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EU for Africa: Revitalizing the Role of the SDR

by

Fabio Masini[I]

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A long time has passed since the Special Drawing Rights (SDRs) were first conceived as an instrument to supplement the dollar as a provider of international liquidity: the first SDRs were officially born in 1969, shortly before the Bretton Woods regime collapsed, in August 1971.

The birth of the SDRs was the result of long and tiring discussions between central bankers and leading international experts, gathered around the Group of Ten and the Bellagio Group. These discussants later reached an agreement within the IMF to amend its *Articles of Agreement*. For the first 40 years after the inception of the SDRs, their primary purpose was limited to use as a unit of account for the IMF. Release of SDRs remained extremely small (around 21bn), before being revitalised during the financial crisis of 2008-2010, with a general allocation of 182,6bn in the summer of 2009, to provide further liquidity; relieve shrinking reserve margins; and end the global credit crunch. The allocation of SDRs for the equivalent of $650bn in August 2021 is a big step forward, but the real test will be how to channel these new resources to less developed countries.

Since the end of the Bretton Woods regime in 1971, the world has undergone dramatic changes. The relaunch of European integration should also be seen as a forward-looking reaction to these changes. The current growing attempts to foster regional integration (with the birth of the African Free Trade Area, the South Asian Free Trade Area, etc.) make it clear that in those areas it will soon be necessary to introduce some form of "regional" monetary unit of account, as in the case of European integration. Consequently, in a "multi-regional" context, multilateralism is the only sustainable solution to tackle the risks of a new world disorder. But a new multi-architecture can only be based on a less hegemonic solution to the problems of international liquidity, adjustment, trust, and reduction of development gaps. SDRs, as a basket currency (currently represented by shares of the US dollar, the Euro, the renminbi, the Japanese yen, and the British pound), are a key asset upon which such an architecture can be built. The evolution of SDRs, however, depends not only on IMF allocations, but also on their (conditional) use as fiscal currency and on the development of a private market for SDRs.

The project described in this booklet aims to address both these challenges: making SDRs a (conditional) instrument of economic development for Africa; and extending the use of SDRs to the private market. The project, designed by the *Centro Studi sul Federalismo* in collaboration with the *Robert Triffin International* Foundation and the *Center for Studies of the European Union and the Global Governance,* was co-financed by the *Ministry of Foreign Affairs* in Italy.

In essence, the proposal illustrated in the following sections stems from an initial review of the current debate on the use of SDRs and from previous suggestions (see Masini below) about the pooling of €50bn, from approximately €144bn in SDRs attributed to EU countries, to be used as collateral to raise €250bn on the market and finance five major priorities for African development in ten years: achieving energy sovereignty (€50bn), strengthening digital (€37,5bn) and health infrastructures (€50bn), promoting a green transition (€62,5bn), and increasing the quality of human capital (€50bn).

Our estimates show that (see Fontana below), in an average scenario (mainly depending on the expectations of the global business cycle and on the partial success of the African Free Trade Area and other regional integration processes), this would result in a multiplier of 0,9 for the first year and 1,2 for the following years – therefore €525bn over the ten (+first) years. This would be more than enough to bridge the infrastructure gap (mainly energy and digital infrastructure) that the African Development Bank estimates at between $130bn and $170bn; and to enable the development of human capital formation through education, strengthening of the health system, and initiating a path towards sustainability.

As usual, not all that glitters is gold; this project has several problems to solve before it can become feasible (see Viterbo below). The main problem with this large liquidity injection is that SDRs are generally seen as reserve assets only, to fix payment imbalances. They have never been used as fiscal money for development purposes (see Casano below). In the recent debate that preceded and accompanied this general allocation, some suggestions emerged about an alternative use of SDRs, aimed at supporting development, rather than being hoarded in central bank accounts. The widely shared suggestion to use them to finance the Poverty Reduction and Growth Trust and the proposed Resilience and Sustainability Trust also goes in that direction.

The nature of SDRs as reserve assets is not the only critical issue, as monitoring and conditionality can be difficult to enforce. It may be problematic to ensure that the funds issued go strictly towards expected and planned investments. The risk of corruption may reduce the effect of such funds and their impact on individuals and societies. An ad-hoc communication plan should be designed to allow for greater transparency in the use of these funds in each country. All of these elements crucially depend on the positive evolution of stabilisation plans in some African countries, where political fragmentation, social conflicts and hardly any democratic control may weaken the effectiveness of any investment plan.

Despite these problems, we believe that pressure is rising to resolve some of these major shortcomings, as President Macron's recent speeches regarding a growing commitment to African development testify, not to mention the strategic relevance of the recent EU-UA Summit in Brussels. Although we are aware that major obstacles may jeopardise its success, we also believe that political will can free itself of, or at least overcome, any kind of legal and technical obstacles. After all, obstacles are mere constraints; however, politics is concerned with how to achieve aims whilst *acknowledging* but remaining *independent* of such constraints.

[I] Fabio Masini is Professor of *Theories and History of International Political Economy* and Jean Monnet Chair of *European Economic Governance* at Roma Tre University; he is Managing Editor of *History of Economic Thought and Policy* and *Euractiv Italia.* E-mail: **fabio.masini@uniroma3.it**
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