CENTRO STUDI SUL FEDERALISMO

research paper

FABIO MASINI

TIME FOR A NEXT GENERATION AFRICA

November 2021

ISSN: 2038-0623

ISBN: 978-88-96871-94-2

Copyright © Centro Studi sul Federalismo

All rights reserved. Quotations from this document can be made according to copyright law, providing information on the source.

ABSTRACT

The recent allocation by the IMF of $650bn in *Special Drawing Rights* (SDRs) triggered a widespread debate on their use for alternative purposes to their usual role as instrument to fix balance of payments disequilibria. This paper re-examines the main proposals put forward in the last few months, and suggests that a different direction should be taken, at least in Europe.

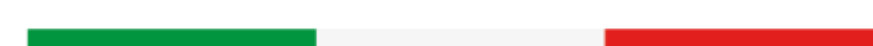
Given the strategic relevance of Africa to the future of Europe we suggest the EU Member States should consider pooling part of the SDRs recently received to launch *Next Generation Africa*. This major investment plan, of both grants and loans, would aim to: trigger endogenous growth in Africa; strengthen African regional integration; and help European recovery. A few, not necessarily mutually exclusive, institutional settings and scenarios are considered.

Keywords: Africa, European Union, Next Generation, Special Drawing Rights

Fabio Masini is Professor of Theories and History of International Political Economy at University of Roma Tre, *Jean Monnet Chair* - European Economic Governance, and Managing Editor of *Euractiv Italia.*

E-mail: **fabio.masini@uniroma3.it**

This paper was prepared within the initiatives of the project "For a European Union - African Union Plan on the New Allocation of the IMF's SDRs" (of which I was asked to act as principal investigator), coordinated by the Centro Studi sul Federalismo (CSF) with the Robert Triffin International Foundation (RTI) and the Centre Studies on European and Global Governance (CesUE), admitted to the funding by the Italian ***Ministry of Foreign Affairs and International Cooperation****.*
Further contributions on this topic shall follow in the next months. Let me warmly thank all the research-team members for fruitful discussions on these topics and in particular Alfonso Iozzo, Bernard Snoy, Annamaria Viterbo and Olimpia Fontana for their careful reading and remarks on previous draft of this paper. The usual disclaimers apply.



Ministry of Foreign Affairs
and International Cooperation

1. Introduction • 2. The recent debate on the relocation of SDRs to Africa • 3. A proposal for a Next Generation Africa *• 4. Concluding Remarks*

1. Introduction

After the formal decision of the *Board of Governors* earlier in the month, on 23rd August 2021 the IMF agreed a *General Allocation* of $650bn in Special Drawing Rights (SDRs),[1] issued to the 190 countries belonging to the organisation.[2] This allocation is the largest ever issued by the IMF; the second largest dates to 2009, when, after the international credit crunch that followed the US-dominated financial crisis, trust had to be restored, liquidity pumped into the system, and new emerging global actors acknowledged. SDRs were introduced in the Articles of Agreement of the IMF in 1969; between this date and the 2009 allocation issues only amounted to about $40bn.

The debate on how to use such money, which ultimately depends on country-specific decisions (as the allocation goes to IMF member States and bears no specific conditionality) started as early as the beginning of 2021, soon after rumours emerged about the imminent, historic decision. Some convincing arguments were put forward: in favour of poverty reduction and increasingly sustainable development models (UNPD 2021); an enhancement of health systems (Georgieva 2021); poverty reduction (Wolf 2021); the completion of vaccine campaigns (Eichengreen 2021). The WTO Director Okonjo-Iweala suggested that special attention should be paid towards a global approach towards Africa's recovery, irrespective of IMF quotas (Olawoyin 2021), implying a reallocation of resources. These proposals have not, as yet, been followed by any specific detail on how they might be accomplished.

Fundamentally, all the proposals conceived appealed to the sense of responsibility from rich countries towards the poor (Sembene 2021). Macron, at the summit on the financing of African economies on 18th May 2021, called "for the reallocation of 100 billion SDRs from the richest countries to African countries" (Benhaddou 2021). Again, a workable project has yet to follow.

We suggest a different approach here; what follows is a development of the reasons why the EU's quotas of SDRs should be devoted to meeting an EU strategic goal, such as triggering sustained and sustainable endogenous growth in Africa, and at the same time strengthening the continent's integration process and institutions. Our starting assumption is that no EU Member State is currently under the threat of major financial distress; recovery is robust, intra-EU balance of payments disequilibria are efficiently and smoothly regulated through the Target 2, and external disequilibria are in favour of the EU. We can permit ourselves to use SDRs for a longer-term, strategic, investment: to set Africa on a path of stable recovery and sustainable development.

[1] Equivalent to 456.485,3 SDRs; $650bn is the maximum amount that the IMF can issue without prior consent from the US Congress.

[2] Currently, all members of the IMF adhere to the SDR Department. The fact that the *General Department* and the *SDR Department* are kept strictly separate, reflects the idea that assets in one department cannot be used to meet liabilities of the other.

We are aware that there are critical technical and political issues that need to be addressed before a proposal of this type becomes workable. For this reason, two further enquiries follow on from this opening contribution, developing the juridical and institutional aspects of the suggestion, and assessing its expected macroeconomic impact.

In this paper we focus on a general analysis of how such resources might be used; in section one we rehearse the main points raised in the recent debate and highlight alternative uses of these funds; before illustrating our proposal in section two.

2. The recent debate on the relocation of SDRs to Africa

This unprecedented issue of $650bn in SDRs was the end of a process that started as an international reaction to the pandemic, with its related economic, social, and health crises. Before the pandemic, the debate over SDR allocations was roughly divided between three lines of reflection. The first concerned the changing balance of international economic power that needed (and still does) to be addressed, through a similar general allocation of SDRs; this is what happened ten years ago.

A second line called for further strengthening their role, especially for Africa (some suggested starting with the Maghreb area), progressively extending the use of SDRs to the whole continent, thus helping its integration process (Flor 2020). From this point of view, the use of SDRs was considered instrumental to reinforcing the fragile tissue of pan-African institutions.

The third is related to those who, having critically examined the experience of the financial crisis in 2007-08 and its subsequent general allocation, observed that countries had merely exchanged the SDRs for convertible currencies and spent these (Sobel[3] 2020), or simply had an inflation-producing effect, especially in countries where the receipt of SDRs resulted in an increase of more than 10% in reserves (Chitu 2016) due to the moral hazard. In both cases the receipt of the SDRs failed to trigger any endogenous growth mechanisms; as such, critics argued against any further general allocation.

Things changed with the pandemic, that increased the divide between rich and poor countries; this suggested the use of intervention from international institutions or some joint, cooperative redistributive mechanism from the most developed towards still developing countries. In April 2020, soon after the G20 refused to issue a proposed general allocation of SDRs for $500bn, Gavyn Davies (former Goldman Sachs partner and former President of the BBC) suggested in the *Financial Times* to use SDRs "to help low-income countries boost health and other fiscal spending as coronavirus spreads" (Davis 2020). One year later, on June 1, 2021, Martin Wolf (2021) wrote in the *Financial Times* suggesting that SDRs should be channelled to buy vaccines.

In the meanwhile, the managing director of the IMF, Kristalina Georgieva, repeatedly pointed out the need to use these resources for both poverty reduction and health assistance, helping with the vaccination against Covid-19 (ECA 2021). Resources channelled to Africa via SDRs are very low compared to the region's needs, $33bn in total: insufficient to tackle all of the major issues

---

[3] Mark Sobel: *US Treasury Official* on international monetary and financial policy, US representative in the *IMF Board*, now *Center for Strategic and International Studies*.

concerning the structural underdevelopment of most African countries. Hence Georgieva's suggestions to recapitalize the IMF's *Poverty Reduction and Growth Trust*,[4] and establish a brand-new *Resilience and Sustainability Trust*. Nevertheless, according to the general goals of the IMF, and given its aversion to regional cooperation, such funds should not (necessarily) be solely channelled to Africa. Georgieva's argument can count on a robust data set: among the 190 IMF member receiving countries, the 135 developing countries share is $275bn, roughly 40% of the allocation, while the 55 richer countries received around $375 bn.

Moreover, she can count on the support of Vera Songwe, under-secretary general of the UN and executive secretary of the UN Economic Commission for Africa, who – in an extensive article published in the *Financial Times* on February 24 this year – appealed for solidarity from rich to poor countries.

On September 10, 2021, Barry Eichengreen critiqued Georgieva's suggestion of recapitalising the *Poverty Reduction and Growth Trust* (PRGT) (Eichengreen 2021), proposing that a specific fund should be created with the unique goal of solving the pandemic emergency across the whole world. This proposal had one clear advantage over alternatives, and is an interesting suggestion. It would be very easy to manage in terms of conditionality; the IMF would only need to verify that such funds were used to enhance health systems. Furthermore, Eichengreen suggests that the IMF should use regional development banks as intermediate beneficiaries, "which are already authorized to hold SDRs and convert them into dollars and other hard currencies", and which would strengthen regional integration. We have found suggestions along this same vein, proposing a strengthening of regional institutions through the use of SDRs to build stronger regional safety nets.

In brief, three strategic, (not necessary competing) lines seem to emerge from the debate as regards the use of SDR allocations: the first is the US-led suggestion to use them to fully vaccinate Third World countries (money that would be eventually channelled back to the United States, given that most vaccine producers are there); the second is to use the SDRs to address the need for pushing underdeveloped countries (among which African ones are of course numerous) along a sustainable development path; the third to use such resources to strengthen an African reserve fund.

As concerns the third of these, we are fully aware that building a sound financial safety net for poor countries is crucial to boosting development. According to a recent G-20 policy insight (Gallagher *et al*., 2020), this is a prerequisite to achieve the *Sustainable Development Goals* set at the UN level. At the same time, we believe the agreements signed over the past few years between the IMF and African financial institutions have already gone a good way along the path to a strengthened financial system in Africa. This is the reason why we believe this issue should not be tackled with this project.

[4] Also a few CEPAL economists tackled the relocation of SDRs to reduce poverty, strengthen regional economic integration and trigger major economic and social transitions. See: https://www.eurodad.org/special_drawing_rights_saving_the_global_economy_and_bolstering_recovery_in_pandemic_times

The debate is heating up, and will probably be the case in the forthcoming months. Georgieva recently discussed with African Ministers of Finance the support of their request to the IMF of the allocation being directed to address a wide variety of needs concerning the international financial architecture. These allocations were namely to finance: a) innovative sustainable finance mechanisms; b) a recapitalization of the PRGT for low-income countries; c) an improvement of access to vaccines; d) an improvement of access to capital markets; e) an establishment of a *Resilience and Sustainable Fund* providing long-term financing to low and middle-income countries; f) the establishment of a mechanism of carbon pricing, that may help to counter greenhouse gas emissions and climate changes; g) the capitalization of development banks; h) the restructuring of debt in the poorest countries (ECA 2021).

Meanwhile, at the IMFC annual meeting last October, the ECB's President issued a statement[5] (Lagarde 2021) whereby she re-affirmed that SDRs are funds with a reserve status.

3. A proposal for a *Next Generation Africa*

In contrast to all proposals put forward until now, briefly reviewed above, our new proposal does not aim at redistribution, or to building a stronger safety net, or indeed concentrate purely on the struggle against Covid-19. It is not motivated by charity, but by purely pragmatic considerations; for Europe, Africa's development is a key investment.

From this point of view, this proposal is perfectly aligned with the scholarly interest and policy proposals already made by the *Centro Studi sul Federalismo* and the *Triffin International Foundation* over the last few decades, devoted to kick-starting robust endogenous growth in Africa as an opportunity for Africa itself and for Europe (e.g. De Rambures, Iozzo, Viterbo 2020; Flor 2020; Majocchi 2020).

The sustainability of its growth is crucial for the sustainability of European development, in the short-, medium-, and long-run. In the short-run it may provide incentives for decreasing migrationary pressures.[6] In the middle-term Africa may provide a market for European products and services; with an increasing growth of welfare, the consumption basket in Africa becomes more oriented towards capital intensive products, thus also improving the quality of European productive capacity. In the long-run, Africa is a strategic partner for Europe, both in terms of trade (see Tab. 2 annexed) and potential industrial partnerships.

[5] We refer to this passage: "National central banks of EU Member States may only lend their SDRs to the IMF if this is compatible with the monetary financing prohibition included in the *Treaty on the Functioning of the European Union*. Retaining the reserve asset status of the resulting claims is paramount. This requires that the claims remain highly liquid and of high credit quality. The direct financing of multilateral development banks by national central banks of EU Member States through SDR channeling is not compatible with the monetary financing prohibition". It should be noted, though, that the statement refers to (single) central banks not being allowed to channel multilateral development banks; nothing is said about the possibility that a joint, *ad-hoc* fund, agreement, or institution may perform such task. This argument requires careful consideration and further enquiry; political will, nevertheless, is surely able to find a viable way out.

[6] We are aware that there is also a wide literature on the possibility that, in the medium term, growth impacts positively on education's quality, but not on living conditions, therefore further raising individual's (especially skilled youth) expectations to find a better professional opportunity abroad. This is a serious risk. In case this happens, this improvement will fall into the long(er) run benefits.

Our starting assumptions are: a) that this one-shot opportunity of SDRs allocation should be used to tackle a strategic issue for Europe, the risk of increasing migrationary flows from Africa, due to worsening climate changes (a few years ago, the EC President Juncker said the Commission's forecasts expected 250 million migrants from Africa to Europe due to climate changes before 2050), resource scarcity, and increasing political and military tensions; b) the use that each African country can make of the SDR allocations should be made conditional on investing in a few, key priorities.

We also argue that five priorities could be financed: *energy independence*, *digital infrastructure*, *health*, *green transition*, and *education*. We explore two scenarios: under the first, all EU27 SDR allocations are wholly directed to this project. The relative weight of each priority is indicated in percentage points for each of the five relevant macro-actions.

Under the second hypothesis, only a part of such resources should be used for this purpose, say €50bn, but more money might be raised through financial markets. A multiplier effect of 5 seems to be reasonable, considering the type of investment and risks; hence the total sum under consideration reaches €250bn.

The resources allocated to these five priorities might follow this scheme, under the two scenarios:

Allocation hypotheses	**1st Scenario**		**2nd Scenario**	
Priority	%	**Billion €**	%	**Billion €**
Energy independence	*30*	**43,2**	*20*	**50,0**
Digital infrastructures	*20*	**28,8**	*15*	**37,5**
Health	*20*	**28,8**	*20*	**50,0**
Green transition	*15*	**21,6**	*25*	**62,5**
Education	*15*	**21,6**	*20*	**50,0**
Total	*100*	**144,0**	*100*	**250,0**

In both cases, there might be, as is the case with the Next Generation EU, both grants and loans. Although their relative share should be negotiated with African counterparts, we may consider *Health* and *Education* being financed through grants, and the other items through loans.[7] The rationale behind this is that the latter are investments with higher returns in the short-run, making them palatable to the market, while the return on investment related to health and education might only be more visible in the longer-run. Under Scenario 2 this would imply €100bn in grants and €150bn in loans.

From the institutional point of view, there are several critical points that need to be addressed in the conditional use of SDRs for development purposes. Some of them have been extensively analysed by Plant (2021). Although deeper analyses on these points will follow in the next months, I suggest the approach chosen should consider at least three aspects: a) there is no need to change the Articles of Agreement of the IMF, because it would simply be unfeasible (requiring approval by three fifths of the IMF members representing 85% of the total voting power, with the

[7] On the different nature and technicalities connected to these two different types of funds the arguments raised by Plant (2021) should be carefully acknowledged.

United States having *de facto* veto power); b) there is a need to strengthen the multilateral approach to European cooperation with Africa, also implying enhancing integration on the African side (as the last two Presidents of the European Commission have also been trying to suggest); c) the need to maintain strict monitoring on the utilisation of the resources towards agreed priorities, again through a *multi-* or preferably *supra-national approach*, rather than following country specific or bilateral agreements.

The mechanism might work as follows, with two potential options, not necessarily self-excluding. On the European side, the *European Investment Bank* (EIB), already well-structured both in technical and statutory terms to manage a similar kind of investment project, might apply to the IMF to become a *prescribed holder* for SDRs. The *European Bank for Reconstruction and Development* (EBRD), already an SDR *prescribed holder*, and empowered to lend to the countries of North Africa (indeed, it is already engaged in development projects within the Mediterranean basin), is also thought to be able to help in this. The EBRD's capital base already includes both the EIB and the European Commission with 10% each. Furthermore, it also has the advantage of being a largely inclusive institution, with shares of its capital also held by (among others) China, Japan, Russia, the United States, and some central-Asian republics. For this purpose, we might think that an *ad-hoc* technical branch of the EBRD might be opened in one of the Mediterranean countries to manage this project and ensure better coordination with African counterparts. In the case of the EIB we may consider the use of the *African Investment Platform*, managed together with the European Commission through the *EU External Investment Plan* and *Boost Africa.*[8] A synergic mechanism should be designed to ensure that each institution plays the role it is best designed for.

The EIB and/or the EBRD should collect the SDRs from each EU Member State for the creation of a new *ad-hoc* trust fund; this would be on agreement with the ECB, which in the euro-area is ultimately responsible for the allocation/destination of such reserve-assets from Member States, in which the ECB recognizes that such investment funds do not violate the monetary financing prohibition under Art. 123 TFEU. Under scenario 2 (which we deem the most plausible) this fund might have a paid-up capital of €50bn, to use as collateral for the emission of €250bn SDR-denominated bonds on the financial markets.

Such funds should than be directed, both as grants and loans, to the EU's African counterparts. On this front, we may consider involving the *African Development Bank* (with its concessional arm: the *African Development Fund*) and the Cairo-based *African Export-Import Bank*. The institutions involved should decide how to share the monitoring of funds destined towards different priorities. The resources from this project might be provided over a ten year time-span.

We reiterate that some of these investments would return to Europe in the form of demand for technology, know-how, goods, services, thus reinforcing the European recovery, while at the same time strengthening the newly-born African common market.

[8] https://www.eib.org/en/products/mandates-partnerships/boost-africa/index.htm

4. Concluding Remarks

Europe is an ageing continent, with adverse demographic dynamics. It faces massive migration from Africa, where multiple, complex conflicts push people to search for glittering illusions in the perceived wealth of Europe. Furthermore, climate change and water accession difficulties worsen the framework, a situation that will be further exacerbated in the coming future.

This current proposal allows for a two-fold goal to be met: to trigger robust endogenous growth in Africa; and to enhance the long-term perspective of growth in Europe, at the same time reducing potentially devastating externalities. Both these effects would further positively impact on global growth perspectives.

The idea presented above, to collect and channel EU Member States' SDR allocations towards a long-run investment plan for Africa, offers an interesting opportunity; it does so with several critical points, especially concerning the juridical and institutional profiles required for the functioning of such endeavour.

From the EU MS' perspective, there are several risks associated with the present proposal. The most important concerns the eventuality of an emergence of country-specific critical narratives, suggesting alternative choices on the destination of such resources. The SDRs are an international reserve asset designed to supplement the official reserves and provide liquidity in the event of adverse balance of payments crises, including public debt servicing. This may give rise to a relevant risk of the emergence of country-specific narratives calling for such use of SDRs. Indeed, in Italy, right-wing politician Giorgia Meloni had already suggested something similar in the Spring of 2020, well before the country received its share of about €17,5bn.[9]

The form of our proposal may nevertheless also have important consequences; to strengthen the architecture of the international monetary and financial system, a similar attempt might also be designed and implemented in Latin America, where resources should be channelled to reduce structural divides in terms of potential growth compared to the most developed countries. Finally, this suggestion might also lead to an increasing role for SDRs in the private sector, thus setting the path for their widespread use worldwide.

---

[9] Meloni G. 2020. "Il prestito del MES non è la soluzione. Dal Fondo monetario nuovi diritti speciali", *Corriere della Sera*, May 27.

References

Benhaddou Solène 2021. How Might the IMF's Special Drawing Rights help Africa?, *The Africa Report*, August 24, https://www.theafricareport.com/120851/what-do-the-imfs-special-drawing-rights-actually-entail/

Chitu Livia 2016. Reserve Accumulation, inflation, and moral hazard: Evidence from a natural experiment, ECB Working Paper Series, 1880, January.

Davies Gavyn 2020. The SDR is an Idea whose Time has Come, *Financial Times*, April 19, https://www.ft.com/content/7b7830e8-690c-11ea-800d-da70cff6e4d3.

De Rambures Dominique, Iozzo Alfonso, Viterbo Annamaria 2020. *A Safety Net for Africa: Towards an African Monetary Fund?*, Robert Triffin International, www.triffininternational.eu/images/pdf/RTI_DeRambures-Iozzo-Viterbo_A_SAFETY_NET_FOR_AFRICA_June2020.pdf

ECA (United Nations Economic Commission for Africa) 2021. African Ministers of Finance and IMF discuss changes needed to global financial architecture to support economic recovery on the continent, *Africa News*, https://www.uneca.org/stories/eca%2C-african-ministers-of-finance-and-imf-discuss-changes-needed-to-global-financial

Eichengreen Barry 2021. This SDR allocation must be different, *Project Syndicate*, Sept. 10, https://www.project-syndicate.org/commentary/how-to-get-new-imf-sdrs-to-poor-countries-by-barry-eichengreen-2021-09

Flor Elena 2020. Monetary Aspects of the African Continental Free Trade Area, in Majocchi Alberto (ed) 2020. *Africa and Europe: A Shared Future*, Brussels, Peter Lang, pp. 115-119.

Gallagher Kevin P. et al. 2020. Expanding the global financial safety net, *G20 Insights. Policy Brief*, https://www.g20-insights.org/policy_briefs/expanding-the-global-financial-safety-net/

Jensen Lars 2021. An Unprecedented Opportunity to Boost Finance for Development The Upcoming Special Drawing Rights Allocation, United Nations Development Programme, *UNDP Global Policy Network Brief*, June, https://www.undp.org/publications/unprecedented-opportunity-boost-finance-development#modal-publication-download

Lagarde C. 2021. *Statement*, Forty-fourth meeting of the International Monetary and Financial Committee, IMF Annual Meetings, 14 October, https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp211014~0ebead6ce2.en.html

Lieverscheidt Malte, Fruehauf Anne 2021. *Sub-Saharan Africa: IMF SDRs. Trickle down or Redistribution*, Teneo, August 26, https://www.teneo.com/sub-saharan-africa-imf-sdrs-trickle-down-or-redistribution/

Majocchi Alberto (ed) 2020. *Africa and Europe: A Shared Future*, Brussels, Peter Lang.

Ocampo José Antonio 2019. 'Time for a True Global Currency', *Project Syndicate*, Apr. 5, https://www.project-syndicate.org/commentary/imf-special-drawing-right-global-currency-by-jose-antonio-ocampo-2019-04

Olawoyin Oladeinde 2021. IMF's SDR release would boost reserves in Nigeria, *Premium Times*, August 29, https://www.premiumtimesng.com/news/top-news/481947-imfs-sdr-release-would-boost-reserves-in-nigeria-others-adesina.html

Plant M. 2021. *The Challenge of Reallocating SDRs: A Primer*, Center for Global Development.

Sembene Daouda 2021. How an Allocation of IMF SDRs to Africa Could Be Supported by A Multilateral Reallocation Initiative, Center for Global Development, February 23, https://www.cgdev.org/blog/how-allocation-imf-sdrs-africa-could-be-supported-multilateral-reallocation-initiative

Sobel Mark 2020. Coronavirus SDR allocation not the answer, *Official Monetary and Financial Institutions Forum*, March 24, https://www.omfif.org/2020/03/coronavirus-sdr-allocation-not-the-answer/

Wolf Martin 2021. 'A Windfall for Poor Countries is within Reach', *Financial Times*, June 1, https://www.ft.com/content/fe826780-c973-476f-b057-7a8aa678ec7b

---

CENTRO STUDI SUL FEDERALISMO
Piazza Arbarello 8
10122 Torino - Italy
Tel. +39 011 670 5024
info@csfederalismo.it
www.csfederalismo.it