FAQS: What are Special Drawing Rights and why do they matter for Africa?

African Development Bank President and African heads of state have been calling for the reallocation of SDRS since the IMF approved a $650 billion general allocation last August. What are they and why do they matter.

What is a Special Drawing Right?

The special Drawing Right (SDR) is an interest-bearing international reserve asset that supplements other reserve assets of member countries. Rather than a currency, it is a claim on the freely useable currencies of IMF members.

The SDR is based on a basket of international currencies: the US dollar, the Japanese Yen, the European Euro, the pound sterling and the Chinese Renminbi. The IMF sets the value of the SDR each day on the basis of: (a) fixed amounts of the currencies included in the SDR basket and (b) the daily market exchange rates between currencies included in the basket.

The current value of one SDR is about $1.40 or €1.24

How are SDRS allocated?

There are two types of SDR allocations: General and Special.

A General allocation of SDRs has as its objective meeting a long-term global need to supplement existing reserve assets.

General allocations require the approval of 85% of the IMF’s Board of Governors. Under a general allocation SDRs are distributed to IMF members in proportion to their quota shares in the Fund. To see each countries allocation click here.

In August 2021, The IMF approved its largest ever allocation of 456.5 billion SRDs or $650 billion dollars.
A special allocation of SRS occurred in 2009 to enable countries that joined the IMF after 1981 to take part in the SDR system on an equitable basis.

SDRs can also be allocated to prescribed holders,

**Who can use SDRs and how are they useful?**

SDRs can be held and used by the IMF, its member countries and prescribed holders. Private entities and individuals cannot hold SDRS.

Prescribed holders—there are 15—comprise central Banks, development finance institutions and intergovernmental monetary institutions. The African Development Bank is a prescribed holder. So too are the European Central Bank, the Bank for International Settlements and the Asian Development Bank.

SDRS serve as the IMF’s unit of account, much as the African Development Bank uses Units of Account (UAs).

Members can hold their SDRs as part of their foreign exchange reserves. They can also sell or exchange SDRs for freely usable currencies with other countries and with prescribed holders; typically on a voluntary basis.

Members can also use SDRs in loans, payment of obligations, pledges and in operations and transactions involving the IMF, such as the payment of interest on and repayment of loans, or payment for quota increases.

**Why did the IMF implement its largest ever SDR allocation in August 2021 and how much did African countries receive?**

The general allocation of SDR 456.5 billion (or $650 billion) implemented on August 23, 2021, was to address a long-term need for reserves across the globe, build confidence, and supports a
sustainable and resilient global recovery, including within emerging market and low-income countries struggling with the impacts of the COVID-19 crisis.

African countries received roughly $33 billion, or just 5% of the total SDRs allocated in August 2021. For a comparison, the U.S received $113 billion, or 17% of the total allocation.

**Are African countries seeking more than their quota allocation?**

Yes. African countries are seeking a reallocation of $100 billion in SDRs from wealthier countries. These additional reserves will help drive a much needed economic recovery following the shock of the Covid-19 crisis.

**Have any SDRS been reallocated?**

In April 2021, the G20 pledged to reallocate $100 billion to more vulnerable countries, most of which are in Africa and Latin America. Since then a number of countries have made public commitments to reallocate their SDRS. These notably include China which has publicly pledged $10 billion worth of SDRS for Africa, 25% of its allocation. France, Spain, Italy, the Netherlands, and Belgium have also committed to divert a share of their SDRS to vulnerable countries, an amount equivalent to $13 billion.

The Bank continues to advocate for G20 countries to fulfill their pledges to reallocate SDRs.

**What is the African Development Bank Group’s position on the Reallocation of SRS to African countries?**

The African Development Bank has been a strong advocate for reallocation. Moreover, the African Development Bank, a prescribed holder, is pushing for SDRS to channelled through itself and other Multilateral development Banks. This is because the African Development
Bank, with its AAA credit rating, can leverage the funds by as much as 4 times. As president Adesina has said, “a $50 billion re-allocation through the African Development Bank will be leveraged to deliver $200 billion to African economies.”

More information can be found here on the web page of the International Monetary Fund.

Also click here for further reading on the issue.