MAKING SDRs WORK FOR DEVELOPING NATIONS
THE LARGEST SDR ALLOCATION IN HISTORY

“The allocation is a significant shot in the arm for the world and, if used wisely, a unique opportunity to combat this unprecedented crisis”
Ms. Kristalina Georgieva, Managing Director of the International Monetary Fund

- Boost global liquidity
- Build confidence
- Foster the resilience and stability of the global economy
- Fund critical needs

Uneven SDR distribution across continents, countries and income groupings

- 61% allocated to developed countries
- G7 countries received about $277 billion
- 39 Low-income African countries received 2.2%

SDR resources allocated inversely to needs

General SDR allocation breakdown
SDR allocation (in USD billion)

<table>
<thead>
<tr>
<th>Country</th>
<th>Allocation</th>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>113</td>
</tr>
<tr>
<td>Japan</td>
<td>42</td>
</tr>
<tr>
<td>China</td>
<td>42</td>
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<tr>
<td>Germany</td>
<td>36</td>
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<tr>
<td>Africa</td>
<td>34</td>
</tr>
<tr>
<td>France</td>
<td>28</td>
</tr>
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<td>United Kingdom</td>
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A UNIQUE OPPORTUNITY TO PUT THE CONTINENT ON TRACK TO MEET THE SDGS

Climate change has increased the continent’s funding needs

- 4 out of 5 of the world’s most vulnerable countries to climate change are African
- 4% of Africa’s contribution to global GHG emissions
- -3% African GDP reduction by 2050 caused by climate change
- 3% of less: global climate finance flows to Africa

Annual costs of climate change expected to reach USD 30 billion in 2030 and USD 50 billion by 2040

Africa’s challenges are a matter of global concern

- Over 640 million Africans have no access to energy
- Most food-insecure region in the world with more than 232 million under-nourished people
- At the bottom of the global value chain with its share of global manufacturing at around only 1.9%
- Africa’s total infrastructure financing needs are estimated at USD130-170 billion per year
- Population growth and demographic changes will drive up Africa’s overall disease burden by 28% by 2030
- Most Women-Led SMEs at risk of permanent business shutdown because of the pandemic
- Nearly 38.7 million Africans pushed into extreme poverty in 2021

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At the center of the global financial architecture

Uniquely positioned to address global inequities in a clean and sustainable way

MDBs can leverage SDR resources 3 to 4 times

Provide vital resources for development

Promote inclusive and sustainable social and economic development

Unrivalled regional, country and sector expertise

Able to deploy broad range of financing products

Provide ready and time-tested vehicles to propel the world economy forward

Critical role in supporting efforts to translate the SDGs into meaningful country-level targets, policies, programs, and projects

Provide direct financing and help unlock and catalyze additional public and private resources

Policy advice and technical assistance supporting countries to build domestic capacity and to identify the needed priority investments with internationally recognized standards

Ensure that investments benefit the respective country and their citizens through emphasis on transparent procurement, project governance, environmental standards, social considerations

Solid Governance framework that ensures resources are invested effectively, responsibly, transparently and with full accountability.

A perfect conduit for efficiently channeling resources to developing countries and vulnerable economies
The IFIs are multipliers of development – by supporting good policies, strengthening institutions, promoting innovation, taking programs to scale and mobilizing private sector investment. There is much further potential to be unlocked by governing the system as a system rather than as individual institutions.

AMPLIFYING THE IMPACT OF THE SDR ALLOCATION

Long-term SDR loans to the African Development Bank structured to be accounted for as equity, will bring the continent closer to its aspirations.

- **Type:** Shareholder loan that can be accounted for as equity both from an accounting and rating agencies perspective – *Hybrid capital instrument*
- **Currency:** SDR - No need to be converted into free useable currency
- **Maturity:** Very long term, Perpetual with an optional redemption
- **Interest rate:** SDR interest rate
- **Loss absorption features** such as deferral of interest payment, triggered upon specific events

- Building on the Bank’s *AAA credit rating*, Preferred Creditor Status, and an excellent multilayered risk management framework to mitigate and manage financial risks
- **Liquidity,** modelled on the IMF’s PRGT
  - Ability to exchange hybrid capital against cash in case of balance of payment needs
  - Unfunded contribution to support the encashment regime
- Additional mechanisms through an SPV / Trust being evaluated to accommodate potential hurdles faced by potential SDR lenders
CONCESSIONAL SDR LOANS TO THE AFRICAN DEVELOPMENT FUND (ADF)

Preserving the reserve asset status

Concessional donor loans

- Long dated shareholder loan
- Currency: SDR or one of the currencies of the SDR basket
- Interest rate: Fixed rate, Concessional rate,

- SDR resources would allow the Fund to allocate more grants to the fragile and most vulnerable countries.

- Liquidity risk addressed through a liquidity buffer or encashment system alike that of the IMF’s PRGT
- Credit risk addressed through a credit risk management approach similar to PRGT
SDRS TO COMBAT POVERTY AND IMPROVE LIVES ...

- Combat debt vulnerabilities on the continent
- Reliable and affordable access to electricity
- Agricultural Transformation Agenda to turn Africa into a net food exporter
- Industrialization agenda that prioritizes inclusive economic growth and takes advantage of the continent resources.
- Addressing Africa’s critical gaps
- Regional integration for expanding the size of African markets
- Finance high-quality, sustainable, transformational projects
- Promote the economic recovery of the continent
- Jobs Youth in Africa initiative
- Reliable and affordable access to electricity
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Climate change and green growth

- Supporting climate adaptation and mitigation initiatives in Africa
- Mobilizing USD 25 Billion in climate finance between 2020-2025
- Committed to ensure that at least 40% of annual Bank financing (incl. SDRs) is climate finance

African Public Development Banks

The African Development Bank can play a leading and catalytic role in the Finance in Common agenda by empowering African Public Development Banks:

- Equity investments to strengthen their balance sheet
- Strengthening their corporate governance
- Grant funding for capacity building
- Risk mitigation and Credit enhancement
- Debt and Co-financing

...AND PUT THE CONTINENT ON THE PATH TO MEETING THE SDGS AND THE AFRICA WE WANT