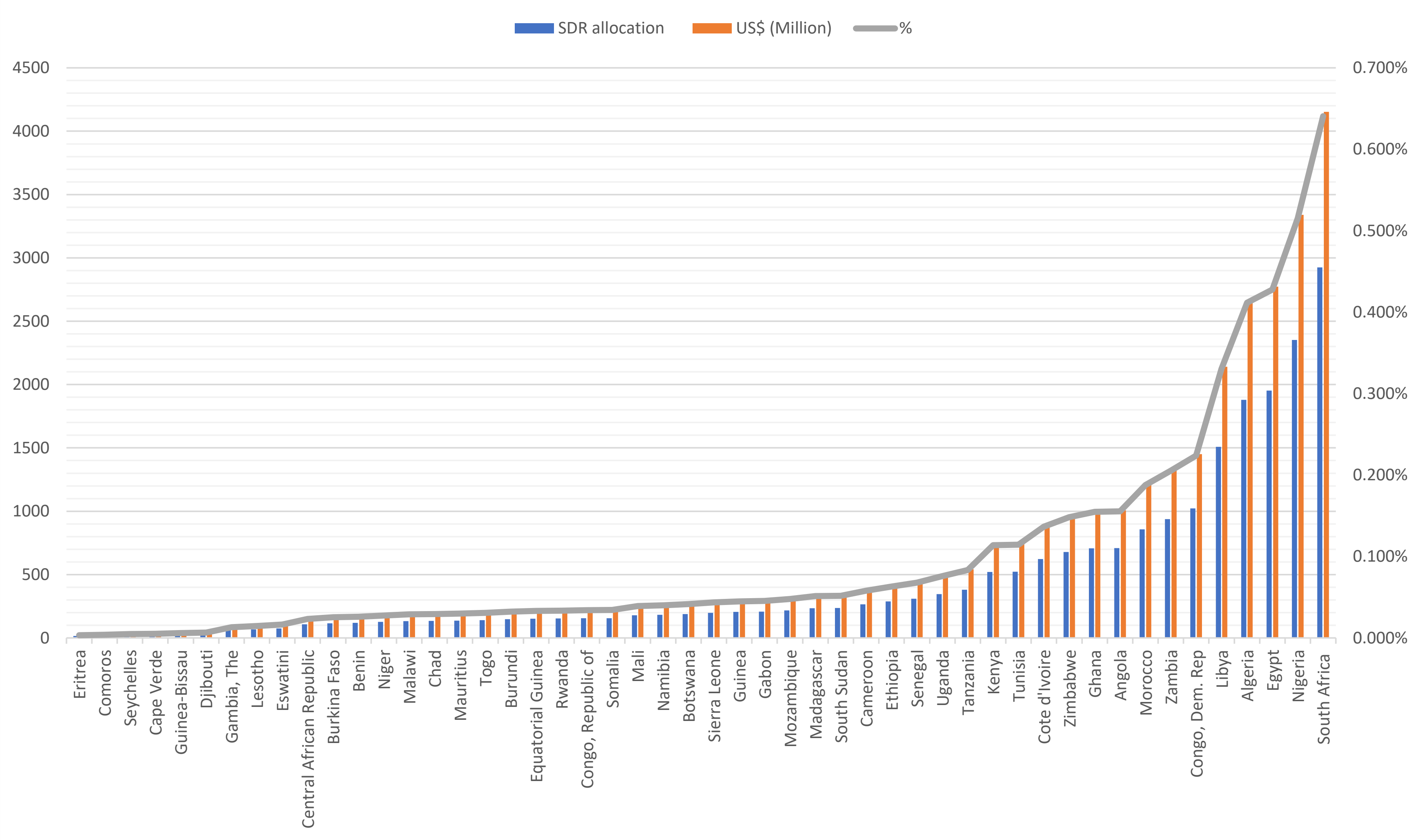
Appendix 1: SDR allocation in Africa



Source: Consolidated by author from IMF Website (IMF 2021g)