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Options Paper for Channeling China's SDRs to Africa

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1 BACKGROUND ON SPECIAL DRAWING RIGHTS

Special Drawing Rights (SDRs) are an international reserve asset created by the International Monetary Fund (IMF) in 1969 to supplement the existing official reserves of its member countries¹. The creation of SDRs originates from concerns around the shortages of liquidity in the fixed exchange rate under the Bretton Woods system. By increasing the reserve assets of member countries, countries can decrease their dependence on domestic and external debt and grow their national savings, enabling them to trade globally and become more financially resilient.

Following its creation, in 1970, the first general allocation—SDRs 9.3 billion—was allocated among IMF members and have since then been periodically allocated in proportion to members' respective quotas². SDRs are neither a currency nor a claim on the IMF, but rather a basket of international currencies including the US dollar, the Pound Sterling, the Japanese Yen, the Euro and the Chinese Renminbi³. The IMF sets the value of the SDR daily, based on a fixed currency amount of those currencies as well as the daily market exchange rates between those currencies in the SDR basket⁴. Holding this basket of major currencies helps the IMF manage the exchange rate volatility of any single currency. SDRs are particularly unique as they do not create additional debt for a recipient country, and they come with no conditionality.

It is important to note that when an IMF member country receives an SDR allocation, the country receives unconditional liquidity represented by an interest-bearing reserve asset (SDR holding) and a corresponding long-term liability to the SDR Department (SDR allocation)⁵. A country receives interest on its SDR holdings and pays interest based on their allocation position. Thus, SDRs are treated as both an asset and a liability. If a country gives away their SDRs (lending, donating or exchanging for another currency), that country incurs a cost equivalent to the interest rate set out by the IMF. Therefore, most countries choose to lend their SDRs rather than donate them in order to offset the cost of the interest rate with the interest they receive from their loans.

SDRs can be traded for freely usable currencies between IMF members through voluntary trading agreements which are facilitated by the IMF to supplement existing reserves or to meet balance of payments issues. If, for instance, a country is running low on foreign currency—such as the US dollar—that country can exchange its SDRs for the needed currency. Member countries can also use SDRs to pay off loans, sell their SDRs or hold them as part of their foreign exchange reserves. Argentina for instance has used SDRs to partially pay off their debt to the IMF, Senegal has used its allocation for public expenditure and countries such as Iraq, Mauritania and Djibouti have exchanged their SDRs for hard currency.

When the SDR holdings position of the country equals its allocations position, interest received would balance the interest paid out. When a member country trades SDRs for freely usable foreign currency, their holdings fall below their allocations. That country then pays more interest than it receives based on the SDR interest rate.

¹ Special drawing rights. IMF. (n.d.). Retrieved from <https://www.imf.org/en/Topics/special-drawing-right>

² International Monetary Fund . (2021, August 23). Questions and answers on special drawing rights. IMF. Retrieved from <https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR>

³ Corporate Finance Institute. (2022, November 7). What are Special Drawing Rights (SDR). Corporate Finance Institute Team . Retrieved from <https://corporatefinanceinstitute.com/resources/economics/special-drawing-rights-sdr/>

⁴ International Monetary Fund . (2021, August 23). Questions and answers on special drawing rights. IMF. Retrieved from <https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR>

⁵ Corporate Finance Institute. (2022, November 7). What are Special Drawing Rights (SDR). Corporate Finance Institute Team . Retrieved from <https://corporatefinanceinstitute.com/resources/economics/special-drawing-rights-sdr/>

1.1 Defining the value of SDRs

The SDR was initially defined as equivalent to 0.888671 grams of fine gold—which, at the time, was also equivalent to one U.S. dollar.⁶ After the breakdown of the Bretton Woods system, the floating exchange rates among the major currencies also made the previous practice of valuing the SDR only in terms of the US dollar anomalous. The viable alternative was to value the SDR as equal to a basket of major currencies, i.e. those currencies mentioned above.

The currencies are chosen depending on how widely they are traded in the international exchange markets, and are reviewed and adjusted by the IMF executive board every five years.⁷ For example, in May 2022 it raised the U.S. currency's weighting to 43.38% from 41.73% and the yuan to 12.28% from 10.92%.⁸ The euro's weighting declined to 29.31% from 30.93%, the yen's fell to 7.59% from 8.33% and the pound fell to 7.44% from 8.09% starting from August 1⁹. These currency amounts remain fixed over the five-year SDR valuation period but the actual weights of currencies in the basket fluctuate as cross-exchange rates among the basket currencies move.¹⁰

1.2 Global Allocation of SDRs in 2021

Under the [Articles of Agreement](#), the IMF has the power to establish unconditional liquidity, known as “general allocations”, of SDRs to member countries. The largest and most recent SDR allocation was on August 23, 2021 where the IMF allocated SDR 456.5 billion (or 650 billion USD) to boost global liquidity and support members in their post-COVID 19 recovery.¹¹ Unfortunately, as general allocations are distributed to IMF member countries according to their quota, low-income countries and emerging markets received a mere 42.3% (approximately 275 billion USD) of the share.¹² In fact, African countries received roughly 33 billion USD, which is approximately 5% of the total August 2021 allocation, a sharp contrast to high-income countries such as the United States that received 113 billion USD, or 17% of the total allocation.¹³ This has sparked debate on the dire need for reform of the quota system and for more innovative mechanisms for channeling SDRs.

⁶ International Monetary Fund. (1979, January 1). *The SDR as a basket of currencies*. IMF eLIBRARY. Retrieved from <https://www.elibrary.imf.org/view/journals/024/1979/004/article-A001-en.xml>

⁷ Ibid

⁸ Xinhua. (2022, May). *IMF lifts weighting of RMB, dollar in SDR Currency Basket*. Xinhua. Retrieved from <https://english.news.cn/20220515/a5784acc49ad42b9beb49de1841e9852/c.html>

⁹ Bloomberg News. (2022, May 15). *IMF raises Yuan's weighting in SDR Basket amid weakness*. Retrieved from <https://www.bloomberg.com/news/articles/2022-05-15/imf-raises-yuan-s-weighting-in-sdr-currency-basket-pboc-says>

¹⁰ International Monetary Fund. (n.d.). *What is the SDR?* IMF. Retrieved from <https://www.imf.org/en/About/Factsheets/Sheets/2023/special-drawing-rights-sdr>

¹¹ International Monetary Fund (2021, August 23). *Questions and answers on special drawing rights*. IMF. Retrieved from <https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR>

¹² International Monetary Fund (2021, August 23). *Questions and answers on special drawing rights*. IMF. Retrieved from <https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR>

¹³ Warah, R. (2021, December 15). *Recycled SDRs could boost Africa's economic recovery*. ONE. Retrieved from <https://www.one.org/africa/blog/sdrs-africa-economic-recovery/>

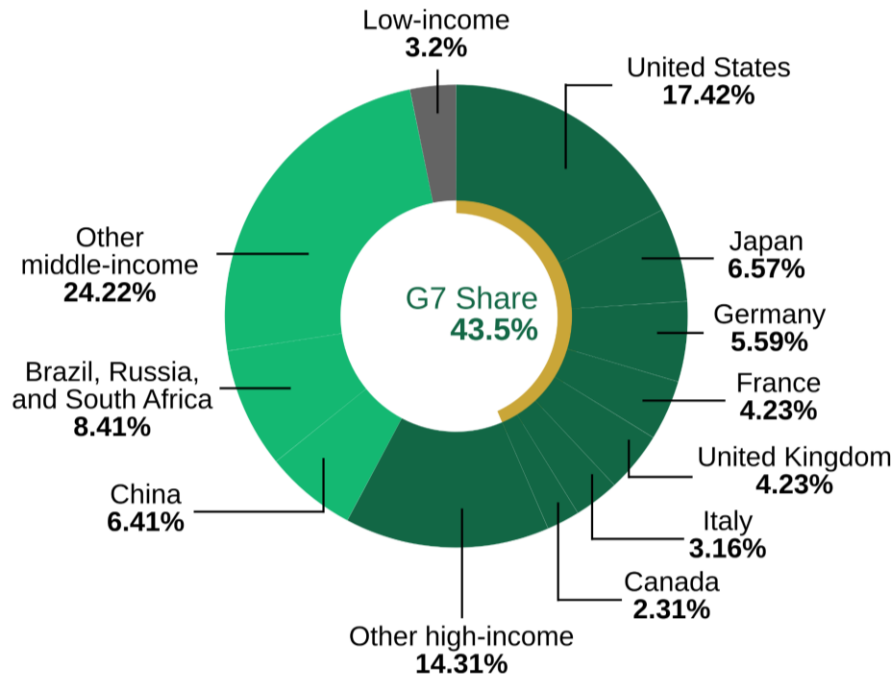


Figure 1: Percent Share of IMF 2021 Special Drawing Rights Allocation¹⁴

In addition to SDRs being held by IMF member countries, select official entities, referred to as “**prescribed holders**” can hold and use SDRs. As of today, there are twenty prescribed holders including: **four central banks** (European Central Bank (ECB), Bank of Central African States (BEAC), Central Bank of West African States (BCEAO), and Eastern Caribbean Central Bank (ECCB)), **three intergovernmental monetary institutions** (Bank for International Settlements (BIS), Latin American Reserve Fund (FLAR), and the Arab Monetary Fund (AMF)) and **thirteen development institutions** (African Development Bank (AfDB), African Development Fund (ADF), Asian Development Bank (ADB), International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA – both part of the World Bank Group (WB)), Islamic Development Bank (IsDB), Nordic Investment Bank (NIB), Caribbean Development Bank (CDB), the Development Bank of Latin America (also known as Corporacion Andina de Fomento or CAF), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IADB) and the International Fund for Agricultural Development (IFAD).¹⁵ The Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Caribbean

¹⁴ Adapted from: African Development Bank. (2022, April 15). Special drawing rights and reallocation for low income countries—the African Development Bank and IMF special drawing rights. Special Drawing Rights and Reallocation for Low Income Countries—The African Development Bank and IMF Special Drawing Rights. Retrieved from <https://www.afdb.org/en/documents/special-drawing-rights-and-reallocation-low-income-countries-african-development-bank-and-imf-special-drawing-rights>

¹⁵ International Monetary Fund . (2023, February 21). *IMF Executive Board approves the applications of five institutions to become holders of special drawing rights*. IMF Press Release No. PR2347. Retrieved from <https://www.imf.org/en/News/Articles/2023/02/21/exec-board-approves-applications-5-institutions-become-holders-sdr>

Development Bank (CDB), and the Latin American Development Bank (CAF) were recently approved to be prescribed holders in February 2023.

1.3 China's Commitment to Allocate SDRs to Africa

SDRs are a unique opportunity for African countries to recover from the effects of the COVID-19 pandemic and to continue to work towards meeting the continent's developmental goals and priorities as set out in Agenda 2063.

During the eighth Forum on China-Africa Cooperation (FOCAC) held in Senegal in November 2021, Chinese President Xi Jinping pledged to reallocate 10 billion USD or one quarter of China's 40 billion USD allocation to the Africa continent, drastically surpassing in percentage terms the pledges made by OECD countries such as France that pledged 20%.¹⁶ During the 2022 World Bank/IMF Spring Meetings, the People's Bank of China (PBoC) announced that China will support the IMF's Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST) by on-lending part of the 10 billion USD, focusing on supporting low-income countries, in particular, African countries.¹⁷

China, as one of the top financing partners in the continent and the number one bilateral trading partner, has been a key player in achieving the continent's goals and aspirations. China, in light of this announcement at FOCAC, has the opportunity to reallocate those SDRs either bilaterally or through different institutions. This options paper presents those different options for reallocation.

¹⁶ Ministry of Foreign Affairs of the People's Republic of China. (2021, November 30). *Forum on China-Africa cooperation Dakar Action Plan (2022-2024)*. Retrieved from https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/202112/t20211202_10461183.html; Reuters. (2022, December 2). *Breakingviews—France to release 5 BLN Euros of SDRs to vulnerable countries under G20 programme*. Reuters. Retrieved from <https://www.reuters.com/breakingviews/france-release-5-blnc-euros-sdrs-vulnerable-countries-under-g20-programme-2022-12-02/>

¹⁷ People's Bank of China [中国人民银行] (2022, April 22), *People's Bank of China Governor Yi Gang Attends the 45th International Monetary and Financial Committee Meeting by Video [中国人民银行行长易纲以视频方式出席第45届国际货币与金融委员会会议]*. Retrieved from <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4535591/index.html>

2 METHODOLOGY

This Options Paper sets out five options on how China can reallocate their SDRs to the African continent. The paper looks into the opportunities and challenges of each option and critically assesses each one based on bespoke criteria that reflect the interests and priorities of both Chinese and African stakeholders, explained below.

The five options are:

1. Reallocating SDRs through bilateral transfers
2. Reallocating SDRs through the African Development Bank's (AfDB) Hybrid Capital Instrument (HCI), Africa Growing Together Fund (AGTF) and Climate Action Window (CAW)
3. Reallocating SDRs through the IMF's Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST)
4. Reallocating SDRs through the World Bank (WB)
5. Exploring reallocation of SDRs through Non-Prescribed Holders: specifically, The Liquidity and Sustainability Facility (LSF)

FIVE OPTIONS FOR CHINA TO REALLOCATE ITS SDRS TO AFRICA

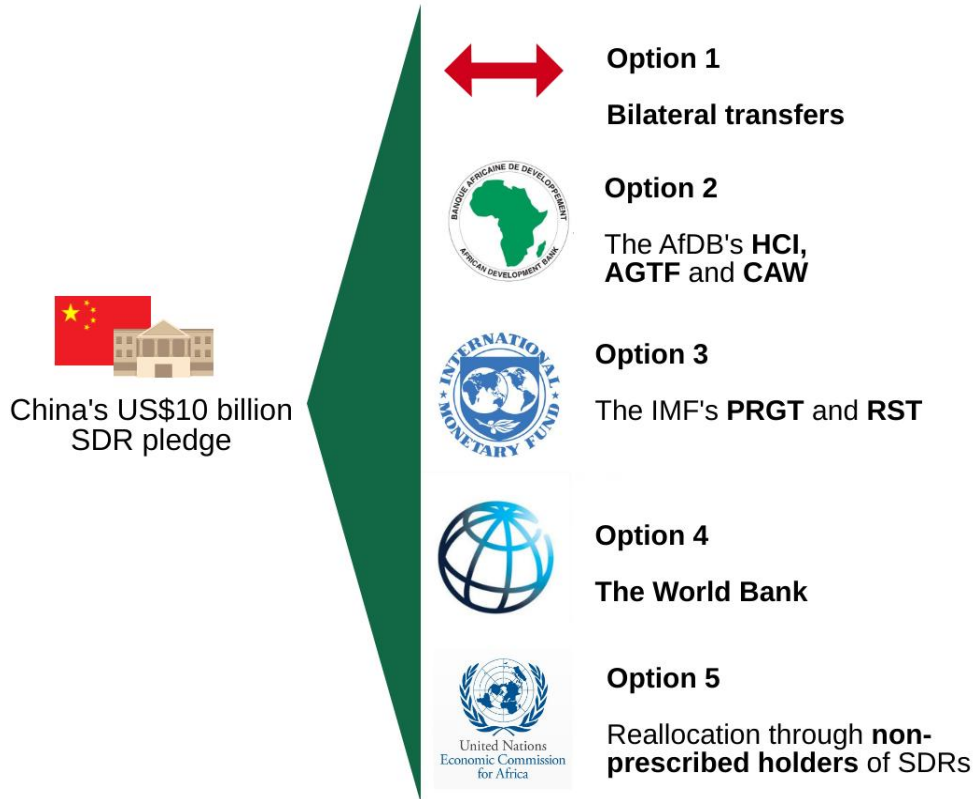


Figure 2: China's Options for Channeling SDRs to Africa.

This options paper brings together several sources of evidence. The paper has analyzed various reports and official documents of the IMF and several MDBs including the World Bank and the African Development Bank as well as publications of think-tanks and research institutions including the Center for Global Development (CGD) and Finance for Development Lab (FDL), to mention a few. Official websites of relevant African institutions, African and Chinese government agencies for press releases and research reports as well as articles and commentaries produced by African and Chinese scholars, think tanks and research institutions have also been analyzed. In addition, six in-depth interviews were conducted with officials from a range of countries that are working directly or have worked directly on the different options that are examined in this paper.

3 AFRICAN VIEWS ON SDRS

SDRs are beneficial to African countries for numerous reasons.

First, SDRs are unconditional. This means that African countries can use their SDRs how they see fit. This gives governments, who understand the needs and priorities of their countries the most, the freedom to use those SDRs in areas they believe will have the most impact.

Second, SDRs are critical in emergency responses by providing liquidity to countries when they need it. African countries that have used their SDR allocation for pandemic spending is a case in point.

Third, as African countries continue to struggle with foreign currency challenges, SDRs can be utilized as a tool to avoid an overdependence on the US dollar and a great diversification of reserved assets.

Fourth, when an African country uses their SDRs, their holdings fall below their allocations which means that country has to pay an SDR interest rate. Although this cost is unfortunate, for African countries it can be beneficial because the SDR interest rate is quite low compared to alternative sources of financing (currently at around 3%).¹⁸ If a country decides to use their SDRs and pay this interest rate, it means that these countries are borrowing at high-income country borrowing costs.¹⁹

3.1 Usage and Distribution of SDRs on the Continent

Unfortunately, as mentioned earlier, SDRs in general, and the latest allocation of SDRs, are unevenly distributed amongst IMF member countries, with African countries receiving a small percentage due to African countries' small economic size versus others. This uneven distribution, however, can also be seen on the African continent, with South Africa and Nigeria together holding more of Africa's SDR than 23 of the continent's lowest-income countries.²⁰ To put this into perspective, in the latest 650 billion USD SDR allocation, South Africa received 4.15 billion USD equivalent SDRs while Sao Tome and Principe received the least - at approximately 20 million USD equivalent, with the average allocation for African countries at 623 million USD.²¹

African governments have spent much more than this on economic and health recovery measures in 2020 and 2021. Analysis by Development Reimagined shows that African countries have spent approximately 130 billion USD in 2020 and 2021 to manage COVID-19, which is on average 2.4 billion USD per African country.²² Therefore, the 0.6 billion average allocation is not much at all.

¹⁸International Monetary Fund. (2023, March 5). SDR interest rate calculation. Retrieved from https://www.imf.org/external/np/fin/data/sdr_ir.aspx

¹⁹ Paduano, Stephen. "SDR Report Interview ." 3 Mar. 2023.

²⁰ Warah, R. (2021, October 6). *SDRs: A shot in the arm for African economies?* ONE Africa. Retrieved from <https://www.one.org/africa/blog/special-drawing-rights-sdrs-africa/>

²¹ International Monetary Fund . (2021, August). *2021 General SDR Allocation*. IMF. Retrieved from <https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation> and Author's analysis

²² Development Reimagined. (2022, January 14). *African countries had to spend billions to manage COVID-19 in 2021*. Development Reimagined. Retrieved from <https://developmentreimagined.com/2022/01/14/africancountriespending/>

The figure below is a simulation of the “large” SDR issuances to African countries compared to COVID-19 budgets that were set aside by African governments in 2020. These allocations are not sufficient to even meet the continent’s short term financing needs.

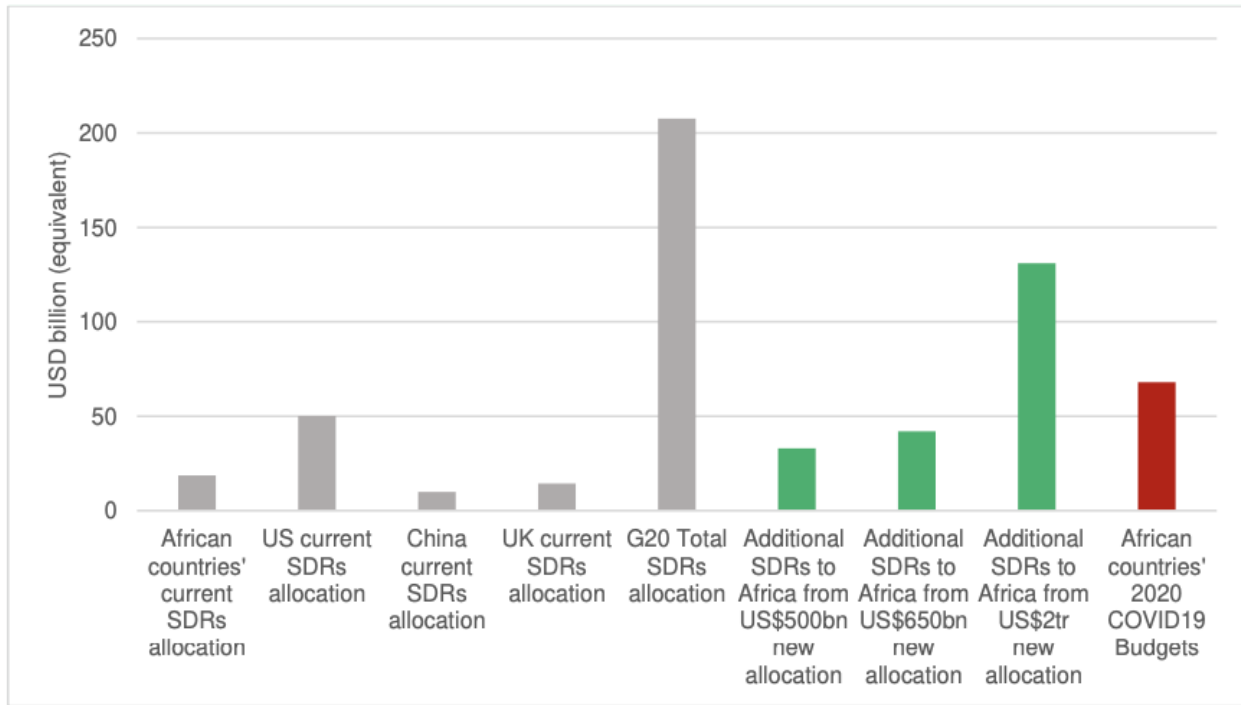


Figure 3: Distribution of SDRs.

Although many consider Africa’s SDR allocation and its distribution within the continent to be unfair, SDRs nonetheless have critical macroeconomic benefits for African countries. In fact, a closer look at the data shows that African countries have used their SDRs more than any other region, with a take up rate of close to 90%.²³ Over 50% of African countries have used their SDRs to supplement their national budgets as well as to bolster their foreign reserves (33.9%) and to support pandemic spending (22.6%).²⁴ African countries have also used their SDRs on debt servicing, social measures, public investment, and economic recovery to mention a few. This clearly demonstrates that African countries are committed to effectively using their SDRs. This increases the case for a greater reallocation of SDRs.

²³ This is from analysis of 47 out of 54 African countries

²⁴ International Monetary Fund. (n.d.). *SDR-Tracker*. IMF. Retrieved from <https://www.imf.org/en/Topics/special-drawing-right/SDR-Tracker> ; ONE Data. (2023, March). *Data Dive: Special Drawing Rights*. ONE Data & Analysis. Retrieved from <https://data.one.org/data-dives/sdr/> and Author’s analysis

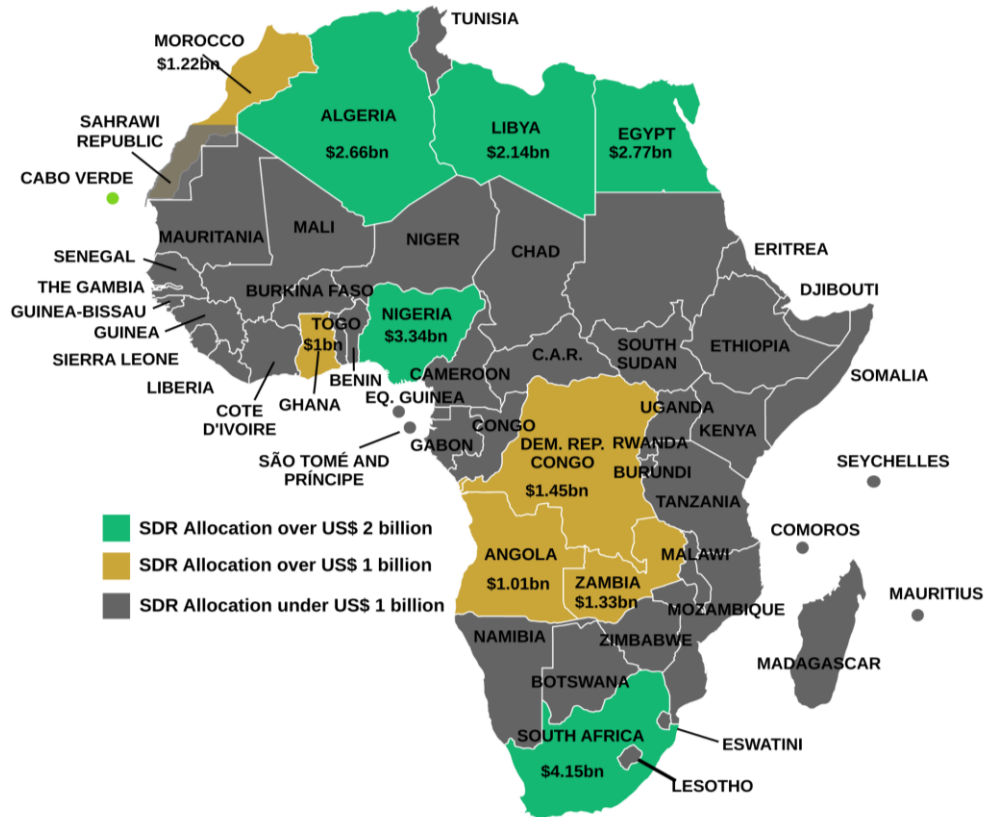


Figure 4: African Countries SDR Allocation.

3.2 African Priorities and Strategic Considerations

As China (and other countries) explore the different avenues for channeling SDRs to the continent, African priorities and interests need to be clearly understood. The continent's core developmental framework-Agenda 2063 provides a clear roadmap of the continent's aspirations, goals and steps to achieving the Africa envisioned by all 55 countries. Agenda 2063 takes into consideration the ongoing structural transformation, economic growth and social progress and emerging development and investment opportunities on the continent. Each priority area of Agenda 2063 is also inextricably linked to the Sustainable Development Goals (SDGs) and the African Continental Free Trade Area (AfCFTA) which was the theme of this year's African Union Summit "The Year of AfCFTA: Acceleration of the African Continental Free Trade Area Implementation".²⁵

Another key area of focus for the continent is the establishment of an African Monetary Fund (AMF), an African Investment Bank (AIB) and an African Central Bank (ACB), institutions that are vital for providing robust debt solutions on the continent. Africa is the only region in the world that does not have its own monetary fund. The purpose of the AMF is to facilitate the integration of African economies through

²⁵ African Union. (n.d.). *African Union: An integrated, prosperous and peaceful Africa*. Retrieved from <https://au.int/en/summit/36>

greater monetary integration and remove trade restrictions. The AMF will become a pool for the reserves of the ACB and the currencies of all AU member states. The AMF is vital for the continent and will serve as Africa's own IMF, essentially a lender of last resort for African countries and have the power to survey the macro-economic conditions of AU member states.²⁶ The AIB on the other hand will mobilize resources from capital markets within and outside of the continent, promote both private and public investment and provide technical assistance and investment for development projects.

In addition, another priority for the continent is the establishment of a Pan-African Payments and Settlement System (PAPSS) launched by the African Export-Import Bank (Afreximbank) and the AfCFTA secretariat in 2022. PAPSS is a system that facilitates cross-border payments in local currencies between African countries, allowing African countries to conduct transactions without the need for hard currency.²⁷

African countries continue to prioritize economic diversification, industrialization, domestic resource mobilization, increased exports and digitalization, all with the focus of a structural transformation approach to development.

It is also important to underscore that one of the benefits of reallocating SDRs to African institutions such as the African Development Bank is that these institutions have the priorities of African countries embedded in their work. For instance, AfDB has High Five priority areas that are linked to the SDGs, Agenda 2063, the Bank's Ten-Year Strategy (TYS) and other global commitments.²⁸ The high fives are centered around energy, agriculture, industrialization, integration and quality of life.

²⁶ African Union. (n.d.). *Protocol on the establishment of the African Monetary Fund*. Protocol on the Establishment of the African Monetary Fund | African Union. Retrieved from <https://au.int/en/treaties/protocol-establishment-african-monetary-fund>

²⁷ Muya, C. (2022, April 20). *Why PAPSS is a life changer for African Business: ABSA CIB*. Absa. Retrieved from <https://cib.absa.africa/home/insights-and-events/why-papss-is-a-game-changer-for-african-business/>

²⁸ African Development Bank. (n.d.). *The high 5s*. African Development Bank . Retrieved from <https://www.afdb.org/en/high5s>

4 CHINESE VIEWS ON SDRS

4.1 China's strategic considerations: broaden the use of SDRs and enhancing RMB in the international monetary system.

In October 2016, the IMF formally added the RMB to the basket of currencies that define the value of the SDR.²⁹ As these currencies are selected based on their wide range of use in international trade and finance, it marked an important milestone of the RMB's route to internationalization, a strategic objective that China had begun pursuing in the aftermath of the 2008 financial crisis. The goal was to increase the use of the RMB in global trade, reserve-inholding, and overseas investment in order to reduce world reliance on the U.S. dollar and stabilize the international monetary environment.³⁰

Given the small share of the RMB in the global foreign exchange reserves³¹ and the low level of financial liberalization³², some observers argued that the short-term implication of RMB's inclusion in the basket was more symbolic than substantive. From a long-term perspective, however, the inclusion in the SDR basket could be perceived as the IMF having recognized the RMB as a freely usable currency³³ and provided a justification for foreign central banks, particularly in countries having close trade ties with China, to increase the RMB share in their reserve holdings in the future.³⁴ In the long-term, reserve currency status could confer several benefits including lowering China's borrowing cost in the international financial market and helping to mitigate capital outflows from external shocks.³⁵ While China continues to gain more influence in international trade and finance, the inclusion of the RMB in the SDR

²⁹ Central Banking. (2021, August). *The Renminbi's inclusion in the SDR adds impetus to its internationalisation*. Central Banking. Retrieved from <https://www.centralbanking.com/central-banks/currency/7863626/the-renminbis-inclusion-in-the-sdr-adds-impetus-to-its-internationalisation>

³⁰ Hong Kong University of Science and Technology. (n.d.). *Renminbi Internationalization: The Prospects of China's Yuan as the Next Global Currency*. HKUST IEMS. Retrieved from <https://iems.ust.hk/publications/thought-leadership-briefs/renminbi-internationalization-the-prospects-of-chinas-yuan-as-the-next-global-currency>

³¹ The renminbi's share of the world's foreign exchange reserves was 2.88% by the second quarter of 2022, up from 1.08% when it was first included in the IMF's special drawing rights basket in Q4 2016. Choi 08 Dec 2022, J. (2022, December 8). *RCEP and Renminbi's role as a reserve currency*. Central Banking. Retrieved from <https://www.centralbanking.com/central-banks/reserves/foreign-exchange/7953921/rcep-and-renminbis-role-as-a-reserve-currency#:~:text=The%20renminbi's%20share%20of%20the,rights%20basket%20in%20Q4%202016>

³² Reuters (2015, November 10). *China Finance: RMB's SDR membership is more symbolic, local currency internationalisation can be regionalised first, according to expert [中国金融：人民币加入 SDR 象征意义更大·本币国际化可先区域化-专家]*. Retrieved from <https://www.reuters.com/article/idCNL3S1343QU20151110>

³³ A freely usable currency is defined by the IMF to be widely used to make payments for international transactions and to be widely traded in the major exchange markets. In other words, the currency is not strictly required to be a fully convertible currency, in which case RMB meets the criterion. Note that the JPY also only became fully convertible in 1980, two years after being declared freely usable by the IMF; Zhuang, A., & Svendsen, A. (2015). CNY: the SDR basket and its implications. *Nordea Research*. Retrieved from <https://corporate.nordea.com/api/research/item/23212.pdf>

³⁴ Jiang N. (2015, November 10). *Jiang Nan: The RMB Evolution of the SDR [姜楠：SDR 的人民币演义]*. Retrieved from <http://www.imi.ruc.edu.cn/IMIsd/gjlr/0df09b0e07964a59bc551abbd7142ef4.htm>

³⁵ Zhuang, A., & Svendsen, A. (2015). CNY: the SDR basket and its implications. *Nordea Research*. Retrieved from <https://corporate.nordea.com/api/research/item/23212.pdf>

basket could elevate the influence of the SDR and enable it to play a greater role in international financial markets.³⁶

China's support for increasing the use of the SDR in financial markets reflects its long-standing position that the international monetary system needs rebalancing and to shift away from the US dollar.³⁷ As early as 2009, this support was voiced strongly by Zhou Xiaochuan, then-Governor of PBoC. In his 2009 proposal, Zhou argued that "the SDR has features and potential to act as a super-sovereign reserve currency... that is disconnected from individual nations and is able to remain stable in the long run", with the required steps including an increase in SDR allocation, a settlement system with other currencies, and promoting SDR-denominated securities.³⁸ This proposal was welcomed by the IMF and many international commentators with calls to develop the SDR as a true global currency. During the G20 Hangzhou Summit in 2016, the same year of the RMB's inclusion in the basket, the Leaders' Communique specifically addressed the consensus for supporting broader use of SDRs.³⁹

Meanwhile, experts who work on China's involvement with international financial institutions are aware of the considerable difficulties to initiate any top-down style reforms. For example, Lin Jianhai, the former Secretary-General of IMF, asserted that despite prior proposals to designate the SDR as a super-sovereign reserve currency, it is surreal to achieve international consensus given the political and economic constraints as well as the technical challenges associated with establishing the necessary regulations and operational framework.⁴⁰ Similarly, from a strategic perspective⁴¹, Wei Benhua, former Deputy Director of the State Administration of Foreign Exchange (SAFE) and former Executive Director of China at the IMF, argued that, in order to strengthen the internationalization of the RMB, it would be more practical to work toward a more diversified international monetary system supported by the triangular combination of the U.S. dollar, the euro, and the RMB. One such practical measure would be to make sure that the SDR quota allocated to low-income countries is steadily rising, if only by a small amount.⁴²

Echoing Zhou's proposal to strengthen the reserve currency status of SDR following the financial crisis, China has actively called for expanding the usage of SDR as a solution to post-pandemic global recovery. Yi Gang, the current governor of the PBoC, pointed out in his Financial Times article published in July 2020 (which is much earlier than the historic SDR allocation in 2021) that the SDR mechanism had been absent

³⁸ Zhou, X. (n.d.). *Zhou Xiaochuan: Reform the international monetary system*. Retrieved from <https://www.bis.org/review/r090402c.pdf>

³⁹ G20 China. (2016, September). *G20 Leaders' Communique Hangzhou Summit*. G20 2016 China. Retrieved from https://www.g20.org/content/dam/gtwenty/about_g20/pdf_leaders_declaration/2016_G20%20Leaders%27%20Communique%20Hangzhou%20Summit.pdf

⁴⁰ International Monetary Institute [国际货币网](2022, June 18). *Seminar on "SDR and International Monetary System Reform" and Big Finance Salon (No.185) was successfully held online* ["SDR 与国际货币体系改革"专题研讨会暨大金融思想沙龙(第185期)线上成功举行]. Retrieved from <http://www.imi.ruc.edu.cn/IMIdt/djrsxsl/d7b7eb1a42b441de8b49c0156959a377.htm>

⁴¹ According to Wei, if the SDR were to become the primary reserve asset, the IMF would gain some control over monetary policy, which is difficult for sovereign states to accept. Reaching such a scenario would also require the increase of SDR allocation in order to weaken the power of the U.S. dollar is clearly against the interests of the United States, whose priority is to maintain the dollars' dominance in the global currency.

⁴² *ibid*

from the IMF's response measures to the COVID-19 pandemic. Yi argued that a general SDR allocation would have a greater marginal impact on increasing the international reserves of the world's poorest countries than the G20-agreed debt suspension, and ideally there should be a special SDR allocation based on the needs of IMF members rather than to the size of each country's IMF quota.⁴³ In keeping with the opinions of the experts previously mentioned, empowering SDR may be a workable strategy to realize China's strategic ambition to start reforms with the current international monetary system, and the allocation of SDR to African countries may be a "bottom-up" move starting from a regional scale.

4.2 China's institutional landscape: SDR policies and usage

China's strategic planning and execution of SDR policies is shared between several key government agencies and state-owned banks. In brief:

- The People's Bank of China, the country's central bank and prescribed holder of SDRs, sets policies for SDR use and executes some policies directly while promoting other uses by China's state-owned "policy banks" and other domestic institutions.
- The Ministry of Finance and Ministry of Foreign Affairs determine the role of SDRs in China's strategies for international development and other regional priorities.⁴⁴

Table 1: Key institutions, stated roles, and recent actions related to SDRs.

Institution	Stated Role	Recent Actions since 2016
People's Bank of China (PBoC)	<p>Holds China's SDRs; promotes and executes SDR usage policies.</p> <ol style="list-style-type: none"> 1. Define the role of SDRs in China's financial system. 2. Execute plans to incorporate SDRs into domestic financing instruments, e.g. SDR bonds. 3. Executes monetary policy, including using SDRs to help stabilize 	<ol style="list-style-type: none"> 1. Since April 2016, the PBoC began to report foreign exchange assets and reserves in both dollar terms and SDR terms.⁴⁵ 2. In August 2016, the PBoC approved the World Bank to issue bond denominated in SDRs in the domestic market⁴⁶. 3. In April 2017, PBoC governor Yi Gang

⁴³ Yi, G. (2020, July 16). *The IMF should turn to special drawing rights in its COVID-19 response*. Retrieved from: <https://www.ft.com/content/e7efef20-3960-46e7-922b-112dba8f2def>

⁴⁴ The Ministry of Finance (externally) participates in the making of China's multilateral aid policy; communicates China's policies on macroeconomic development and global economy with multilateral development banks. In December 2022, the Minister of Finance discussed macroeconomic policies and global finance governance issues with the heads of major institutions including the World Bank, IMF, OECD, etc, and signed an MoU with the IMF. IMF (2022, December 9). *Statement by IMF Managing Director Kristalina Georgieva on the Seventh "1+6" Roundtable in China*. Retrieved from <https://www.imf.org/en/News/Articles/2017/05/14/pr17167-imf-and-china-establish-a-new-center-for-modernizing-economic-policies-and-institutions>

⁴⁵ State Administration of Foreign Exchange (2017). *Official Reserve Assets (2016)*. Retrieved from <https://www.safe.gov.cn/en/file/file/20180517/54673fdd29784f43add070617ebe17ec.xlsx?n=Official%20reserve%20assets%E%BC%882016%E%BC%89>

⁴⁶ People's Bank of China [中国人民银行] (2016, August 11). *Approval of the People's Bank of China on the Issuance of SDR-denominated Bonds by the International Bank for Reconstruction and Development in the Interbank Bond Market [中国人民银行关于国际复兴开发银行在银行间债券市场发行特别提款权计价债券的批复]*. Retrieved from: <https://thedocs.worldbank.org/en/doc/187891532371937581-0340022018/original/sdrbond2016pbocapprovalchinese.pdf>

	<p>exchange rates.</p> <p>4. Potentially provide strategic advice for African recipients of reallocated SDRs on the use of SDRs.</p>	<p>criticized the global SDR market for illiquidity, specifically noting that "hedging and settlement costs are relatively high."⁴⁷</p> <p>4. In May 2017, IMF and PBoC established China-IMF Capacity Development Center (CICDC). It provides hands-on training courses and workshops on macroeconomic issues to government officials from China and other countries—including from countries associated with the “Belt and Road” Initiative and helps with effective institution-building and policy-making.⁴⁸</p>
<p>State Administration of Foreign Exchange (SAFE)</p>	<p>A subsidiary department of PBoC that operates and manages China’s foreign reserves.</p> <ol style="list-style-type: none"> 1. Sets the RMB convertibility and exchange rate policy, provides guidelines for foreign exchange market 2. Compiles balance of payments and external debt statistics. 	<ol style="list-style-type: none"> 1. In January 2021, SAFE amended the Guidelines for Interbank Foreign Exchange Market Makers to optimize the management.⁴⁹ 2. SAFE releases monthly data on foreign exchange settlements, transactions in the Chinese foreign exchange market, international trade in goods and services.⁵⁰
<p>Ministry of Foreign Affairs (MOFA)</p>	<p>In charge of China’s engagement with international and regional institutions; has a key role in determining regional priorities.</p>	<p>In May 2022, Wu Peng, Director of the African Affairs Department of the Ministry of Foreign Affairs, spoke with the IMF African Department on Africa-China financing cooperation, including the transfer of SDRs to African countries.⁵¹</p>

⁴⁷ Xinhua (2017, April 22) . *China's central bank can promote wider use of SDR, central banker says*. Retrieved from http://www.xinhuanet.com/english/2017-04/22/c_136227850.htm

⁴⁸ IMF (2017, May 14). *IMF and the People’s Bank of China Establish a New Center for Modernizing Economic Policies and Institutions*. Retrieved from <https://www.imf.org/en/News/Articles/2017/05/14/pr17167-imf-and-china-establish-a-new-center-for-modernizing-economic-policies-and-institutions>

⁴⁹ State Administration of Foreign Exchange (2021, January 18). *Circular of the State Administration of Foreign Exchange on Amending the Guidelines for Interbank Foreign Exchange Market Makers*. Retrieved from <https://www.safe.gov.cn/en/2021/0108/1792.html>

⁵⁰ See <https://www.safe.gov.cn/en/DataandStatistics/index.html> for data and statistics released by SAFE.

⁵¹ FOCAC (2022, May 11). *Director-General of the Department of African Affairs of the Foreign Ministry Wu Peng Meets with Director of the African Department at the IMF Abebe Aemro Selassie via Video Link*. Retrieved from http://www.focac.org/eng/zfzs_1/202205/t20220511_10684212.htm

<p>Policy Banks (i.e., China Development Bank, China Eximbank)</p>	<p>Chartered to implement state policies in industries, trade, infrastructure, foreign aid and provide financial support (e.g. credit, loans and equity funds) to relevant companies.</p> <ol style="list-style-type: none"> 1. Leads the management of SDR— Denominated Bonds in the Interbank Market in China 2. Manages The concessional loan and preferential export buyer's credit, as a part of Chinese foreign aid system 	<ol style="list-style-type: none"> 1. In 2016, China Development Bank (CDB) worked closely with the World Bank on the issuance of the very first SDR-denominated bond in the China interbank market.⁵² 2. In 2020, two official bilateral creditors (Eximbank and CIDCA) have suspended \$1.3 billion in debt service in 23 countries worldwide under the G20 DSSI.⁵³
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4.3 China’s regional priorities in Africa

China’s priorities in its engagement with Africa were recently captured at the Eighth Ministerial Conference of FOCAC in 2021, which produced the 2035 Vision for China-Africa Cooperation, the Declaration on China-Africa Cooperation on Combating Climate Change, and the Dakar Declaration.

As set forth in these documents, China is interested in financing a broad range of economic, social and climate goals, which will influence the priorities that China seeks in designing its SDR reallocation.

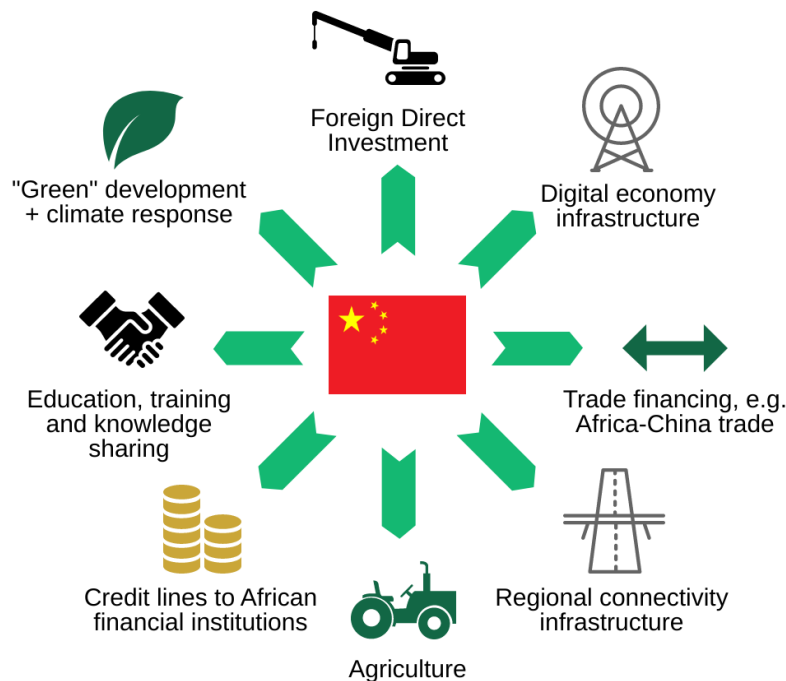
In the Dakar Action Plan, China has made specific cooperation commitments in the areas of infrastructure, finance, digital innovation, green development, and climate response to mention a few. China has committed to financing 10 regional connectivity projects, 10 billion USD in credit lines to African financial institutions, 10 billion USD in trade financing and much more.⁵⁴

⁵² World Bank (2016 August 31). *World Bank Successfully Prices Oversubscribed Landmark SDR Denominated Bond in China*. Retrieved from <https://www.worldbank.org/en/news/press-release/2016/08/31/world-bank-successfully-prices-oversubscribed-landmark-sdr-denominated-bond-in-china>

⁵³ FOCAC [中非合作论坛] (2020, November 20). *Minister of Finance Liu Kun interviewed by journalists on the Group of 20 (G20) debt agenda* [财政部部长刘昆就二十国集团(G20)债务议程接受记者采访]. Retrieved from http://www.focac.org/chn/zfgx/zzjw/202011/t20201120_8054307.htm

⁵⁴ Thomas, D. (2021, November 29). *What did FOCAC 2021 deliver for Africa?* African Business. Retrieved from <https://african.business/2021/11/trade-investment/what-can-africa-expect-from-focac-2021/>

CHINA'S SDR REALLOCATION WILL LIKELY ALIGN WITH ITS REGIONAL PRIORITIES IN AFRICA, AS OUTLINED AT FOCAC 2021



Based on these overarching priority areas outlined at FOCAC 2021, it is expected that China will prioritize channeling SDRs through instruments that focus on delivering tangible results in these fields.

4.4 Assessment criteria for the five options

This paper critically examines the options against **five** bespoke assessment criteria (see below) which consider the African and Chinese priorities explained above, and the commitments made by China and African countries at FOCAC 2021. Each criterion is given between 1-10 points, with an option having a maximum of 50 points. This scoring analysis is used to inform conclusions on the “best” channel(s) for China’s reallocation.

1. **Numbers and Types of Countries Benefiting:** This criterion considers how many countries stand to benefit from the option assessed. Given how Chinese development banks have operated to date, the assumption behind this criterion is that China prefers more countries to benefit than less. In this respect, the criterion also considers whether African countries at different income levels will benefit—and assumes that the more diversity in income levels, the better. Thus, if China were to reallocate through that option, how many countries stand to benefit? Is it limited to only low-income countries (PRGT)/middle income countries (AfDB hybrid capital)? Can this option be targeted to the African continent?
2. **Distribution of Financing Towards Growth-Inducing Projects:** This criterion aims to assess the option depending on which sectors stand to benefit from the additional financing, and if so, whether this

aligns well with African and Chinese aspirations as set out in FOCAC 2021. For example, the criterion explores whether financing might be focused on climate-friendly projects, given the emphasis in FOCAC 2021 in this area. The criterion also explores the degree to which infrastructure may be a key financing area, given China's expertise in this area. Analyzing how each option aligns with Africa's developmental priority areas as well as any evidence that the option takes advantage of China's unique or added value of expertise/support is essential. Therefore, if SDRs are to be channeled through that option/instrument, will that funding only be limited to a few sectors/ issues (only climate change, pandemic response, etc.)?

3. **Clear SDR reallocation process:** Before committing to reallocating SDRs through a specific instrument/option, Chinese stakeholders as well as recipient African countries will want to know the details of that reallocation process. Does it require IMF approval? Will contributor countries be able to draw from their loans in the event of financial distress?
4. **Results Monitoring:** Once the SDRs have been reallocated and countries have begun to benefit from the reallocation, it is important to understand whether China and African governments, businesses and citizens can see how that funding has supported individual countries, projects and activities. A clear monitoring and implementation process and the ability to record and evaluate tangible results will be preferred.
5. **Maintaining Sovereignty:** This criterion explores the level of ownership that African countries have when receiving finance. Essentially, this criterion assesses the degree in which African countries can direct the financing they receive to areas that are most needed as opposed to where lenders believe the money should be spent on. Financial instruments should prioritize the needs and demands of African countries and their citizens without any restrictions. Therefore, options that have conditionalities or strings attached will be scored lower.

5 OPTION: BILATERAL TRANSFERS

Under the IMF's Articles of Agreement, bilateral lending and donations of SDRs are allowed. According to the IMF:

*"In **bilateral agreements**, SDR participants or prescribed holders agree among themselves to buy or sell SDRs bilaterally. Both parties to a voluntary bilateral trade inform the IMF about the terms of the trade by sending requests from their fiscal agents, including the proposed value date. The IMF official exchange rates are used for these trades."*⁵⁵

There is however little indication that many high-income countries are considering this option. This is also primarily due to domestic legal and legislative obstacles.⁵⁶ When a country, such as China, decides to loan a country a billion dollars in SDRs, then both China and the recipient country has to pay interest. China will either have to pay the 3% interest⁵⁷ as their holdings are now less than their allocations or transfer that interest rate cost to the borrowing country. In addition, the majority of the countries that have received the most SDRs are European countries, and for these European countries, the European Central Bank (ECB) does not permit bilateral SDR lending. Therefore, due to interest rate complications for countries that are willing to do bilateral transfers, coupled with ECB restrictions, bilateral transfers are rare. Furthermore, there are few countries (if any) that would want (prefer) a bilateral loan in SDRs as opposed to another currency.

Nevertheless, an interesting example of a bilateral transfer was by Saudi Arabia, which announced that it has deposited 3 billion USD to the Central Bank of Egypt in 2021 and 3 billion USD to Pakistan.⁵⁸ Some reports claim that Saudi Arabia's transfer was part of the country's COVID-19 relief efforts.⁵⁹

5.1 China's Considerations on SDR functions and relations with IMF

Theoretically, reallocation through bilateral transfer is the fastest way to boost the international reserve⁶⁰ of African countries compared to lengthy procedures to deal with IMF rechanneling instruments. African countries can directly use the allocated SDRs to pay debt services to other SDR holders, especially the IMF and the World Bank.

⁵⁵International Monetary Fund. (2021). Guidance note for fund staff on the treatment and use of SDR allocations, 1–44. Retrieved from <https://doi.org/10.5089/9781513593340.007>

⁵⁶ Arauz, A., Cashman, K., & Merling, L. (2022, April). *Special Drawing Rights: The Right Tool to Use to Respond to the Pandemic and Other Challenges*. Retrieved from <https://cepr.net/wp-content/uploads/2022/04/SDR-Usage-PDF.pdf>

⁵⁷ According to the current SDR interest rate: International Monetary Fund. (2023, March 5). SDR interest rate calculation. Retrieved from https://www.imf.org/external/np/fin/data/sdr_ir.aspx

⁵⁸ Arab News. (2021, October 31). *Saudi Arabia deposits \$3bn at Egyptian Central Bank; extends the term of a current \$2.3bn*. Arab News. Retrieved from <https://www.arabnews.com/node/1958636/business-economy> and Plant, M. (2022, May 25). *The Best Options for Recycling SDRs*. Center for Global Development | Ideas to Action. Retrieved from <https://www.cgdev.org/blog/best-options-recycling-sdrs>

⁵⁹ Central Banking . (2021, November 1). *Saudi Arabia gives \$3 billion to Egyptian Central Bank*. Central Banking. Retrieved from <https://www.centralbanking.com/central-banks/reserves/7893066/saudi-arabia-gives-3-billion-to-egyptian-central-bank>

⁶⁰ The majority of countries keep SDRs as a part of their international reserves, much like dollars, yen, or euros, even if each has its own internal regulations for how to use its SDRs.

As the central bank of the African countries are the main holders of these SDRs, SDRs directly reallocated through bilateral transfers can play a role similar to currency swaps⁶¹ between central banks and provide RMB liquidity (given RMB is a ‘freely usable currency’) to African countries.

Over the past few years, to advance the RMB internationalization strategy, the PBOC has arranged bilateral currency swaps with central banks around the world. As evidence suggests, currency swaps can help increase bilateral trade⁶² and integration into global value networks through exports to China, especially for smaller, trade-deficit and low-reserve economies. The central banks of three African countries, namely Nigeria, Egypt and South Africa have entered into swap agreements with PBOC. The SDRs can also be used indirectly (after being converted into freely usable currencies) to meet other foreign exchange demands, such as paying for imports. Thus, countries that received SDR transfers will further enhance their economic engagements with China. Such functions are critical for China’s priorities in RMB internationalization and diversifying the use of SDRs through alternative options outside the IMF.

However, the most apparent advantage of bilateral transfers to bypass the IMF, could also cast a cloud over China’s relations with those major international lenders. China and the IMF have long-standing disagreements over interests in Africa. The Fund came under intense pressure from its American and European members to hold China accountable for its loan obligations in Africa. China, however, has a strong mistrust of the Fund, which it accused of exclusively prioritizing its geopolitical competitors’ interests and concerns. Using the bilateral transfer could be seen as a challenge to the established institutional structures and endangering the relations even further. After the SDR allocation in August 2021, among G7 and G20 members there was an apparent preference for a collecting strategy over reallocating bilaterally. The reason being that too much flexibility for bilateral transfers might raise concerns among G7 and G20 countries as SDRs can be used by political rivals such as the US and China as a competition tool.⁶³ Following up with such concern, the IMF may impose strict transparency requirements to any bilateral transfers conducted.

⁶¹ Currency swap lines are arrangements whereby two central banks agree to acquire each other’s currency in exchange for their own, either used limit or in unlimited amounts.

⁶² Hao, K., Han, L., & Li, T. W. (2022, September). The impact of China’s currency swap lines on bilateral trade. *International Review of Economics & Finance*, 81, 173–183. <https://doi.org/10.1016/j.iref.2022.05.004>

⁶³ Frühauf, A. (2021, August 23). Sub-Saharan Africa: IMF SDRs – Trickle-Down or Redistribution. Retrieved from <https://www.teneo.com/sub-saharan-africa-imf-sdrs-trickle-down-or-redistribution/>

5.2 Assessment of bilateral transfers from China to African countries

Criterion	Rating (1-10)	Explanation
Number and Types of Countries Benefiting	3	It is likely that only selected African countries that already have past experience in cooperation between central banks will receive the bilateral transfer. Currently only three African countries have signed currency swaps with China. It is also possible that bilateral transfer of SDRs could create an opportunity for China to make currency swap lines with more African countries.
Distribution of Financing	4	There is no information released about how the SDRs will be distributed to specific sectors and it will most likely be on a country-to-country basis. The usage of those SDRs will likely reflect the priorities outlined in FOCAC commitments on supporting sustainable development in African countries.
Clear SDR Reallocation Process	2	There is a lack of information on how existing cases of SDR bilateral transfer happen, and it would depend on negotiations with different countries.
Results Monitoring	2	There is a lack of information on the evaluation, but the IMF (and its stakeholders) might request more transparency.
Maintaining Sovereignty	8	Since China frequently criticizes the IMF and the World Bank for its conditionalities, it's unlikely that China itself will attach many.

6 REALLOCATION THROUGH MULTILATERAL DEVELOPMENT BANKS

Multilateral Development Banks (MDBs) are institutions created by sovereign states to promote economic and social progress. As long-term external financing sources, they are often called upon to provide critical financial and policy support to countries in need worldwide. MDBs provide funding in the areas of health, climate, infrastructure, energy, education and much more. MDBs have strong standings in capital markets (e.g. the African Development Bank has a AAA rating) and can absorb risks on their balance sheets, allowing them to provide lending in more affordable terms to member states.

At a period when countries are struggling to recover from the effects of the COVID-19 pandemic and the Russia-Ukraine War, countries are in need of critical financing now more than ever. In fact, as a result of the pandemic, the financing needed to meet the Sustainable Development Goals (SDGs) has reached 17.9 trillion USD over 2020-2025, according to UNCTAD.⁶⁴ On the African continent, according to the AfDB, there is an annual 108 billion USD financing gap on infrastructure alone.⁶⁵ Despite such figures, MDBs are still constrained by insufficient funding.

As debates around the need for a radical shift in the international financial system continue, there has been a major push to find alternatives to channeling SDRs outside of the IMF, particularly through MDBs. However, MDBs have received strong political opposition driven by technical constraints around channeling SDRs (see Box 1).

MDBs are eager to get SDR contributions as a way to expand their capital, boost their balance sheets and have an even bigger role in the global financial system. With approximately 400 billion USD of the August 2021 SDRs still unused, it is incumbent on world leaders and relevant stakeholders to explore the opportunities that come with reallocating through MDBs.⁶⁶

⁶⁴ United Nations Conference on Trade and Development (UNCTAD). (2022, March 23). *Ukraine war risks further cuts to development finance*. UNCTAD. Retrieved from <https://unctad.org/news/ukraine-war-risks-further-cuts-development-finance>

⁶⁵ African Union. (2022, November 14). *African and global partners launch multi-billion alliance for green infrastructure*. African and Global Partners Launch Multi-Billion Alliance for Green Infrastructure | African Union. Retrieved from <https://au.int/en/pressreleases/20221114/african-and-global-partners-launch-multi-billion-alliance-green>

⁶⁶ Ravenscroft, J. (2022, April 11). *IMF plans to distribute Special Drawing Rights to those most in need require fundamental reform*. Eurodad. Retrieved from [https://www.eurodad.org/imf-plans-to-distribute-special-drawing-rights-to-those-most-in-need-require-fundamental-ref](https://www.eurodad.org/imf-plans-to-distribute-special-drawing-rights-to-those-most-in-need-require-fundamental-reform)
[orm](https://www.eurodad.org/imf-plans-to-distribute-special-drawing-rights-to-those-most-in-need-require-fundamental-ref)

Box 1: Technical Constraints in Channeling SDRs

One of the major pushbacks in channeling SDRs has come from Central Banks, primarily the European Central Bank (ECB). The ECB has argued against channeling SDRs outside of the IMF for two main reasons.

First, is the argument that SDRs need to maintain their reserve asset status, meaning that SDRs need to be risk free and liquid enough for central banks to consider them as a reserve asset on their balance sheets.

Second, the ECB prohibits countries that are part of the European Union from using monetary policy instruments to fund government budgets, contradicting SDR pledges made by EU countries.¹ This has made it nearly impossible for EU countries to reallocate their SDRs and follow-through on their pledges.

Each creditor country has its own rules and regulations on the use of SDRs. As most countries consider SDRs as reserve assets, when lending to an MDB, they often require risk mitigation to ensure that the reserve quality is kept and that there is an opportunity to liquidate the loans (lent to an MDB) in the future.

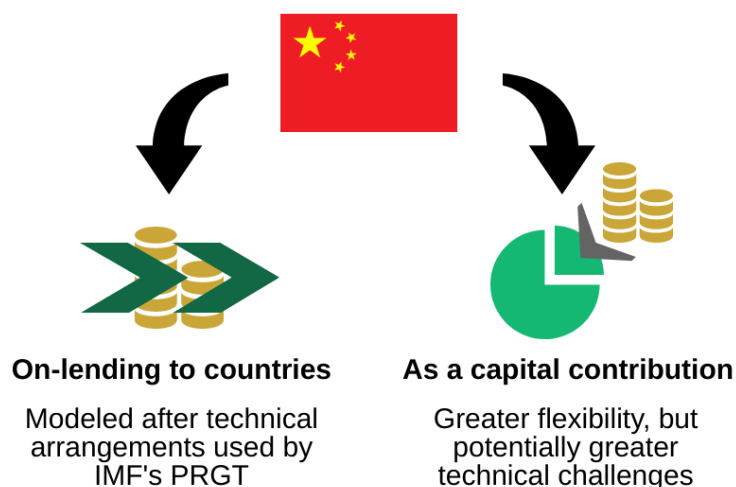
For Central Banks, SDRs are a reserve cushion that they will want to access. Similar to how the PRGT and RST have created a structure that allows for that access, if MDBs are able to provide that cushion with some technical innovation and flexibility, there will be more willingness and a great push for allocation through MDBs.

Furthermore, SDRs that are donated to an MDB lose their reserve asset status for a contributor country and for MDBs if the SDRs are to be kept indefinitely, the SDRs would become illiquid and able to absorb losses putting the reserve asset nature of the SDRs into question. When SDRs are lent for contributions, although they won't immediately lose their reserve asset status, an encashment regime needs to be considered to provide liquidity to the SDRs and therefore strengthen the capital base. This does however put into question whether it would be considered capital.

6.1 How can MDBs use SDRs?

There are two basic and non-mutually exclusive approaches for MDBs to use SDR contributions:

**MULTILATERAL DEVELOPMENT BANKS HAVE
TWO CHANNELS TO RECEIVE CHINA'S SDR REALLOCATION**



1. On-lending via MDBs

The first approach is for countries to lend SDRs to MDBs that they would then on-lend to countries that seek financing. This approach could generally follow the technical arrangements used by the IMF's PRGT for SDR on-lending, where an MDB can compensate the SDR contributor either through proceeds from the loans the MDB gives to countries or from a specific pot of money raised for such compensation. The MDB can also guarantee that the SDR lender can take back the SDRs it lent on demand.

2. Capital Contribution to MDBs

In the second approach, countries could make capital contributions in the form of SDRs. Rather than simply on-lending, this approach would have greater flexibility, and, through leveraging, could allow MDBs to increase lending capacity by a factor of three to four times by mobilizing additional funds from the private sector.⁶⁷ However, the technical challenges for MDBs and contributors are much more complicated with this approach.

Unfortunately, there is a risk that even if technical challenges are overcome, new operations that are created to access SDRs may not gain the confidence of contributors. This is where political willingness becomes vital. The same high-income countries that promote SDR channeling also have important roles within MDBs—therefore, it seems a push from these countries in the right direction can go a long way.

⁶⁷ Ibid

7 REALLOCATION THROUGH THE AFRICAN DEVELOPMENT BANK

7.1 The African Development Bank

Founded in 1964, the African Development Bank is the continent's largest development financial institution that promotes sustainable development and growth in African countries.⁶⁸ As a triple-rated Bank, AfDB has a strong reputation for providing critical financing and resources as well as delivering high quality projects in infrastructure, climate mitigation, gender, youth development and much more. The Bank, which includes 54 African countries (regional member countries) and 27 non-African countries (non-regional member countries),⁶⁹ is one of the 20 prescribed holders of SDRs.

China has a long-standing partnership with the Bank dating back to 1985.⁷⁰ AfDB has been explicitly mentioned several times since the 3rd FOCAC in 2006, and in 2016, China was the 13th largest contributor of the fourteenth replenishment of the African Development Fund (the concessional window of the African Development Bank Group) with a burden share of 2.067%.⁷¹

In the most recent FOCAC in 2021, the 2035 Vision document, Dakar Action Plan and the Climate Change Declaration references AfDB numerous times with China expressing commitment to reinforce its cooperation with AfDB as well as to work together in the fields of climate investment and financing, infrastructure, agricultural development and industrial cooperation.

This section will look into three AfDB instruments that have the potential for SDR reallocation.

7.2 AfDB's Hybrid Capital Instrument

Over the last few months, the African Development Bank has been creating a proposal for the IMF that would allow member countries to reallocate their SDRs through the bank's core lending instrument known as the Hybrid Capital Instrument (HCI). In doing so, AfDB presented the first full proposal to recycle SDRs outside of the IMF.⁷² According to the IMF, this mechanism is considered to be no more of a risk than rechanneling SDRs through the IMF's PRGT and RST instruments—a major win for any MDB.⁷³

The eligible members of the HCI include middle-income countries (otherwise known as sovereigns) and the private sector (non-sovereigns) as well as a few select low-income countries including Kenya, Senegal and Benin among others.

⁶⁸ African Development Bank. (n.d.). *Corporate information*. Facts and Figures as of 25 November 2021. Retrieved from <https://www.afdb.org/en/about/corporate-information>

⁶⁹ Ibid

⁷⁰ African Development Bank. (n.d.). *China—Partnership Overview*. Retrieved from <https://www.afdb.org/en/countries/non-regional-member-countries/china>

⁷¹ Ibid

⁷² Plant, M. (2023, February 15). *A valentine's day gift for the AfDB's campaign for SDR recycling-but now we need more heart*. Center for Global Development | Ideas to Action. Retrieved from <https://www.cgdev.org/blog/valentines-day-gift-afdb-campaign-sdr-recycling-now-we-need-more-heart>

⁷³ Ibid

Through this instrument, if member countries reallocated their SDRs, the Bank will use their contribution and leverage that three to four times the original amount. Instead of converting those SDRs into hard currency, the Bank will instead keep those SDRs at the IMF as part of the Bank's balance sheet. Through the new equity that is created (the HCI), the bank will raise funding in capital markets in hard currencies and then on-lend to member countries in the currency of their preference. For recipient countries, the entire borrowing process remains the same.

As mentioned previously, one of the fears about reallocating SDRs is the perceived risk, particularly if a contributing country wants to liquidate their loans. The Bank has designed the HCI to be as "risk free" as possible by preparing for the worst-case scenario, which is a trigger event. A trigger event is essentially a capital adequacy metric that indicates financial distress and is caused by massive accounting losses or protracted arrears. A trigger event is equivalent to a default of the top 10 exposures of the Bank or a 40% loss in total stock of equity. Nevertheless, before a trigger event occurs, the Bank is designed to prevent trigger events from happening through a risk management framework that ensures that appropriate measures are taken well in advance.

This model is in many ways beneficial to lending countries. First, as mentioned, when contributors donate SDRs to countries, the contributing countries do not receive interest on the SDRs donated but are still expected to pay interest. However, the HCI model the Bank is proposing ensures that contributors do receive commensurate interest. Second, this model also ensures that there is no additional cost to the contributing country's taxpayers (as the country does not face the cost of interest). Nevertheless, rising interest rates and economic circumstances will affect the rate at which the Bank lends to eligible countries.

Furthermore, the HCI can overcome a core constraint raised by many Central Banks: maintaining reserve asset status. This is done through the HCI's liquidity backstop and creditworthiness. Like the IMF's PRGT and RST that allows contributors to redeem their loans in the event of a balance of payment issue (the encashment regime), the HCI ensures that there will always be access to liquidity in the case of a balance of payment issue or reserve position needs. Through this liquidity buffer, lenders will have an unfunded contribution of 20% of the committed amount to be drawn upon. Nevertheless, for the liquidity backstop to work, the Bank needs at least five SDR contributor countries. Lastly, the creditworthiness of the HCI is based on strong capitalization reflected in the highest credit rating (AAA), strong capital management and liquidity frameworks and Preferred Creditor Treatment (PCT). PCT provides AfDB the capacity to have lower default rates and higher recovery rates than commercial lenders on sovereign loans.

For the hybrid capital instrument, the Bank will be focusing on lending to support climate activities and green growth (such as supporting climate adaptation and mitigation initiatives) and food security (e.g., supporting projects on the agricultural transformation agenda to make Africa a net food exporter). These areas will however have obvious spillovers to other sectors and may indeed incorporate new infrastructure.⁷⁴

Dr. Ying Qian from Boston University's Global Development Policy Center has also suggested the issuance of subordinated debt at T2 capital with China being invited to use SDRs.

⁷⁴ Most of the information around AfDB's HCI is taken from interviews from senior AfDB officials.

7.3 African Growing Together Fund—AfDB’s Special Fund with China

On November 19th, the AfDB and People’s Bank of China (PBOC) signed a fund, known as the Africa Growing Together Fund (AGTF) spanning a 10-year investment period that ends on the 19th of November 2024.⁷⁵ This special fund aims to support African countries in their priorities to advance economic growth and social cooperation on the continent as well as enhance cooperation between the Bank and PBOC through joint financing projects across the continent. The PBOC initially made a 50 million USD investment with subsequent regular requests for funds made through “special call of fund” submissions to PBOC.

The AGTF is designed to co-finance projects along with the Bank and in line with the Bank’s Credit Policy to financing sovereign and non-sovereign borrowers. Members that are eligible to borrow from the Bank’s non-concessional window—the ADB window—can also borrow from the Fund. Following an amendment to the Bank’s credit policy in 2014, ADF borrowers that have access to the ADB window (concessional window) can request for projects to be considered by the fund. Rwanda is a case in point for the latter.

There are both sectoral and country limits of financing based on the agreement between AfDB and PBOC. There is a country limit of 200 million USD with only ADB and ADF eligible countries capable of receiving financing from the AGTF. There is a sectoral cap of 500 million USD (agriculture, transport, water and sanitation, energy, and power) apart from the financial sector, which was allocated 700 million USD. It is worth noting that the ADB has a private window which allows it to invest in every African country and if the investment from the private sector comes from this window, the AGTF can co-finance that project. Also, as the AfDB follows procedures for international bidding, any private sector company, including from China, can apply for funding.

7.4 The African Development Fund (ADF) Climate Action Window (CAW)

The African Development Fund (ADF) is the concessional arm of the AfDB Group. The Fund was established in 1972 but was operationalized in 1974.⁷⁶ As of today, the Fund comprises 32 contributing countries (donors), including the Bank⁷⁷, and supports the majority of African countries – a total of 37 countries.⁷⁸ The 37 ADF-eligible countries include both countries that are moving towards becoming middle-income economies and are gradually increasing their economic capacity as well as countries that seek unique support for basic service delivery.

Climate change continues to be one of the biggest challenges that Africa is facing in its COVID-19 recovery and path towards sustainable development. As current and past climate finance commitments continue to fail, for Africa to mobilize the climate resources needed to fight climate change, there is a need to scale up domestic and external resources and deploy a wide range of approaches. According to the 2022 African

⁷⁵ African Development Bank. (2014, May 22). *AfDB announces US \$2 Billion fund with China*. Retrieved from <https://www.afdb.org/en/news-and-events/afdb-announces-us-2-billion-fund-with-china-13165>

⁷⁶ African Development Bank Group. (n.d.). About the ADF. Retrieved from <https://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf/about-the-adf>

⁷⁷ African Development Fund. (n.d.). *History*. History—African Development Fund. Retrieved from <https://adf.afdb.org/adf/history/>

⁷⁸ African Development Bank Group. (n.d.). About the ADF. Retrieved from <https://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf/about-the-adf>

Economic Outlook, Africa's financing needs to address climate change are approximately 1.3-1.6 trillion USD between 2020 and 2030, translating to an annual amount of 127.8 billion USD.⁷⁹ With Africa accounting for a mere 3.8% of global greenhouse emissions, compared to 23% in China and 19% in the United States⁸⁰, the continent continues to bear the brunt of climate change impacts.

The ADF climate action window is a grant-based funding instrument that is being proposed as part of the 16th replenishment process of ADF (ADF-16), as well as outside of the normal replenishment cycle. The climate action window will dedicate its finance towards ambitious and transformative climate projects and activities. As the most innovative element of the 16th replenishment, this climate window strives to address the root causes of climate vulnerability, fragility and climate finance in the most vulnerable countries, which includes the 37 countries that the ADF operates in.

As an additional instrument, the climate window will invest in projects that are dedicated to addressing climate change, and could potentially finance new projects and activities, beyond what the ADF is already investing in or as standalone projects from Nationally Determined Contributions (NDCs) of ADF countries. Just recently, at the COP27 Conference, the United Kingdom Foreign Secretary announced a 200-million pound contribution to the Climate Action Window.⁸¹

The climate window includes six core areas of investment. Within the adaptation pillar, the first sector is **agriculture**. As the most vulnerable sector to climate change in the continent and due to the food and security crisis on the continent arising from the Russia-Ukraine war, agriculture will receive approximately **32%** of the funding. The other two sectors are water and sanitation. In terms of mitigation, there are three key sectors: **transport and infrastructure, green finance and energy**. Some of the mitigation pillars will contribute to adaptation.

China has clearly distinguished itself as a partner for the continent and the Fund and has made commitments relating to green financing at FOCAC 2021. Contributing to the climate window—especially if focused on mitigation and adaptation infrastructure—would be in line with China's goals to enhance its "Green Belt and Road Initiative" and could also be very successful in developing climate-related innovation and value-added manufacturing of green goods on the continent (particularly re: renewable energy, smart transport systems, etc.).

Considering the dearth of climate resources globally and as one of the least competitive sources of funding, SDRs could be a unique and useful pot of additional resources for the climate window. Although the Resilience and Sustainability Trust (RST) established by the IMF aims to tackle climate change and build resilience to external shocks⁸², the IMF has comparative challenges in making investments – especially on the African continent. If MDBs like the AfDB are not able to use SDRs to invest in climate action, it will be significantly more challenging for Africa to achieve the level of climate ambition the continent is aiming for.

⁷⁹ African Development Bank Group. (2022, May 25). African Economic Outlook 2022. Retrieved from <https://www.afdb.org/en/documents/african-economic-outlook-2022>

⁸⁰ CDP Africa Report. CDP. (2022, March). Retrieved from <https://www.cdp.net/en/research/global-reports/africa-report>

⁸¹ African Development Bank, A. D. B. (2022, November 8). *UK steps up climate adaptation finance support for Africa*. Retrieved from <https://www.afdb.org/en/news-and-events/press-releases/uk-steps-climate-adaptation-finance-support-africa-56193>

⁸² International Monetary Fund (n.d.). *IMF Resilience and Sustainability Trust*. IMF. Retrieved from <https://www.imf.org/en/Topics/Resilience-and-Sustainability-Trust>

7.5 Assessment of China Channeling through AfDB

Criterion	Rating (1-10)	Explanation
Number and Types of Countries Benefiting	6	Each instrument benefits either low- or middle-income countries with the possibility of financing a few blend countries. Thus, the numbers of countries benefiting are limited. However, the CAW for instance covers 37 countries which is still quite extensive.
Distribution of Financing	8	The Bank has demonstrated a focus on different areas of financing including climate change and energy, food security, infrastructure, agriculture and transport to mention a few in all three instruments. There is also a clear focus on growth-inducing projects as well as financing to multiple sectors.
Clear SDR Reallocation Process	6	AfDB has set a very clear proposal for how contributor countries such as China can channel their SDRs through HCI. Although there isn't such a clear proposal for the AGTF and CAW, considering China's relationship with the Bank on the AGTF and the current push for contributors on the CAW there is a strong possibility for a solid reallocation process to be developed in these two instruments
Results Monitoring	5	With certain instruments such as the AGTF there is clear Chinese oversight for each project leading to a smooth follow up and monitoring. As the HCI and CAW are new mechanisms it is not yet clear how the monitoring of processes will happen, but the potential for earmarking certain contributions could enable specific reports to China for follow up and monitoring.
Maintaining Sovereignty	8	Loans from AfDB do not have any conditionality or require any shifts in policy, however there are some environmental and social safeguards attached.

8 OPTION: REALLOCATING THROUGH THE IMF'S POVERTY REDUCTION AND GROWTH TRUST AND RESILIENCE AND SUSTAINABILITY TRUST

8.1 Poverty Reduction and Growth Trust (PRGT)

The International Monetary Fund provides both concessional and non-concessional support to its member countries. Non-concessional support is provided through the Fund's General Resources Account (quota based) and concessional support to low-income countries (LICs) is given mainly through the Poverty Reduction and Growth Trust (PRGT) which is tailored to the needs and requirements of LICs.

The PRGT has three concessional lending facilities:

1. **The Extended Credit Facility (ECF):** The ECF provides medium to long term lending to countries with protracted Balance of Payment (BOP) problems.
2. **The Standby Credit Facility (SCF):** This facility provides support to countries that have potential or actual short-term BOP issues and adjustment needs as a result of external or domestic shocks
3. **Rapid Credit Facility (RSF):** The RSF provides quick financial support of one-time upfront payouts to low-income countries that are having urgent balance of payment needs.

In addition to all three lending facilities being concessional, the maturities and grace periods of each are different and the interest rate of the RCF is set permanently to zero.^{83 84}

The PRGT is funded through bilateral loan agreements that are made at market interest rates.⁸⁵ Under these agreements, when a drawing is made, the bilateral lender, which tends to be the Ministry of Finance or a Central Bank, is paid the SDR interest rate on the SDR—denominated loans. See figure below for a breakdown of the financial architecture of the PRGT.

⁸³ International Monetary Fund . (n.d.). *IMF support for low-income countries*. IMF. Retrieved from <https://www.imf.org/en/About/Factsheets/IMF-Support-for-Low-Income-Countries>

⁸⁴ Currently, the ECF and SCF have a zero interest rate with a grace period of 5 ½ years and 4 years respectively and a maturity of 10 and 8 years respectively. #For the RSF there is a 5 ½ years grace period and a maturity of 10 years. Every two years, the IMF reviews the interest rates of the ECF and SCF with the next review expected in July 2023.

⁸⁵ International Monetary Fund . (n.d.). *IMF support for low-income countries*. IMF. Retrieved from <https://www.imf.org/en/About/Factsheets/IMF-Support-for-Low-Income-Countries> ; Andrews, D. (2021, February). *Financing a possible expansion of the IMF's support for LICs*. Center for Global Development. Retrieved from <https://www.cgdev.org/sites/default/files/Andrews-Financing-Expansion-IMF-LICs.pdf>

PRGT STRUCTURE AND FUNDING FLOW

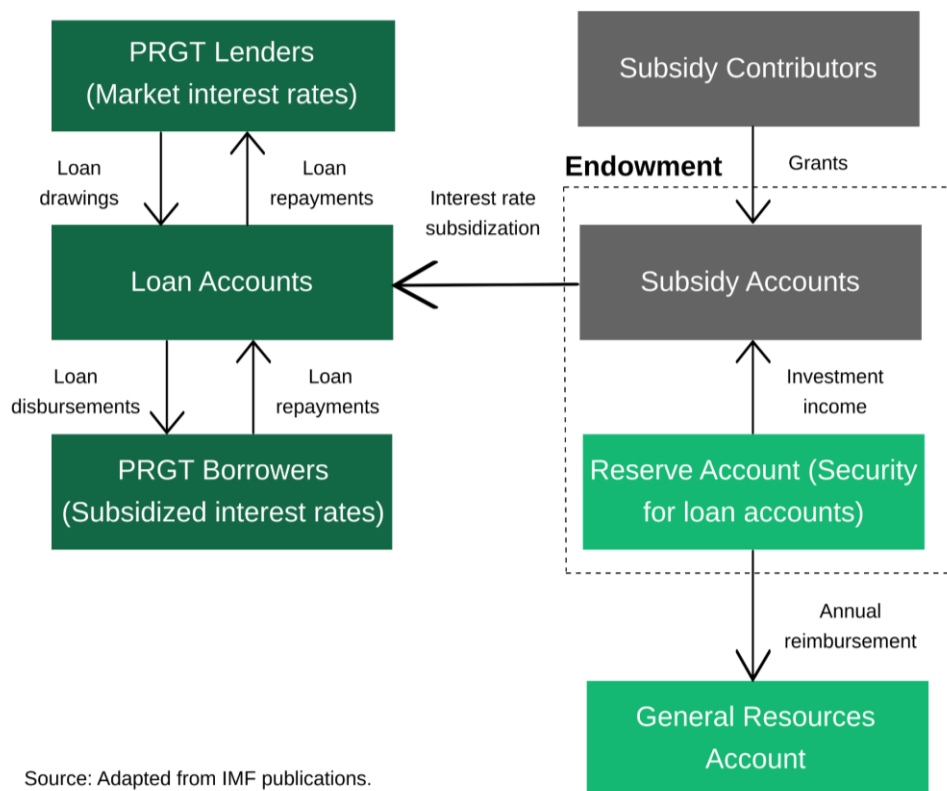


Figure 5: Structure and Funding Flow ⁸⁶

As the figure above illustrates, the financial architecture of the PRGT is divided into three accounts: **Loan Accounts, Subsidy Accounts and the Reserve Account.**⁸⁷ On average, the annual lending of the PRGT is around 1.7 billion USD (SDR 1 ¼ billion).⁸⁸

Up until recently, the PRGT was the only existing mechanism for channeling SDRs and therefore was often considered to be the easiest solution. As a result of the pandemic and increasing financial needs, lending

⁸⁶ Andrews, D. (2021, February). *Financing a possible expansion of the IMF's support for LICs*. Center for Global Development. Retrieved from <https://www.cgdev.org/sites/default/files/Andrews-Financing-Expansion-IMF-LICs.pdf>

⁸⁷ Loan resources are borrowed from member countries (richer countries) at market rates and then on-lent through the Loan Account to eligible members of the PRGT at subsidized rates (at a less than market rate, currently 0). The Subsidy Account compensates for the interest rate loss. The Reserve Account is security to lenders where its resources can be used to repay loans as a response to delayed payments by PRGT LIC borrowers. As the volume of lending to LICs increases, the loss from the difference in interest rates also increases, requiring greater subsidy resources and reserves as a safeguard for lenders. On average, the annual lending of the PRGT is around \$1.7 billion (SDR 1 ¼ billion). Information taken from Andrews, D. (2021, February). *Financing a possible expansion of the IMF's support for LICs*. Center for Global Development. Retrieved from <https://www.cgdev.org/sites/default/files/Andrews-Financing-Expansion-IMF-LICs.pdf> and Plant, M., & Andrews, D. (2021, February 9). *Enabling substantial IMF lending to low-income countries for the recovery*. Center for Global Development. Retrieved from <https://www.cgdev.org/blog/enabling-substantial-imf-lending-low-income-countries-recovery>

⁸⁸ International Monetary Fund . (n.d.). *IMF support for low-income countries*. IMF. Retrieved from <https://www.imf.org/en/About/Factsheets/IMF-Support-for-Low-Income-Countries>

from the PRGT has increased rapidly, with total PRGT commitments in 2020 having risen sixfold from pre-pandemic levels to SDR 6 billion.⁸⁹ Although the IMF expects lending to slow over the next three years, the volume will still be much higher than pre-pandemic levels. However, as Mark Plant and David Andrews from the Center for Global Development argued in their recent paper⁹⁰, the colossal scale of lending is depleting the PRGT's subsidy resources (which are difficult to replenish because it is hard cash, not loaned resources), and although there have been efforts to fundraise additional subsidy resources, with the rapid increase in interest rates and rising demand in financing, there is a need for alternative solutions such as countries lending some of their SDRs to the PRGT.

Unfortunately, although the PRGT does provide critical concessional financing to LICs, there are several limitations that need to be considered when exploring how SDRs can be channeled through this instrument.

1. **First**, the most obvious limitation is that the PRGT is only available to a small group of low-income countries and debt-distressed middle-income countries—69 to be exact⁹¹—and excludes other middle-income countries and emerging economies.
2. **Second**, the absorption of the PRGT, relative to the amount of unused SDRs, is also very small, with a maximum capacity of about 30 billion USD.⁹² As of now the PRGT itself supports lending of up to 1.7 billion USD annually.
3. **Third**, as explained briefly above, in order to ensure long-term financial sustainability, the PRGT needs to secure subsidies and reserve resources in the form of “hard cash”. These donations have become very difficult to secure from donors.
4. **Fourth**, the PRGT, similar to the GRA, includes policy conditionality on lending and a maximum maturity of 10 years on all loans.

8.2 The Resilience and Sustainability Trust (RST)

In April 2022, the Executive Board of the IMF approved the establishment of the Resilience and Sustainability Trust (RST). The RST aims to support countries' long-term balance of payments, build resilience to external shocks and promote sustainable growth.⁹³ Complementary to the IMF's current lending toolkit, the RST will primarily focus on long-term structural changes such as pandemic

⁸⁹ Andrews, D. (2021, February). *Financing a possible expansion of the IMF's support for LICs*. Center for Global Development. Retrieved from <https://www.cgdev.org/sites/default/files/Andrews-Financing-Expansion-IMF-LICs.pdf>

⁹⁰ Andrews and Mark Plant, D., & Plant, M. (2022, September 29). *To remain viable, the PRGT needs long-term support*. Center for Global Development. Retrieved from <https://www.cgdev.org/blog/remain-viable-prgt-needs-long-term-support>

⁹¹ Andrews, D. (2021, February 4). *How might an SDR allocation be better tailored to support low-income countries?* Center for Global Development. Retrieved from <https://www.cgdev.org/publication/how-might-sdr-allocation-be-better-tailored-support-low-income-countries>

⁹² Mariotti, C. (2022, April). *Special drawing rights—Can the IMF's reserve currency become a transformative financial resource?* Retrieved from <https://assets.nationbuilder.com/eurodad/pages/2897/attachments/original/1649658655/sdr-briefing-apr10-final.pdf?1649658655>

⁹³ International Monetary Fund. (2022, April 18). *IMF Executive Board approves establishment of the Resilience and Sustainability Trust*. IMF. Retrieved from <https://www.imf.org/en/News/Articles/2022/04/18/pr22119-imf-executive-board-approves-establishment-of-the-rst>

preparedness and climate change. The RST will channel SDRs that are contributed by countries that have strong external positions to countries that are the most vulnerable, giving policy support and affordable long-term financing to bolster countries' resilience and stability.

The 143 eligible members of the RST according to the IMF include all low-income countries, all “developing and vulnerable small states” and lower-middle-income countries, comprising about three-quarters of IMF’s membership.⁹⁴ A country is eligible for RST funding if their “per capita GNI in 2020 \leq (10 x IDA operational cutoff) i.e., \$12,050 or Population < 1.5 million and per capita GNI in 2020 \leq (25 x IDA cutoff) i.e \$31,125.⁹⁵

The Trust is based on loans with funding mobilized on a voluntary basis and RST loans are not earmarked for particular countries or projects. The loans have a 10 ½ year grace period and a 20 year maturity and through a tiered interest rate structure the most vulnerable countries receive the most concessional terms and other borrowers pay interest with a “modest margin” over the three-month SDR rate⁹⁶. As the RST is more concessional for low-income countries than PRGT loans, it can become a preferable pick for many countries.

The financial design of the RST is similar to the PRGT, where bilateral resources are on-lent and the reserve asset status is supported through an encashment regime (for liquidity) as well as a reserve account that serves as a buffer against credit risks.⁹⁷ Increasing concessional loans through RST is critical for fulfilling the expected function of institutions including the IMF as “the lenders of last resort” contributing to address the capital flight crisis.⁹⁸

The RST is composed of a Loan Account (LA), a Reserve Account (RA) and a Deposit Account (DA).

1. **Loan Account:** the loan account includes SDR commitments that are then on-lent to RST borrowers.⁹⁹
2. **Deposit Account:** this account is funded through upfront SDR deposits from loan contributors at a value of 20% of each contributor's loan commitment.¹⁰⁰
3. **Reserve Account:** this account is funded through contributions that are equal to at least 2% of each loan commitment.¹⁰¹

The governance structure of the RST puts the IMF, rather than borrowing countries, at its center, including consultations with contributor countries on critical issues as well as requiring consent from contributors

⁹⁴ Gupta, S., Guzman, J., & Plant, M. (2022, December 13). *Let us not miss this opportunity to prepare for pandemics through the IMF's resilience and Sustainability Trust*. Center for Global Development . Retrieved from <https://www.cgdev.org/blog/let-us-not-miss-opportunity-prepare-pandemics-through-imfs-resilience-and-sustainability-trust>

⁹⁵ Andrews, D. (n.d.). *The IMF's New Resilience and Sustainability Trust (RST): A technical summary*. Center for Global Development. Retrieved from <https://www.cgdev.org/sites/default/files/2022-05/IMF-RST-key-points.pdf>

⁹⁶ Ibid

⁹⁷ Ibid

⁹⁸ Lin, J. Y. & Wang, Y. (2022, December 8). *Capital Flight and the Role of the IMF and the World Bank in Stabilizing the World Economy*. Retrieved from <https://www.bu.edu/gdp/2022/12/08/capital-flight-and-the-role-of-the-imf-and-the-world-bank-in-stabilizing-the-world-economy/>

⁹⁹ 20% of all loan amounts are held in reserve to meet encashment needs of the SDR lenders. Lenders are paid the SDR interest rate on amounts that are drawn. The loans are also considered international reserve assets.

¹⁰⁰ The contributor would earn the SDR interest rate. The main purpose of the deposit account is to generate income that will be added to the reserve account (see below). The loans are also considered international reserve assets.

¹⁰¹ No interest is paid to contributors and this would typically require budgetary authorization. As reserve account contributions are not encashable they don't count as international reserve assets, so SDR contributions are less likely.

on major amendments that may impact contributor interests. A comprehensive review of the RST at least three years since its inception as well as an interim review around 18 months after operationalization to analyze the initial experience and revisit the structural challenges is also expected.¹⁰²

In order to access the Trust, a country's reform strength as well as its debt sustainability is considered and capped at SDR 1 billion or 150% of quota (whichever is lower).¹⁰³ In addition, to qualify for the Trust, a package of reforms aimed to address "qualifying long term challenges", essentially those related to climate change and pandemic preparedness will be included.¹⁰⁴ Lastly, countries must also be part of an upper-credit tranche (UCT) program with at least 18 months left at the time the RST is approved.¹⁰⁵

Essentially, for a country to qualify for RST support, a member would need 1) a package of what the IMF deems to be high-quality policy measures that are in line with the Trust's purpose 2) a simultaneous financing or non-financing IMF-support program that has appropriate macroeconomic policies that mitigate risks for borrowers and credits, and 3) sustainable debt and adequate capacity to repay the Fund (change).¹⁰⁶

Executive Directors underscored that the financial risks of lending through the RST needs to be managed through a multilayered risk management framework (that maintains the reserve asset status of channel SDRs) in addition to an assessment of the capacity of a member to repay and debt sustainability analysis.

¹⁰⁷

In many ways the RST is very attractive to high-income countries. The financial structure of the RST allows richer nations to recycle their SDRs while maintaining the reserve asset qualities of the SDRs. Contributors will also be able to earn interest on the SDRs they lent at the same rate as if they held onto their SDRs. In addition, as the IMF has decided to not subsidize interest rates (thus no need for a subsidy account), it lowers the cost of operationalizing the RST. This does, however, shift quite a bit of burden to borrowers.

Although the RST has not yet become fully functional, there are already numerous flaws in its purpose, design and execution that need to be recognized.

First, as the RST is accessed based on a country's income, there is a major risk that the RST will exclude middle-income countries that are vulnerable to climate change and that are struggling with poverty, high debt and obstacles to lending in the market. The RST only includes middle-income countries that have a per capita gross national income (GNI) below \$12,000. These types of eligibility criteria risk exclude middle-income countries that are vulnerable to climate change (which would contradict the RST's purpose) and countries that have increased poverty rates.

¹⁰² International Monetary Fund. (2022, April 18). *IMF Executive Board approves establishment of the Resilience and Sustainability Trust*. IMF. Retrieved from <https://www.imf.org/en/News/Articles/2022/04/18/pr22119-imf-executive-board-approves-establishment-of-the-rst>

¹⁰³ Ibid

¹⁰⁴ Andrews, D. (n.d.). *The IMF's New Resilience and Sustainability Trust (RST): A technical summary*. Center for Global Development. Retrieved from <https://www.cgdev.org/sites/default/files/2022-05/IMF-RST-key-points.pdf>

¹⁰⁵ Ibid

¹⁰⁶ Pazarbasioglu, C., & Ramakrishnan, U. (2022, January 20). *A new trust to help countries build resilience and Sustainability*. IMF. Retrieved from <https://www.imf.org/en/Blogs/Articles/2022/01/20/blog012022-a-new-trust-to-help-countries-build-resilience-and-sustainability>

¹⁰⁷ International Monetary Fund. (2022, April 18). *IMF Executive Board approves establishment of the Resilience and Sustainability Trust*. IMF. Retrieved from <https://www.imf.org/en/News/Articles/2022/04/18/pr22119-imf-executive-board-approves-establishment-of-the-rst>

Second, the very purpose and scope of the RST is very limited as the Trust is created to address long term structural challenges and not to fund projects in general, with the long term structural challenges currently limited to climate change and pandemic preparedness. There has been increasing criticism that, through the RST, the IMF would increase its involvement in climate finance and governance, an area outside of the expertise of the IMF, which could lead to great competition with international financial institutions that have more expertise to address climate finance and governance.

Third, the terms of financing of the RST and as well as the IMF “policy package” are in many ways very unclear. A tiered interest structure (different financing terms for different country groups) could potentially mean that middle countries will not get a zero-interest rate. In addition, rather than imposing more conditions, the IMF should be supporting policy development where it is most needed.¹⁰⁸ RST programs are structured to promote structural reforms in areas including pandemic preparedness and climate change. By subjecting countries to conditionality, countries are forced to undergo multiple frameworks of conditionality, limit their policy space and undermine their ownership of their own development path. On top of this, with the RST only being accessible to countries with IMF programs, this poses a major obstacle to climate vulnerable countries that do not have an existing program and are not willing to be a part of one.

Fourth, the scale of funding of the RST is quite disappointing. The IMF estimates that low-income countries will need 450 billion USD over the next five years to meet pandemic-related costs, a small amount compared to the United Nations Framework Convention on Climate Change 6 trillion USD estimate of climate finance needs.¹⁰⁹ With the RST expected to be capitalized at 30 billion USD with the possibility of rising to 50 billion USD, this is a very small fraction of what countries will need.

In October 2022, during the World Bank/IMF Annual Meetings IMF Managing Director Kristalina Georgieva announced that the RST has become operational with pledges of 40 billion USD and staff level agreements for three countries: Barbados, Rwanda and Costa Rica.¹¹⁰ Other countries, including Bangladesh, are in the process of discussing financing under the RST.¹¹¹

In the first round of contributions, China, Australia, Canada, Germany and Spain collectively contributed a total of 20 billion USD, a little over half of the 37 billion USD in pledges from 13 countries.¹¹² On February 23rd, 2022, the IMF released details around RST contribution agreements with China, Australia, Canada,

¹⁰⁸ Ahmed, S. J., & Bhandary, R. R. (2022, April 5). *The IMF's resilience and Sustainability Trust: A ray of hope or financial black hole for climate vulnerable economies?* Global Development Policy Center . Retrieved from <https://www.bu.edu/gdp/2022/04/05/the-imfs-resilience-and-sustainability-trust-a-ray-of-hope-or-financial-black-hole-for-climate-vulnerable-economies/>

¹⁰⁹ Mariotti, C. (2022, April). *Special drawing rights—Can the IMF's reserve currency become a transformative financial resource?* Retrieved from <https://assets.nationbuilder.com/eurodad/pages/2897/attachments/original/1649658655/sdr-briefing-apr10-final.pdf?1649658655>

¹¹⁰ International Monetary Fund. (2022, October 13). *Transcript of October 2022 MD Kristalina Georgieva Press Briefing on GPA*. IMF. Retrieved from <https://www.imf.org/en/News/Articles/2022/10/13/tr101322-transcript-of-md-press-briefing-annual-meetings>

¹¹¹ Gupta, S., Guzman, J., & Plant, M. (2022, December 13). *Let us not miss this opportunity to prepare for pandemics through the IMF's resilience and Sustainability Trust*. Center for Global Development . Retrieved from <https://www.cgdev.org/blog/let-us-not-miss-opportunity-prepare-pandemics-through-imfs-resilience-and-sustainability-trust>

¹¹² Shalal, A. (2022, October 13). *IMF lending facility for climate, pandemic preparedness is ready*. Reuters. Retrieved from <https://www.reuters.com/business/sustainable-business/imf-declares-new-resilience-sustainability-trust-ready-lending-2022-10-12/>

China, Germany, Japan and Spain. According to the publication, China has finalized agreements with the IMF RST and has officially contributed **6 billion SDRs, which is 21% of its share of the 2021 SDR allocation**, to all three accounts of the RST and was effective on the 27th of September 2022.¹¹³ As of February 2023, the Fund had received pledges from 17 members that amounted to 30.4 billion SDRs.¹¹⁴

8.3 Assessment of China Channeling through the IMF

Criterion	Rating (1-10)	Explanation
Number and Types of Countries Benefiting	3	Both IMF instruments are for low-income countries (developing and vulnerable states included in RST), therefore greatly limiting how many countries can benefit. There is also no possibility to earmark the funding for African countries, so which African countries and how many African countries will benefit from this financing is unclear.
Distribution of Financing	4	For the PRGT, there is very little clarity on how funding is distributed amongst different sectors and although it is clear which countries benefit from the list of PRGT eligible countries, whether funding goes into productive projects such as infrastructure is not clear. In addition, the RST is limited as of now to pandemic preparedness and climate change and “long term structural challenges” that the IMF has not provided more information on. Therefore, the distribution of finance is very limited. Nevertheless, as climate change is a core priority area for China, it will be seen in a positive light to a certain extent.
Clear SDR Reallocation Process	6	The IMF has set out a very clear SDR reallocation process for both the PRGT and RST as explained in the above sections. However, as the RST is a new instrument, the challenges and benefits of reallocation are still yet to be seen.
Results Monitoring	2	As of now, it is still unclear what the RST and PRGT reporting and monitoring mechanisms are like and how transparent the process’ are in terms of how funding supports countries and projects.
Maintaining Sovereignty	3	One of the biggest challenges with IMF instruments is the policy conditionalities that undermine the policy space, ownership and agency of African countries. Both the PRGT and RST impose these measures on countries that borrow from these instruments.

¹¹³ International Monetary Fund . (2023, February 23). *Resilience and sustainability trust—2022 contribution agreements with Australia, Canada, China, Germany, Japan, and Spain*. IMF. Retrieved from <https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/23/Resilience-And-Sustainability-Trust2022-Contribution-Agreements-with-Australia-Canada-China-530087>

¹¹⁴ Ibid

9 OPTION: REALLOCATING THROUGH THE WORLD BANK

As mentioned in a previous section, the World Bank's International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) are prescribed holders of SDRs. Unfortunately, as of today, the WB has not channeled SDRs through these instruments and based on our research and interviews conducted, it does not seem that the Bank is willing to do so.

Nevertheless, there has been discussions around a new way of using SDRs by multilateral development banks, in particular the World Bank: **SDR-denominated bonds**. Stephen Paduano, a former consultant for the UN Economic Commission for Africa (UNECA) and a PhD candidate at the London School of Economics (LSE), has been pushing for MBDs, in particular the World Bank, to issue a special series of SDR denominated bonds, and his arguments warrant greater discussion.¹¹⁵

First, the World Bank in 2016 had issued SDR denominated cash-settled bonds. The IBRD raised 500 million SDRs which is approximately 700 million USD with a 3 year maturity and a 0.49% coupon per annum with all payments made in Chinese Renminbi.¹¹⁶ The bonds were issued as part of the Bank's new SDR denominated issuance program worth 2 billion SDRs that was approved by the People's Bank of China in 2016.¹¹⁷

The case for SDR denominated bonds is strong for many reasons. First, regarding maintaining the reserve asset status and ensuring liquidity, as many countries currently hold World Bank bonds and as Central Banks can buy SDR-denominated bonds, trade those bonds with other prescribed holders and earn interest on the bonds, this won't be an issue. Instead of being treated as a reserve asset, SDRs would become a reserve asset. Second, the bond can be denominated in SDRs but cash-settled which will make it even easier to use it as a reserve asset. Third, as this bond can pay the SDR interest rate, it will allow countries to rechannel their SDR holdings at no additional cost. Fourth, this would allow the United States, which has one of the largest SDR holdings in the world to participate. Essentially, as the US congress allows the Treasury to purchase debt securities from high rated issues (WB has a AAA rating), this should allow the US to purchase SDR bonds from the Bank.¹¹⁸

Considering the push by the international community for MDBs to increase their lending capacity by considering a portion of its callable capital as equity, SDR denominated bonds can be considered as a commitment by the Bank's core shareholders to the commitment of callable capital.

¹¹⁵ Paduano, S. (2023, January 26). *The magic of an SDR-denominated Bond*. Financial Times. Retrieved from <https://www.ft.com/content/60a9e577-0bd3-4898-ac18-6ea9ff3573dd>

¹¹⁶ World Bank. (2016, August 31). *World Bank successfully prices oversubscribed landmark SDR denominated bond in China*. World Bank. Retrieved from <https://www.worldbank.org/en/news/press-release/2016/08/31/world-bank-successfully-prices-oversubscribed-landmark-sdr-denominated-bond-in-china>

¹¹⁷ Ibid

¹¹⁸ Paduano, S. (2023, January 26). *The magic of an SDR-denominated Bond*. Financial Times. Retrieved from <https://www.ft.com/content/60a9e577-0bd3-4898-ac18-6ea9ff3573dd>

Furthermore, another interesting proposal is the use of SDRs for a Loss and Damage (L &D) Fund. The World Bank is a trustee of the Global Climate Fund (GCF) and the Adaptation Fund (AF).

As a prescribed holder, one option is for the WB to blend the GCF and AF and establish a new financial mechanism that accepts SDRs and can be utilized to provide financing to countries affected by loss and damage.¹¹⁹

9.1 Assessment of China Channeling through the World Bank

Criterion	Rating (1-10)	Explanation
Number and Types of Countries Benefiting	3	Reallocation through IBRD is limited to middle-income countries while reallocation through IDA is limited to low-income countries. Thus, the number of countries benefiting is low. It is also important to note that with IBRD and IDA, there is no possibility to earmark contributions to African countries with both instruments. Nevertheless, SDR denominated bonds opens the door for using SDRs across many African countries.
Distribution of Financing	4	Overall, the World Bank finances projects in multiple sectors ranging from agriculture and energy to education and health. However, the Bank has for a long time been criticized for its decline in financing of infrastructure projects.
Clear SDR Reallocation Process	3	Although both IDA and IBRD are prescribed holders, the WB has to-date did not facilitate any reallocation of SDRs through these instruments. Although SDR-denominated bonds have been utilized before, the Bank is still a long way from creating viable avenues for reallocation of SDRs.
Results Monitoring	2	There is no information about any formal monitoring framework or process for the Bank.
Maintaining Sovereignty	3	Similar to the IMF, the World Bank ties conditionalities to countries that borrow from its two core instruments: the International Bank for Reconstruction and Development and the International Development Association.

¹¹⁹ International Peace Institute. (2022, October). *Options for a loss and damage financial mechanism*. Retrieved from https://www.ipinst.org/wp-content/uploads/2022/10/2210_Options-for-a-Loss-and-Damage-Financial-Mechanism.pdf

10 OPTION: EXPLORING REALLOCATION THROUGH NON-PRESCRIBED HOLDERS IN PARTICULAR THE LIQUIDITY AND SUSTAINABILITY FACILITY (LSF)

As mentioned in previous sections, only IMF member countries and the 20 institutions designated by the IMF as Prescribed Holders (primarily regional development banks) are permitted to hold SDRs. This, however, is a major restriction for high-income countries that want to channel their SDRs to low and middle-income countries. Over the last few years, particularly after the last general allocation in 2021, there has been a push for the IMF to expand the list of prescribed holders in an attempt to increase the financing and resources available to low-income countries worldwide. Furthermore, if G7 countries want to reach their 100 billion USD a year pledge, then more practical solutions will need to be considered.

Among existing facilities, the United Nations' Economic Commission for Africa (UNECA) has expressed intentions for SDRs to have a role in financing its Liquidity and Sustainability Facility (LSF),

10.1 The Liquidity and Sustainability Facility (LSF)

The Liquidity and Sustainability Facility (LSF) is a Eurobond repurchasing facility (also known as a “repo market”) operated by the United Nations' Economic Commission for Africa (UNECA) with the goal of providing liquidity to African sovereign borrowers and improving these borrowers' attractiveness to international bond markets. In particular, the LSF aims to incentivize the issuance of African sovereign “green bonds” and climate bonds to fund projects for pandemic recovery and sustainable development.

Launched in November 2021 at the 26th United Nations Climate Change Conference (COP26), UNECA is targeting a transaction volume of 30 billion USD for the LSF. UNECA has emphasized on-lending of reallocated SDRs from high-income countries as a key source of capital for the LSF, with plans to raise 3 billion USD, or 10 percent of the LSF market, through this model.

The LSF improves the market liquidity of African sovereign bond holders through repo financing to private creditors. Essentially, private creditors that hold African sovereign bonds can pledge those bonds to the LSF as collateral and receive financing (cash).¹²⁰ By using African sovereign bonds as the instrument for unlocking LSF financing, the Facility will increase demand prices and demand of new bonds and ultimately lower their yield. Through the facility, it is expected that African sovereign bond issues will save up 11 billion USD a year in interest payments.¹²¹

¹²⁰ Economic Commission for Latin America and the Caribbean (ECLAC), & Economic Commission for Africa (ECA). (2022, April). *Special drawing rights (SDRs) and the COVID-19 crisis*. ECA-ECLAC. Retrieved from https://repositorio.cepal.org/bitstream/handle/11362/47856/S2200199_en.pdf

¹²¹ United Nations Economic Commission for Africa . (2021, March 23). *ECA announces its intention to create a liquidity and sustainability facility, a vehicle for Debt Management and fiscal sustainability*. Retrieved from <https://www.uneca.org/stories/eca-announces-its-intention-to-create-a-liquidity-and-sustainability-facility%2C-a-vehicle-for>

10.2 SDR reallocation mechanisms through the LSF

SDR holders must sign a Voluntary Trading Arrangement (VTA) with the IMF before engaging in transactions that exchange SDRs with freely usable currencies, including on-lending SDRs to the LSF. Many high-income countries and other significant SDR holders have signed VTAs, including the United States, the European Central Bank, Germany, Japan, and China.¹²²

According to the LSF, on-lent SDRs will serve as funding to the LSF to pay private sector investors the cash value of their African sovereign Eurobonds (see Figure below). As a safeguard to SDR-lending countries from potential late payments or defaults, the collateral that is pledged by investors will exceed the amount of the loans that are extended. Essentially, the LSF will charge a spread that is above the prevailing interest rate on each repo transaction.¹²³ The interest rate received from repo counterparties plus the spread will cover all the SDR on-lending costs. Borrowers will then be required to maintain the margin in the event of depreciation of their collateral. In addition, the LSF will be restricted to investment-grade investors and will vet counterparties based on credit risk assessments.¹²⁴

Put simply, the LSF requires a few high-income economies, G7 countries, for instance, to lend their SDRs to the IMF and for the IMF to open a line of credit for the LSF facility. The LSF does not need to be a prescribed holder. The IMF would exchange SDRs to US dollars for a short period of time—such as one month—and the LSF would afterward return those funds to the IMF. Hence, there is security to the IMF, as the LSF provides collateral.

In many ways, this reduces the risk of the LSF and makes any risk limited to the private sector and not for African sovereign bond issuers. SDR lenders can also be assured that the reserve asset status of their SDRs will be maintained, as the IMF retains all SDRs that are on-lent to the Facility.

For China, there are two options via the LSF. The first is to push for the IMF to open a line of credit to the LSF or for China to open a line of credit directly to the LSF. The benefit of opening a line of credit through the IMF is that there are large sums of money that are kept in central banks. However, both methods work well for the LSF.

¹²² International Monetary Fund. (2021, October 28). *Annual update on SDR Trading Operations*. IMF. Retrieved from <https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/10/26/Annual-Update-on-SDR-Trading-Operations-498096>

¹²³ Q&A: *The Liquidity & Sustainability Facility*. The Liquidity & Sustainability Facility. (n.d.). Retrieved from <https://lsfacility.org/faq/>

¹²⁴ Economic Commission for Latin America and the Caribbean (ECLAC), & Economic Commission for Africa (ECA). (2022, April). *Special drawing rights (SDRs) and the COVID-19 crisis*. ECA-ECLAC. Retrieved from https://repositorio.cepal.org/bitstream/handle/11362/47856/S2200199_en.pdf

LSF STRUCTURE AND PROCESS

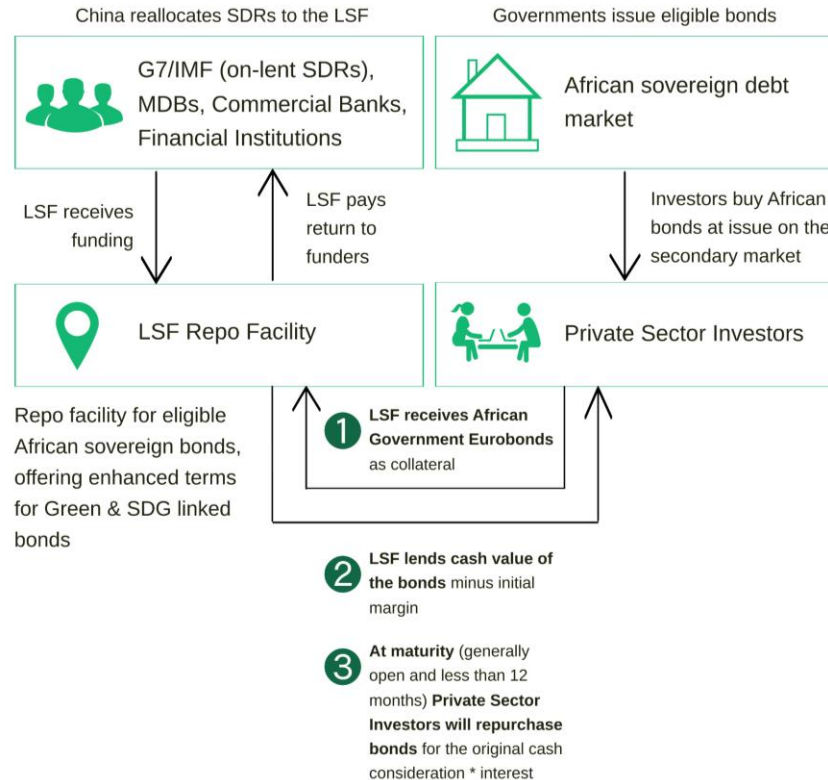


Figure 6: LSF Structure and Process¹²⁵

While on-lent SDRs have not been utilized as funding as of January 2023, the LSF has been operational since 2022. At COP27 in November 2022, UNECA announced that the LSF, with support from the African Export-Import Bank (Afrexim), had closed an inaugural bond repo transaction with Citi totaling \$100 million USD. This transaction provides liquidity to Eurobonds issued by Egypt, Kenya, and Angola.¹²⁶ Following this transaction, UNECA announced refinancing for 120 African sovereign Eurobonds with maturities of up to 1 year.¹²⁷

Although the LSF has great potential to increase borrowing and support African countries, the capacity of the LSF is small, and as a new facility, still needs more traction and support.¹²⁸ As the LSF is still being

¹²⁵ Adapted from Economic Commission for Latin America and the Caribbean (ECLAC), & Economic Commission for Africa (ECA). (2022, April). Special drawing rights (SDRs) and the COVID-19 crisis . ECA-ECLAC. Retrieved from https://repositorio.cepal.org/bitstream/handle/11362/47856/S2200199_en.pdf

¹²⁶ United Nations Economic Commission for Africa. (2022, November 14). *The Liquidity and Sustainability Facility (LSF) closes inaugural \$100 million repo transaction at COP27*. United Nations Economic Commission for Africa. Retrieved January 8, 2023, from <https://www.uneca.org/stories/the-liquidity-and-sustainability-facility-%28lsf%29-closes-inaugural-%24100-million-repo>

¹²⁷ Ibid

¹²⁸ Lawson, B., & Suckling, C. (2021, November 9). Sharing insights elevates their impact. S&P Global. Retrieved January 8, 2023, from <https://www.spglobal.com/marketintelligence/en/mi/research-analysis/assessing-unecas-new-liquidity-facility-for-african-sovereign.html>

tested out and explored, some critics argue that the LSF needs to be fully developed before introducing SDRs into the picture.

In addition, regarding volume, the LSF’s targeted volume of 3 billion USD in SDR on-lending represents only 3 percent of the G20’s pledge to reallocate 100 billion USD in SDRs and only about 40 percent of China’s pledge to reallocate 24 percent of its August 2021 SDR allocation, a reallocation equivalent to 7.28 billion USD. Unless the LSF were to radically expand its overall size of 30 billion USD and/or the 10 percent share from SDR on-lending, it would at best be a secondary mechanism for SDR reallocation.

There was also a suggestion by Dr. Ying Qian and other researchers which is around the issuance of Brady bonds. In China, there are discussions around the use of Brady bond solutions where African countries issue Brady-like bonds and use the proceeds from SDR allocation to African countries to buy Chinese government-issued SDR global bonds and use those proceeds of bonds as collateral to the Brady bonds issued by African countries. This is beneficial as the SDRs physically stay in China and African countries have China’s global bonds as assets that can be used as collateral for new loans.

10.3 Assessment of China channeling through the LSF

Criterion	Rating (1-10)	Explanation
Numbers and Types of Countries Benefiting	8	The LSF caters to African sovereign bond holders meaning the LSF has the potential to support most if not all countries on the continent.
Distribution of Finance towards growth-inducing projects	4	The LSF does not influence or interfere with the distribution of financing that African governments make. Thus, the LSF can not push for financing towards growth-inducing projects.
Clear SDR Reallocation Process	7	The LSF has outlined a very clear strategy for reallocation either directly from a contributing country like China or through credit lines by the IMF.
Results Monitoring	2	As this is a new facility, it is still unclear exactly how easy it will be to monitor and how transparent the LSF will be in this whole process.

Maintaining Sovereignty	10	The LSF does not impose any conditionalities in any of its processes.
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11 CONCLUSION AND RECOMMENDATIONS

Special Drawing Rights are a unique and powerful instrument that have the potential to help African countries and countries around the world obtain critical financing. SDRs, if utilized properly, can help countries achieve their long-term development goals, and, for African countries more specifically, help them realize Agenda 2063 and the Sustainable Development Goals. Unfortunately, because of the unequal distribution of SDRs, African countries have received a very small share of the global SDR allocation. Thankfully, due to consistent pressure from African countries and the broader international community, and a much deeper understanding that the current international financial architecture does not serve the needs of those most in need, high-income economies are slowly beginning to commit to reallocating their SDRs. Reallocating SDRs through MDBs is gaining more traction, with countries, including China, committing to channeling more SDRs through various instruments such as the RST.

China continues to be an important partner for Africa in terms of trade, financing, climate, agriculture, and much more. The recent pledge by China to reallocate 10 billion USD of its SDRs to African countries is a testament to their continued development support with a special tool that has the potential to get the continent on track to meeting the United Nations' SDGs, even though the potential of SDR has been significantly underutilized for a long time.

This paper has analyzed five specific options to be considered by China for channeling China's SDRs to Africa, namely through bilateral transfers; the African Development Bank's HCI, AGTF, and CAW; the IMF's PRGT and RST instruments; the World Bank; and reallocation through non-prescribed holders, namely the LSF. To analyze these options, five bespoke criteria based on both African and Chinese priorities were used. Each option has its own advantages and limitations, as shown in the summary table below.

Table 2: Summary of Scoring

	Numbers and Types of Countries Benefiting	Distribution of Finance towards growth-inducing projects	Clear SDR Reallocation Process	Results Monitoring	Maintaining Sovereignty	TOTAL
Bilateral Transfers	3	4	2	2	8	19
African Development Bank	6	8	6	5	10	35
International Monetary Fund	3	4	6	2	3	18
World Bank	3	4	3	2	3	15
Liquidity and Sustainability Facility	8	4	7	2	10	31

As clearly seen from the summary table above, AfDB and LSF score the highest points from all the options. What clearly distinguishes these options from the rest is 1) these instruments put African priorities, ownership, and agency first 2) these instruments have a clear SDR reallocation process and 3) these instruments support many African countries.

Although China has already made commitments to rechannel some of its SDRs to the IMF, mainly because these instruments have the most developed SDR processes (at the time) and are considered the “technically easiest”, there is still a great opportunity for China to reallocate through other instruments. Nevertheless, this decision was made in 2022, and there is an even bigger push in 2023 for reallocation through MDBs in particular through AfDB which has outlined a very clear proposal for reallocation that can have a direct positive impact on African countries.

The scoring has also shown that it is possible to bridge African and Chinese SDR priorities. These assessment criteria will hopefully be taken into consideration by both African and Chinese stakeholders when discussing how to fulfill China’s 10 billion USD 2021 FOCAC commitment. This approach is also relevant for other regions to explore how best to reallocate their unused SDRs and for recipient regions to consider.

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