



THE Weekend Reader

"Your Weekly Read on Debt, Development & Social & Economic Justice"

Zimbabwe receives SDR allocation from the IMF

On August 23, the International Monetary Fund (IMF) undertook a general allocation of Special Drawing Rights (SDRs) of SDR 456 billion to all its 190 members. These SDRs have a monetary value of US\$650 billion. This week's reader focuses on explaining some of the most frequently asked questions surrounding this SDRs allocation.

What is an IMF SDR?

This is an international reserve asset that was created by the IMF in 1969 to supplement the reserve assets of its members. Generally, SDR is an artificial currency in which IMF member countries can exchange freely for a basket of real international currencies which comprise the US dollar, the British pound, the euro, the Japanese yen, and China's renminbi. SDR exchange rate is set daily by the IMF.

Under the Articles of Agreement, the Fund is allowed to create unconditional liquidity provision via 'general allocations' to participating members but in proportion to their quotas. A general allocation should promote the achievement of IMF's purposes; avoiding GDP stagnation and deflation (the opposite of inflation).

Is an SDR a loan?

An SDR allocation is not a loan from the IMF. When allocated, members receive unconditional liquidity.

How much SDRs allocation was received by Zimbabwe?

This year, the IMF disbursed a total of SDR 456.5 billion, which is equivalent to US\$650 billion. As alluded to earlier, SDRs are allocated to members in proportion to their IMF quotas. Concerning this, Zimbabwe received SDR 677.4 million translating to about US\$961 Million. This amount was deposited in the government's account at the Reserve Bank of Zimbabwe.

What can SDRs allocations be used on?

Once allocated, IMF members can elect to keep their SDRs as forex reserves or use all or part of their rights. Per the 2021 IMF Guidance, members have freedom on how they manage their allocations and there are no conditions attached.

What are the likely benefits of 2021 SDR allocation to Zimbabwe?

The SDR allocation, if used wisely, provides a unique opportunity for the country to fight the unprecedented COVID-19 crisis. The instant impact of the allocation was on supplementing Zimbabwe's dilapidating reserves assets thereby strengthening its resilience and minimising the grave risks of both economic and social weaknesses worsened by the pandemic. The Minister of Finance and Economic Development, Prof. Mthuli Ncube acknowledged the importance of these funds pointing that the funds will be used to support social sectors including education, health, infrastructure development, and vulnerable groups.

Zimbabweans, particularly the rural folks and urbanites who make a living in the informal sector are facing severe challenges exacerbated by the pandemic. Overall, inflation continues to rise making basic goods out of reach for the average citizens as the local currency surrenders to the greenback at an accelerated rate, mostly in alternative markets.¹ This is evidenced by the decision of the European Union to provide monthly assistance to urban dwellers who are living way below the poverty datum line. Social infrastructure needs a complete revamp while service delivery has reached a new low. With these funds, the government can also accelerate vaccine procurement and administration to facilitate a safe and fast re-opening of the economy. This will also ensure that the economy is insulated with highly disruptive future waves. The current Level 4 national lockdown restrictions are subduing economic activity and depressing incomes.

What are the likely risks of this SDR allocation to Zimbabwe?

The allocation comes with risks that authorities must carefully consider. Some of these include delayed implementation of crucial macroeconomic reforms especially of parastatals to improve their governance systems and service delivery. For years now, the audit reports of the Government by the Office of the Auditor General (OAG) show the existence of porous mechanisms to manage public finances. The SDR funds have been received despite the slow implementation of OAG recommendations on best governance principles. As such, there is a greater risk of embezzlement and abuse of these resources. We may also see the use of SDRs to maintain and support unsustainable policies. Further, there are high risks that emanate from inadequate use of SDRs given the nation's unsustainable debt. According to the Fund, some costs will be borne by participating governments if they fail to be transparent in the management of the SDR allocation. These may undermine a country's access to future financing.

How to keep track of SDR use by the government?

The IMF will publish information on members' SDR allocation in its quarterly and annual reports. In these reports, aggregated information on changes on SDR by transaction type will be provided. Also, the IMF Guidance will provide a framework for assessing the macroeconomic implications of the SDR at the country level. Citizens together with Civil Society Organizations should devise mechanisms to closely monitor the use of these funds. This will exert pressure on the government to do it right.

What is expected from the Government?

This US\$961 million from the IMF throws a lifeline to the Zimbabwean government as it comes at a time the Treasury is facing a limited fiscal space to cushion the citizenry from the negative impacts of the COVID-19 pandemic. The cost of living remains too high for the majority. Hence, the government should not prioritize only the private sector but also invest the allocation in areas of social importance such as health, education, water, and sanitation. Also, the money can be used in strengthening key social safety nets such as investment in mass transit. This will ensure sustainable and equitable economic growth that leaves no one behind. However, all this only comes when the SDR allocation is managed in a transparent and accountable manner to thwart misappropriation and spending to strengthen unsustainable policies.

1. <https://www.africanews.com/2021/08/10/european-union-provides-emergency-cash-assistance-and-nutrition-support-to-people-facing-extreme-food-insecurity-in-zimbabwe/>

Conclusion

It is the hope of Zimbabweans that the SDRs will offer some reprieve to the ongoing social and economic challenges. The gesture by government of sharing information on the SDRs through a press statement², and its shared commitment on prudent use, “with utmost accountability, to support the social sectors namely health, education, and the vulnerable groups; productive sectors that include industry, agriculture and mining; infrastructure investment covering roads and housing; and foreign currency reserves and contingency fund”, is commendable.

Kindly follow and appreciate ongoing conversations and government direction on the use of the SDRs on: <https://fo-fo.facebook.com/ZTNnews/videos/365949501742803/>

2. <https://www.rbz.co.zw/documents/press/2021/August/Joint-Statement-on-SDR.pdf>