



# SPECIAL DRAWING RIGHTS AND ARAB COUNTRIES

## Financing for Development in the Era of COVID-19 and Beyond



## Introduction

**The International Monetary Fund (IMF) announced a historic new allocation of special drawing rights (SDRs) worth \$650 billion.** This is the largest allocation of SDRs since they came into existence as an international reserve asset in 1969, roughly the equivalent of all foreign direct investment flows (\$663 billion) received by developing countries in 2020.

Through this new allocation, the IMF is providing a three-fold liquidity boost from \$290 billion to \$940 billion to support the COVID-19 recovery and post-pandemic resilience.



# Who benefits from the new SDR allocation?

**All countries benefit from the new SDR allocation.** Based on their relative quotas at the IMF, developed countries will receive 60 per cent of the new SDRs and developing countries 40 per cent, including 2.4 per cent for 46 least developed countries (LDCs).

**High-income economies will receive the lion's share of \$434 billion of the new SDR allocation,** with nearly two thirds of this amount allocated to G7 countries. Lower middle-income countries, representing 43 per cent of the world's population, will receive \$65 billion (10 per cent of the entire new SDR allocation).

**Geographically, Europe and Central Asia have the highest shares of SDRs,** whereas Sub-Saharan Africa will receive only \$23 billion (3.5 per cent) of the entire new SDR allocation (figures 1 to 4).

Figure 1. Distribution of new SDR general allocation (percentage of total)

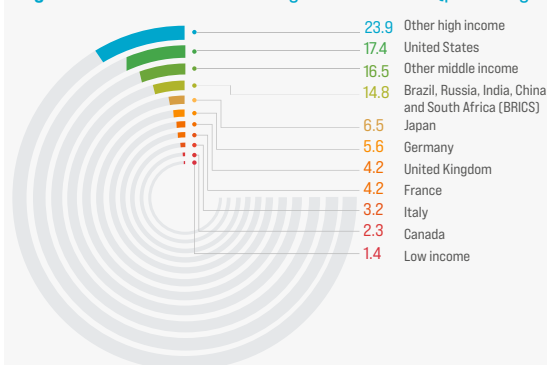


Figure 2. Shares of the new SDR allocation (by income group, percentage)

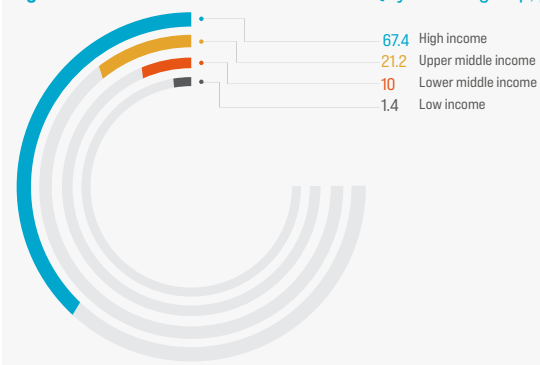


Figure 3. Regional shares of new SDR allocation (billions of United States dollars)

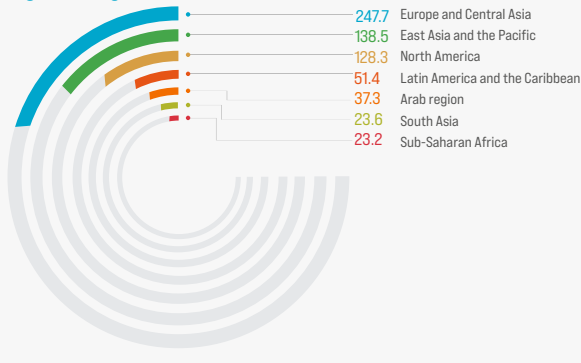
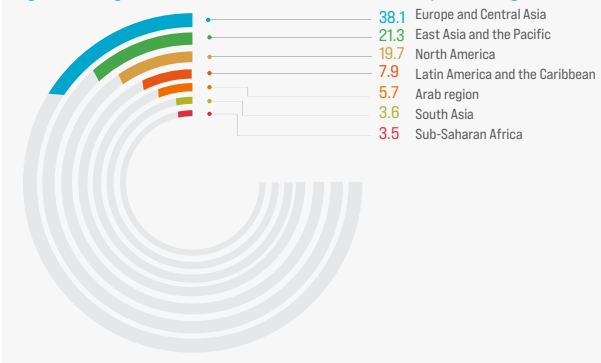


Figure 4. Regional shares of new SDR allocation (percentage of total)



Source: Compiled by ESCWA based on IMF members' quota; the World Bank regional and income classification; and the United Nations list of LDCs.

## What is the share of the Arab region in the new SDR allocation?

**Of the \$650 billion under the new SDR allocations, the Arab region will receive \$37.3 billion in additional international reserves.**

**The share received by the Arab region translates to \$85 per capita,** or four times less than the per capita share of North America (\$350) and three times lower than the share of Europe and Central Asia (\$266).

**Saudi Arabia will receive the highest share of new SDR allocations** (\$13.7 billion) compared with \$24 million for the Comoros. Saudi Arabia and the United Arab Emirates combined will receive roughly the same as the rest of all other Arab countries combined.

**Low- and middle-income Arab economies:** 15 of the 22 Arab States will receive about \$15 billion, which is 10 per cent more than the share of Saudi Arabia.

**Lebanon,** despite its political and economic turmoil, will accrue \$865 million, a meagre 2 per cent of its rapidly depleting reserves. However, the new SDRs may provide a much needed lifeline to the country's

battered economy, and can support setting urgently required social safety nets to dampen the effects of rampant inflation on the poor, vulnerable and refugee populations.

The **Syrian Arab Republic**, where 80 per cent of the population now lives in poverty, is set to receive \$390 million. Overall, the new allocation is a fraction of the estimated \$442 billion bill in physical and economic damages inflicted on the country owing to its 10-year war<sup>1</sup>.

**Yemen**, with more than 20 million people in need of some form of humanitarian and protection assistance, will receive \$660 million. The SDR allocation can bridge 20 per cent of the total funding requirements of the country's Humanitarian Response Strategy.<sup>2</sup>

The **State of Palestine** will not receive any SDRs, as it is still not an IMF member. The international community may need to consider other ways to support it.

## How do the new SDRs compare on different financing metrics?

**The new SDR allocation falls far short of what the Arab region requires (\$462 billion) to match the global average fiscal support of Governments as a share of GDP.** Arab economies' fiscal stimulus represents nearly 4 per cent of their collective GDP, significantly lower than the global average of 22 per cent.

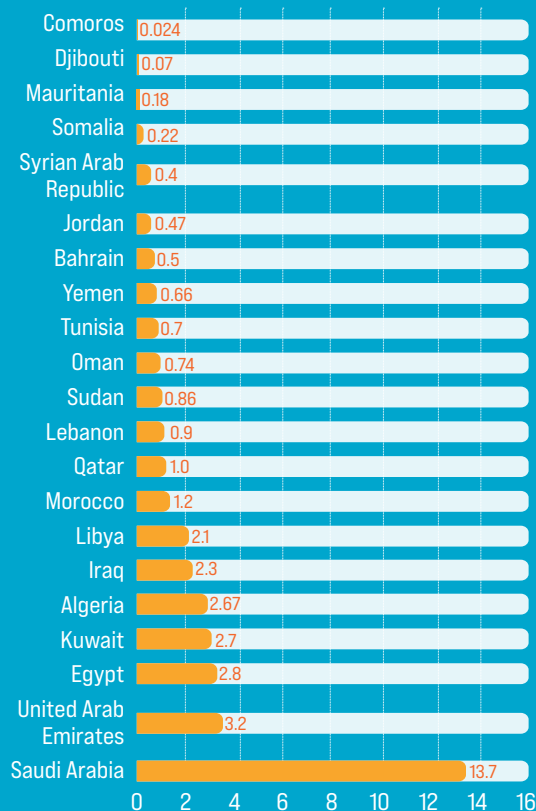
**The new allocation also remains far below the Arab region's cumulative gross financing needs.** However, in the case of Mauritania and the Sudan, their share of new SDRs amounts to 45 per cent and 12 per cent, respectively, of their projected gross financing needs for 2021 (figure 6). Gross financing needs is defined as the sum of the forecasted fiscal deficits, debt repayments and amortization.

**Similarly, the share of new SDRs to the outstanding debt of Arab LDCs is substantial,** amounting to about 30 per cent of their outstanding gross general public debt (figure 7). This is more relevant for the Sudan, which has been relieved of 90 per cent of its debt (about \$50 billion).

For Arab middle-income economies, the SDRs would have covered nearly half (43 per cent) of external public debt service repayments incurred in 2019.

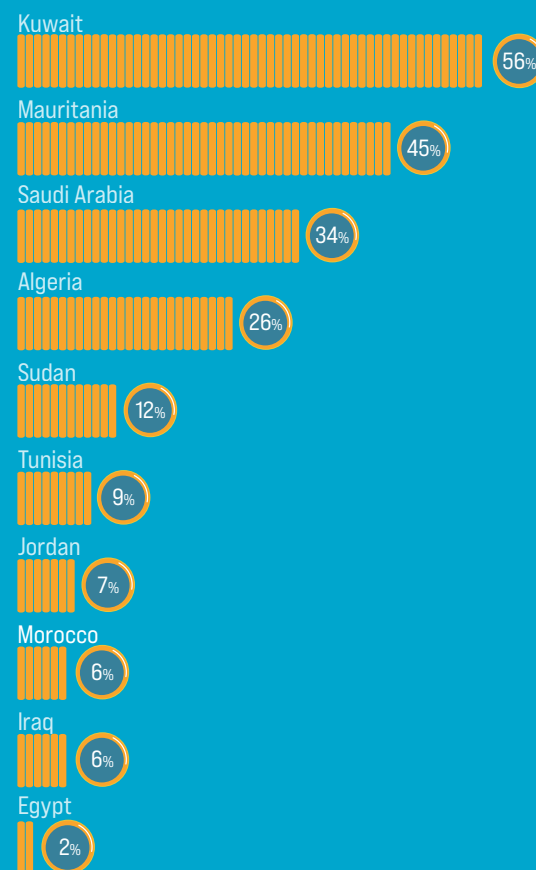
The new SDR general allocation amounts to 92 per cent of the Arab region's foreign direct investment inflows and two thirds of the remittances the region received in 2020 (figure 8).

Figure 5. Arab countries' shares in the new SDR allocation (billions of United States dollars)



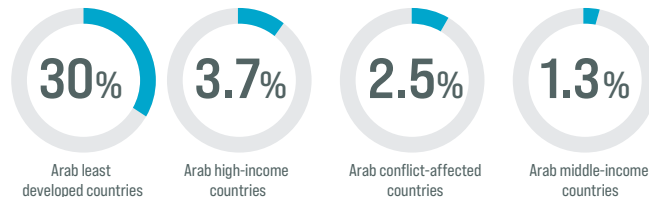
Source: ESCWA calculations based on IMF quotas.

Figure 6. Share of new SDR allocation to gross financing needs, 2021



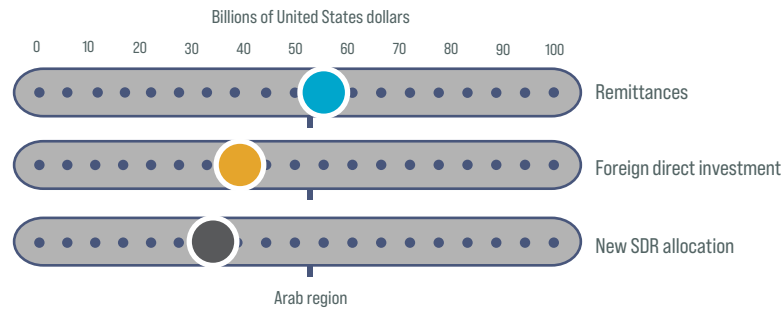
Source: ESCWA calculations based on IMF article IV and members' quotas.

**Figure 7. Share of the new SDRs to gross general public debt**



Source: ESCWA calculations based on IMF quotas.

**Figure 8. How the new SDRs compare to other financing flows**



Source: ESCWA calculations based on IMF quotas; UNCTAD, World Investment Report, 2021; and the World Bank Database.

## What is the cost of the new SDR allocation for Arab countries?

**An SDR general allocation is cost-free.** Once exchanged for any of the five hard currencies, the reserve asset can provide a liquidity boost without affecting the sustainability of public debt burdens. SDRs are not loans to be repaid, they hold no commercial conditionalities on their use, and have no deadline for repayment. They are not aid, so they do not require a-priori contributions from donor countries' budgets.

**The use of SDRs, however, is not cost-free.** When a country reduces its SDR holdings vis-à-vis its cumulative SDR allocation, it pays an SDR interest rate to IMF, which is currently set at 0.05 per cent for low-income countries borrowing from the IMF Poverty Reduction and Growth Trust (PRGT). Conversely, when a country holds SDRs in excess of its cumulative allocation, it earns the same rate on them. In other words, when a country receives new SDRs, it can sell them for cash at a price, or it can use them to bolster its reserves at no cost or free up liquidity for use elsewhere.

## How can the new SDRs boost liquidity and support Arab countries?

**Countries swap SDRs for hard currencies under voluntary arrangements.** The liquidity generated from such exchange can be used to support COVID-19 recovery, build post-pandemic resilience and finance the SDGs, meet short-term import bills, settle outstanding financial obligations, and service or pay off debt.


**Arab countries, particularly high-income economies** with sufficient access to debt and capital markets, can use the new SDR allocations to prudently relax fiscal policy and build financial buffers to improve their access and terms of borrowing from financial markets.


**Arab countries facing a liquidity crunch** may use the new SDRs to expand the fiscal space and avoid borrowing at high interest rates. Arab middle-income countries facing persistent current account deficits since 2008 may use the new allocations to cover recurrent fiscal and external imbalances that hamper recovery efforts and growth.



# Policy recommendations

While the new SDR allocation is a step in the right direction, it should be complemented by other actions to ensure that adequate levels of liquidity are channelled to Arab developing countries, including through the following:

 **Strong political commitment to rechannel the allocation of new SDRs and to create viable multilateral mechanisms to reallocate existing and unused SDR allocations** from advanced to developing countries. This includes expediting the establishment of the new IMF Resilience and Sustainability Trust for that purpose. **Unused reserve SDRs ran as high as \$175 billion at the end of 2020.**<sup>3</sup> Countries with sufficient international reserves may channel unused SDRs at no cost (donating them so to speak) to low- and middle-income countries, especially in the Arab region which is home to 37 per cent of the world's displaced persons and half the world's refugee population.

 **A concerted multilateral debt relief effort** to ensure that the liquidity created through the new SDRs are not sapped or diverted to external creditors. Until such a time, the G20 are called upon to extend the time horizon and broaden the scope of the Debt Service Suspension Initiative to include middle-income countries. Equally, there is a need to establish a multilateral debt restructuring body and credit rating agency to improve debt management repayment capacity to avoid recurring episodes of debt distress.

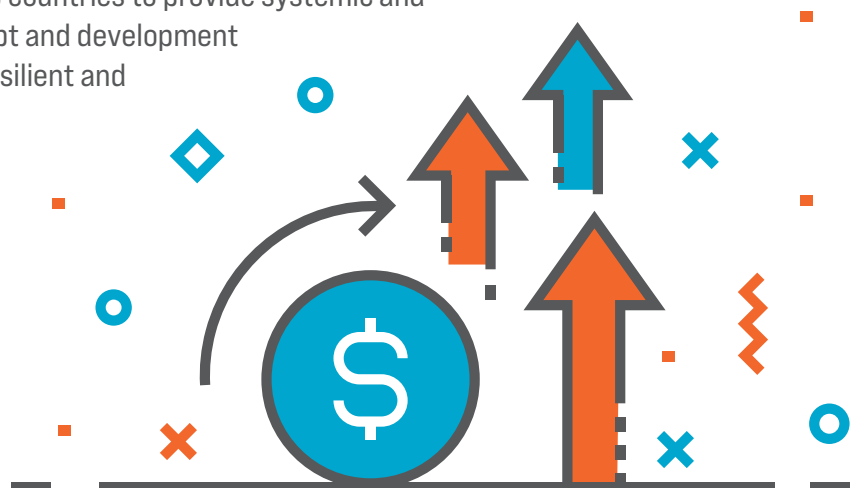
 **A code to ensure that the reallocation of SDRs is not counted or substituted** as part of the commitment to deliver the United Nations target on official development assistance (ODA) or other climate finance commitments. Equally, there is a need to reverse the trend where the grant component of ODA has been declining, and ODA has become less concessional. This calls to question whether ODA has been a contributing factor to the build-up of debt in developing countries.<sup>4</sup>

**In conclusion, the decision on how to use SDRs ultimately rests with recipient countries.**

**However, bold proposals are needed to consider the reallocation of the new and unused SDRs.** This should be pursued with a sense of urgency to end the vicious debt and underdevelopment cycle.

**Equally, alternate pathways should be considered to reallocate and pool new SDRs** from advanced economies with sufficient reserves, and from those with excess SDR holdings or unused allocations. More than ever, the values of global solidarity, equity, inclusion and multilateralism need to be activated and swiftly acted upon.

**The Solidarity Fund, advanced by ESCWA as part of the COVID-19 response strategy, can serve as a special purpose vehicle** or trust to pool both new and unused SDRs allocations. Through this Fund, grants and concessional financing would complement the PRGT concessional lending, and extend them to low- and middle-income Arab countries to provide systemic and interlinked regional responses to address debt and development challenges, and support efforts to achieve resilient and sustainable growth in the medium term.



## ENDNOTES

1. ESCWA, Syria at War: Eight Years On, 2020.
2. OCHA, Yemen Humanitarian update, July 2021.
3. Unused reserve SDRs are defined as holdings of SDRs in excess of a country's allocation. Unused SDRs idle at the IMF amounted to \$177 billion held by advanced economies at the end of 2019.
4. Inter-Agency Task Force on Financing For Development, Financing for Development Report, 2019.



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