

## An Unprecedented Opportunity to Boost Finance for Development

### The Upcoming Special Drawing Rights Allocation

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The IMF's upcoming Special Drawing Rights (SDR) allocation will provide urgently-needed liquidity for countries struggling to meet their crisis-related spending needs and boost resilience against global financial volatility. But, under current quotas and with severe fiscal and financial constraints in many countries, it will not be enough. A voluntary channeling of SDRs to the benefit of vulnerable countries is needed. The potential large size of such also presents an opportunity to move beyond the urgent provision of liquidity toward dealing more systematically and effectively with interlinked debt and development challenges. This will be necessary to safeguard development prospects in the large number of countries that are highly debt-vulnerable, face huge future spending gaps, and are heavily exposed to external shocks, such as from climate change. To deal more effectively with future liquidity risk, an SDR-funded or backed mechanism could offer a range of state-contingent debt instruments that automatically reduce the debt-service burden and refinancing risk based on pre-determined "triggers" tied to external factors or key economic variables. To deal more effectively with solvency problems, SDRs could be channeled toward concessional funding support for countries coming out of debt-restructuring conditional on sufficient treatment of debt, full transparency, and fair burden-sharing between creditors. Finally, as a development objective, SDRs could be channeled to target climate vulnerabilities. This would make sense not only because it would adhere to a global fairness principle, but also because debt- and climate-vulnerabilities are highly correlated, climate change will intensify in the future, and because of the transmission channels from climate risk to financial and economic stability risk.

## 1. Introduction

Underlying this year's Spring Meetings of the World Bank Group and the International Monetary Fund (IMF) was a sense of optimism, helped on by an updated global growth forecast of 6 percent.<sup>2</sup> However, it was mentioned on several occasions that we are witnessing a multispeed recovery with several low- (LICs) and middle-income (MICs) countries being left behind due to a lack of access to vaccines, mounting debt problems, and severe fiscal and monetary policy constraints. Unlike the financial crisis in 2008-2009, GDP per capita losses under the current crisis will be much higher in developing regions while they also face a higher risk of further setbacks.<sup>3</sup> Despite such acknowledgments there is a real risk that international efforts aimed at helping countries deal with these challenges will fall short.

At the meetings, an extension was announced of the Debt Service Suspension Initiative (DSSI) until the end of 2021 and the G20 and others endorsed the Common Framework (CF).<sup>4</sup> Important as these measures are, they cover only about two-thirds of the highly debt-vulnerable developing economies and one-third of the estimated external public debt service payments at risk. For a variety of reasons, countries have been reluctant to make use of them.<sup>5</sup> One major announcement has been a new general

Special Drawing Rights (SDR) allocation worth \$650 billion for which the IMF was urged to quickly deliver a proposal that is expected to be approved by the end of June or early July of 2021.<sup>6</sup> The proposal is also expected to include a voluntary option, or set of options, to allow countries with excess SDRs to donate or on-lend (channel) SDRs to vulnerable countries.

An SDR general allocation followed by a channeling to countries in need will for many developing economies be necessary to free up resources for urgent crisis-related spending and to build resilience towards global financial volatility. But looking beyond the short-term provision of much-needed liquidity it is also an unprecedented opportunity to explore alternative uses of SDRs that could lead to a significant boost for finance for sustainable development. This policy brief contributes to this discussion. Section 2 provides a quick overview of the public debt situation in developing economies. Section 3 discusses the distribution and relative size of the \$650 billion general SDR allocation. Section 4 discusses the potential size and objectives of an SDR-funded mechanism. Some concluding remarks are offered in Section 5.

## 2. More than half of developing economies are highly debt-vulnerable

Earlier this year, UNDP published a paper on sovereign debt vulnerabilities in developing economies in which we identified and ranked 72 highly debt-vulnerable countries for which we have access to external debt data.<sup>7</sup> One of the main conclusions of the study was that close to one-third of these countries — accounting for more than two-thirds of total estimated external debt service payments at risk — are not covered by either the DSSI or the CF. Another 10 fragile and conflict-affected countries (with less data coverage) can be added to the 72 countries based on either their credit or Debt Sustainability Assessment (DSA) risk rating, bringing the total number of highly debt-vulnerable developing countries to 82.<sup>8</sup>

It is important to draw a distinction between debt liquidity issues, on the one hand, and solvency issues on the other. In simple terms, liquidity problems are short-term phenomena where

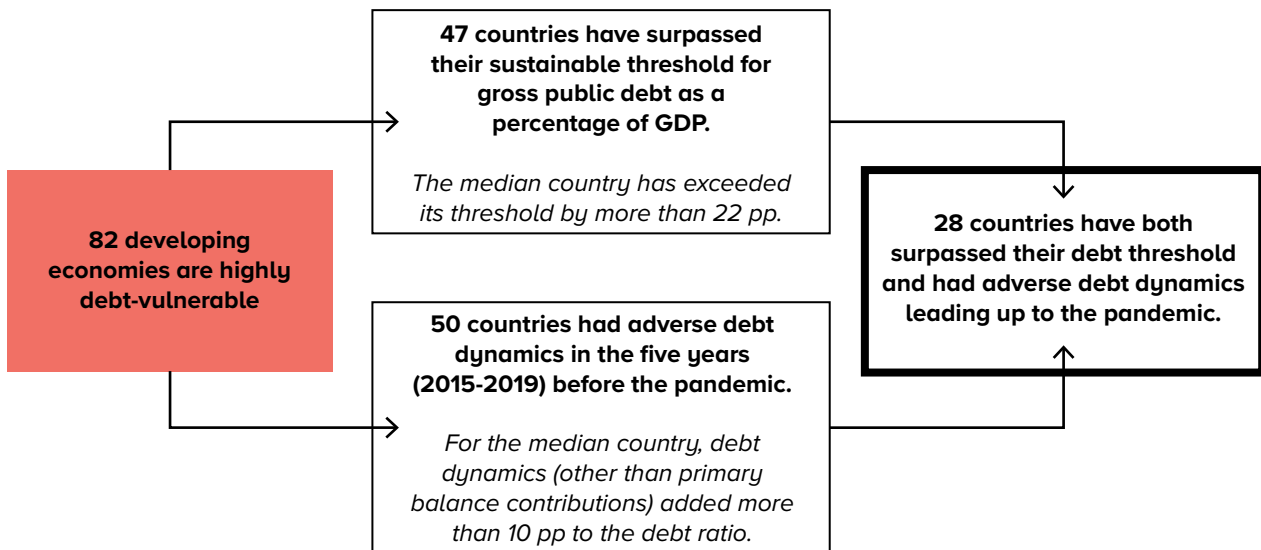
a country has problems accessing markets at affordable rates and in rolling over its debt, for example, because of external factors that do not reflect the country's fundamental risk, or other short-term shocks. Left unaddressed, liquidity problems can turn into solvency problems. On the other hand, a country can be said to have solvency problems if it has surpassed, or is expected to surpass, its thresholds for debt considered sustainable (relative to its debt carrying capacity) and at the same time has an adverse debt dynamics outlook, i.e., its debt trajectory is considered unsustainable.

Before the pandemic in 2019, 40 of the 82 highly debt-vulnerable developing countries had already surpassed their threshold of gross debt that was deemed to be sustainable as a percentage of their GDP. This year, the number is expected to have grown to 47 countries, with the median country exceeding its debt threshold by 22.4 percentage

points (pp).<sup>9</sup> Assessed over the five years preceding the pandemic (2015-2019), 50 of the 82 countries (61 percent) had adverse debt dynamics — here understood as additions to their debt-to-GDP ratio not coming from primary balance contributions.<sup>10</sup> For this group of 50, debt dynamics other than primary balance contributions added 10.3 pp to gross

public debt as a percentage of GDP for the median country over the five-year period.<sup>11</sup> Little more than one third of the highly debt-vulnerable economies have both surpassed their debt-to-GDP threshold and had adverse debt-dynamics during the five years preceding the pandemic. See Figure 1.

**Figure 1: Gross debt and debt-dynamics — 82 highly debt-vulnerable economies**



**Note:** Debt-vulnerability is determined based on either credit or DSA risk rating. All developing economies (LICs and MICs) with a credit rating of “highly speculative” (B1 for Moody’s, B+ for FITCH and S&P) or worse are included. So are all countries with a DSA risk rating of “high risk of debt distress” or “in debt distress” except for Eritrea and Yemen, which have neither a credit rating nor a recent DSA risk rating, but both of which have high public debt levels. Both countries are assigned a public gross debt threshold of 35 percent (as for LIC-DSA countries with weak debt-carrying capacity). Debt-ratio thresholds are taken from the most recent DSAs. Adverse debt dynamics refer to debt-generating flows other than primary balance contributions. Data is from the World Economic Outlook database, April 2021. Libya and Syria are not included due to missing data.

Bringing down their high debt burdens will, for many countries, depend on their ability to generate and sustain growth rates that far exceed recent pre-COVID rates. Coupled with this is the concern that a growing number of countries are now going through a third or fourth wave of COVID, followed by new lockdowns at the same time as inadequate vaccine access and new virus strains continue to threaten recoveries for all. For many developing

economies, the recovery will also depend crucially on the continued stability of and access to financial markets at affordable rates. We have already witnessed how precarious global financial flows can be with the large outflows from developing markets in March and April last year, and how little influence developing economies themselves have over the factors that affect flows. The general SDR allocation will help mitigate such risk. But will it be enough?

### 3. A \$650 billion SDR allocation

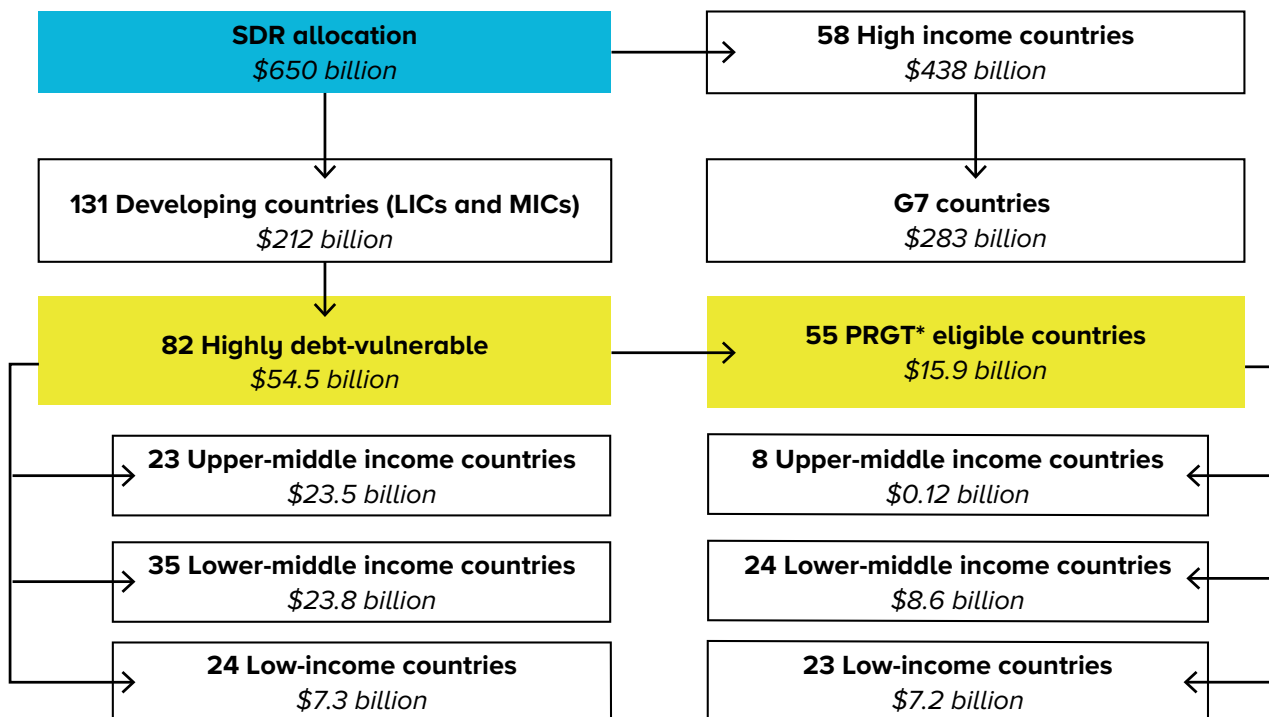
SDR is an international supplementary reserve asset that countries can swap among each other for freely usable hard currency and is meant to aid countries with short-term balance of payment disequilibria. In the current context of widespread health and socioeconomic crises, severe fiscal

constraints, and high debt, SDRs can help free up fiscal resources for crisis-related expenditures. This is because the SDR allocation can be thought of as a perpetual loan priced at the same rate as short-term debt for some of the most creditworthy governments.<sup>12</sup>

Thus, for countries that are solvent, and have adequate reserves, SDRs could cheaply fund additional spending. SDRs could also be used to pay off creditors and bring down the debt service burden by, for instance, refinancing higher-interest debt. As an example, with the objective of freeing up short-term cashflows Ghana recently became the first sub-Saharan African (SSA) country to issue a foreign currency denominated zero-coupon bond. In a 4-year tranche, the country issued \$525 million, raising \$409.5 million, which was then used to refinance local currency debt with an average interest rate of more than 18 percent. This will save the country about \$184 million in interest payments over the next four years in exchange for a higher debt exposure to exchange rate movements.<sup>13</sup> Ghana was able to raise funding from the market to undertake this refinancing, and at an annual interest rate equivalent of little more than 7 percent. Many other countries cannot do the same. Had Ghana instead been able to use \$409.5 million of its upcoming general SDR allocation, it would have had to pay only \$819,000 resulting in a net interest saving of almost US\$300 million.<sup>14</sup>

The general SDR allocation of \$650 billion would immediately send \$212 billion to 131 developing economies defined as LICs and MICs (\$203 billion).<sup>15</sup> Of this allocation, \$54.5 billion would go to the group of 82 highly debt-vulnerable economies that include 24 LICs and 58 MICs, the latter of which can be further split into 35 lower-middle income countries (LMICs) and 23 upper-middle income countries (UMICs). Figure 2 shows the allocation for the subgroup of 55 of the 82 highly debt-vulnerable countries that are eligible for facilities under the IMF’s Poverty Reduction and Growth Trust (PRGT). These 55 countries will receive close to \$16 billion.<sup>16</sup> The PRGT is expected to play a central role in the IMF’s upcoming proposal on voluntary options for channeling more SDRs to vulnerable countries. For example, 38 SSA countries make up the majority of the 69 PRGT-eligible countries, and the 55 PRGT-eligible countries that are highly debt-vulnerable include among them 31 SSA countries.

Figure 2: Distribution of the general \$650 billion SDR allocation



Source: Author’s own calculations based on SDR quotas. Note: \*PRGT is the IMF’s Poverty Reduction and Growth Trust, the facilities of which are open to 69 eligible countries. For a definition of debt vulnerability, see Figure 1 note.



For the group of 82 highly debt-vulnerable countries, \$54.5 billion is at the most equal to 5 percent of their total external public and publicly-guaranteed (PPG) debt stock (based on the latest datapoints available from 2019) or 1.8 percent of the total gross public debt stock in 2021.<sup>17</sup> In other words, the amount is far short of even covering a years' worth of interest payments for most. But the variation within the group is large. For the Democratic Republic of the Congo, the SDR allocation would equal approximately 20 percent of its total gross public debt (or about one-third of its total external PPG debt). For Egypt, Eritrea, Kenya, Laos, Maldives, Sri Lanka, and Sudan, it would be not even 1 percent of total gross public debt.

Another issue is that using SDRs to provide liquidity support to countries with solvency problems is no guarantee that countries will spend more on combatting the crisis. Instead, there is a real risk that support will be used to allow private creditors to continue to free-ride while the underlying solvency issues persist.<sup>18</sup> It is therefore worth thinking about how voluntary options for channeling SDRs beyond the short term could help developing economies deal more effectively with both liquidity and solvency problems and help safeguard their sustainable development prospects.

## 4. Channeling SDRs to vulnerable countries

Discussions on the possible SDR channeling options, size and objectives have begun, and it is expected that the PRGT will play a central role.<sup>19</sup> One of the main benefits of using the PRGT is the speed with which the extra liquidity could be provided as it is already operational and can handle SDR on-lending.<sup>20</sup> One of the main drawbacks is that it is not open to all developing countries in need. Currently, 69 countries are PRGT-eligible, including 55 of the 82 highly debt-vulnerable countries identified above. Ideally, all vulnerable developing economies should be able to benefit.

The combination of widespread high debt-vulnerabilities and massive future estimated spending needs in developing economies call for more ambition on mobilizing finance for development on all fronts. The potentially large size of an SDR channeling provides an opportunity to look beyond the provision of urgent liquidity and address some of the interlinked debt and development challenges. The IMF has recently estimated the scale of developing countries' spending needs. Based on four case studies, it concludes that countries, on average, will have to spend (public and private) 14 percent of GDP annually to make significant progress on only a subset of the Sustainable Development Goals (SDGs) by 2030.<sup>21</sup> Even under a scenario of comprehensive and successful domestic reforms they will not make it without substantial additional external support. Another IMF study has assessed the pandemic recovery spending needed for the group of 69 PRGT-eligible countries by 2025 which amounts to no less than \$450 billion, plus an additional \$100 billion projected in an adverse growth scenario.<sup>22</sup>

### How large could a redirection of SDRs be?

Of the \$650 billion allocation, the G7 alone will receive \$283 billion which is more than the total amount the IMF is currently making available to member countries.<sup>23</sup> In total, all high income countries would receive as much as \$438 billion. That is equivalent to about 47% of the amount of total excess gross public debt for the 82 highly debt-vulnerable developing economies.<sup>24</sup> Another comparison could be the total amount of global Official Development Assistance (ODA) of \$167.8 billion in 2019.<sup>25</sup> Yet another comparison could be the Green Climate Fund, established in 2014 as the world's largest climate fund mandated to support developing countries raise and realize their Nationally Determined Contributions (NDC).<sup>26</sup> As of April 2021, total cumulative confirmed pledges to the fund were only \$17.6 billion.<sup>27</sup>

SDRs could also be leveraged in capital markets to increase funding capacity and mobilize private capital to developing economies. As an example, the European Stability Mechanism (ESM), which was preceded by the European Financial Stability Facility as a response to the 2008-2009 financial crisis, has paid-in capital from members states of \$98 (€80) billion and a lending capacity of \$612 (€500) billion.<sup>28</sup> The capitalization from strong member states ensures that the ESM has a strong credit rating which allows it to issue debt at low funding costs which it passes on to member states experiencing, or threatened by, severe financing problems.<sup>29</sup>

### What could be the objectives of channeling SDRs?

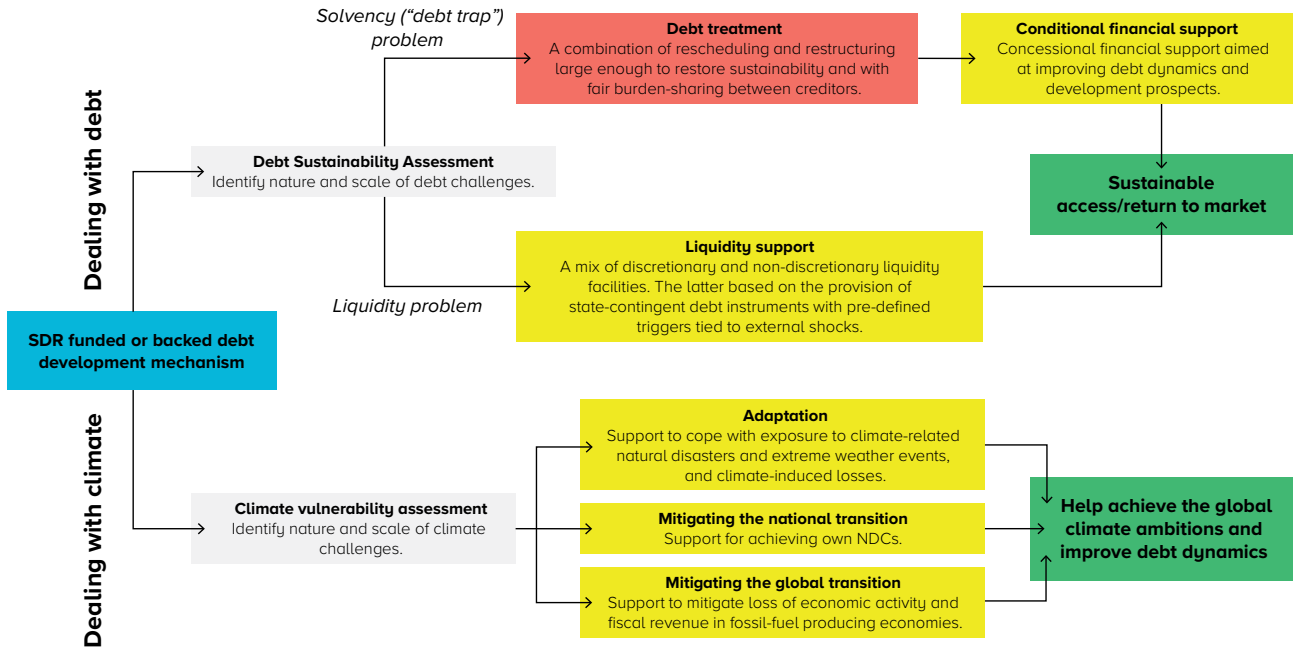
Beyond the provision of urgently needed liquidity support, an SDR funded or backed mechanism



Based on DSAs, part of an SDR channeling could be used to offer differentiated debt-relief support to countries depending on whether problems are issues of solvency or liquidity — see upper part of Figure 3. The support measures should be systematic, targeted, and preventative, and

importantly, open to all vulnerable countries. Similarly, eligibility for financial support for dealing with climate vulnerabilities could be granted based on a climate vulnerability assessment — see lower part of Figure 3.

Figure 3: Possible uses of an SDR channeling to vulnerable countries



Support for countries with solvency problems should be made conditional on adequate, orderly, and fully transparent debt treatment with fair burden-sharing between official and private creditors. The CF has provided a first step for such a framework and, as called on by the UN Secretary-General, the CF should be used as a steppingstone toward a more universal and permanent framework for sovereign debt-resolution.<sup>30</sup> Post restructuring, support should aim at improving a country's future debt dynamics and development prospects. A combination of large-scale on-lending of SDRs, increases in access limits to concessional finance (as for the PRGT),<sup>31</sup> and access to an orderly debt treatment process could help incentivize countries with solvency issues to come forward and preemptively restructure their debt.<sup>32</sup>

If the problem is one of liquidity, unconditional financial support should be offered. The issue of funding costs and roll-over risk is especially pertinent. Even though developing market spreads have largely returned to pre-pandemic levels since showing signs of severe stress in March and April last year, the future remains highly uncertain. This is especially so with growing concerns over rising

inflation in advanced economies, in particular the US. Part of the logic behind the proposed SDR allocation is that it will mitigate the upward pressure on countries' funding costs by giving reserves a boost. But there are a range of alternative options that could help deal more effectively with liquidity risks and help stabilize economies after being hit by shocks.

Here the use of *ex-ante* state-contingent debt instruments designed to automatically free up resources in times of need should be explored. These instruments could work by, for example, temporarily taking over interest payments and/or by offering affordable financing and refinancing options if/when pre-determined "triggers" are activated. Triggers could be based on factors such as extreme weather events, earthquakes, sudden shifts in global financial flows (funding spreads), shocks to commodity prices or to terms of trade, disease outbreaks, or the triggers could simply be linked to GDP. The pre-determined financial support would happen automatically when triggers are breached and thereby also mitigate any signaling effects that could impact credit ratings negatively and cause a procyclical response from markets.

Such types of state-contingent “liquidity insurance” provided by a third party could also help mitigate any adverse feedback loops that might arise between sovereigns and the banking sector in times of uncertainty. These measures will not only help countries if things turn bad, but are also likely to lower market risk premia, and thus funding costs, during normal times.

As alluded to above, the interlinkages between debt and development must be considered to a greater extent, going forward. Here it would make sense for part of an SDR channeling to target the climate crisis as a development objective. Not least because the climate crisis is a global problem, but also because of the high share of debt-vulnerable countries that are also climate-vulnerable, and the negative impacts on debt dynamics expected from a future increase in the frequency and magnitude of climate-related shocks.<sup>33</sup> More specifically, concessional financial support could be granted based on assessments of countries’ adaptation and mitigation vulnerabilities. Here, mitigation should cover both the challenges of reducing a country’s own emissions and the economic and fiscal impacts inflicted on the country from a global low-carbon transition. The latter is especially important for lower income fossil-fuel export and dependent economies.<sup>34</sup>

### Key challenges in channeling SDRs

The options for channeling SDRs outlined above are rather ignorant to several non-trivial legal, political, and financial challenges that would have to be assessed in more detail to lay out what the feasible options are. One key challenge concerns the reserve asset function of SDRs as per IMF’s Articles of Agreement. Most notably that any general SDR allocation must address a long term global need for higher reserve assets. While loans and donations to improve on the effective distribution of the international reserve assets created with a general SDR allocation are easier to justify, special funds that aim to leverage underused SDRs for specific development purposes might prove more difficult.<sup>35</sup>

Other key challenges related to setting up a new fund concern the size and funding of a its potential liquidity buffer, subsidy and reserve accounts, the placement of credit risk and the degree and distribution of concessionality of its lending. Under the PRGT lenders that chose to participate in the so-called ‘encashment regime’ can request a repayment of commitments in the event of balance of payment problems and can therefore continue to rely on their PRGT contributions as reserve assets. This is ensured by maintaining a liquidity buffer of 20

percent of the loan amounts committed by lenders participating in the encashment regime. Currently, nine of the 17 countries with borrowing arrangements with the PRGT are participating.<sup>36</sup> Furthermore, PRGT funds are based on bilateral loan agreements at market interest rates which the PRGT then on-lends at concessional rates (currently zero for all lending facilities under the PRGT). The difference in interest costs is covered by the PRGT subsidy account which is funded by donations/grants.<sup>37</sup> Finally, to cover late payments the PRGT maintains a reserve account. Channeling more SDRs through the PRGT is therefore likely to also require more donation-based funding of both the subsidy and reserve accounts. Proposing a fund other than the PRGT to for instance provide concessional finance to address developing countries’ medium- to long-term climate challenges would somewhat have to deal with all these similar issues.

Take the option to leverage SDRs in debt markets to target climate objectives. Countries with strong reserve positions could contribute (pledge) SDRs to the fund to be used as collateral (“equity”) based on which the fund issues debt in the capital markets. The fund’s borrowing costs – and therefore also the degree of concessionality it will be able to pass on to borrowers – will depend on both the amount of SDRs contributed, the creditworthiness (ratings) of the contributing countries, and whether they would insist on retaining the reserve asset function of their SDR contributions which would then require the fund to operate with a larger liquidity buffer. The aim should be for the fund to be designed in such a way that it obtains the highest possible credit-rating. As an example, the ESM is AAA-rated by FITCH and S&P and charges an average lending rate of 0.73%.<sup>38</sup> The contributed SDRs would only be converted to cash and used to repay creditors if the fund incurs losses or late payments that cannot be covered by a reserve account. The fund would commit to returning these losses (buying back SDRs) using its income over a medium- to long-term horizon. Under such a set-up there would be no SDR interest cost incurred by contributors of SDRs, unless there would be a need to convert SDRs into cash, as the fund would otherwise return (in equal proportion to contributors pledges) the running SDR interest earned on its holdings. Unlike the PRGT, such a fund would need to be a prescribed SDR holder. Alternatively, contributions could be made to the fund using reserve assets other than SDRs which in principle could leave contributors’ total reserve holdings before and after an allocation unchanged, but with a different composition.<sup>39</sup> A fund set up as proposed above would likely still require (non-returnable) donations/grants to fund a reserve account, and possibly also a subsidy account to further reduce interest costs for the poorest and most climate vulnerable borrowers.



## 5. Conclusion

The upcoming SDR allocation, and voluntary options for excess SDR countries to channel SDRs to vulnerable countries, will be one tremendously important measure in helping countries meet some of their crisis-related and urgent spending needs. But it is also an opportunity to move beyond short-term liquidity support and discuss how the international community could help developing countries deal more effectively with a vicious debt and development cycle. Doing so could potentially require changes to the IMF Articles of Agreement and/or new funds or facilities. For instance, a specialized trust fund other than the PRGT under the IMF and/or new arrangements with development banks, etc. Regardless of how such a new set-up might look, its objectives, and how long it would take to get there, now is the time to start the discussions. Across developing economies: *debt vulnerabilities are high; future spending needs are massive; highly debt-vulnerable countries make up more than three-quarters of countries that are highly climate-vulnerable; and, if left unchecked, climate vulnerabilities will derail our global climate ambitions and lead to a further deterioration of vulnerable countries' debt dynamics.*

This brief has argued that the discussions on the size and objectives of an SDR channeling could be guided by: *first, the need to quickly provide countries with liquidity to help manage the crisis including ensuring citizens access to vaccines; second, and going beyond the short-term, instituting a more systematic, targeted, and universal approach to dealing with debt problems (in simple terms by relying more on state-contingent debt instruments, and by conditioning support for countries with solvency problems on transparent debt treatment with fair burden-sharing); third, targeting specific development objectives and challenges with global implications and closely linked to future debt dynamics, such as by helping countries tackle their climate vulnerabilities.* A large transfer of resources, helped on by SDRs, from wealthy countries to climate-vulnerable developing economies for climate mitigation and adaptation would improve their debt dynamics and help solve our global climate challenge, and it would only be fair given the unequal distribution of emissions versus climate-related costs.

## Endnotes

- <sup>1</sup> **Acknowledgements:** The paper was written under the supervision of and with support from George Gray Molina, Chief Economist of the Bureau for Programme and Policy Support and Director of the Strategic Policy Engagement Team, UNDP. A big thanks to our former intern Zhuohui Chen for assisting with the data work and research. The author is grateful to all who provided valuable feedback: Homi Kharas, Senior Fellow at the Center for Sustainable Development, Brookings Institution; Cornelia Kaldewei, Economics Affairs Officer, UN DESA. From UNDP: Pedro Conceição, Director of the Human Development Report Office; Raymond Gilpin, Chief Economist at the Regional Bureau for Africa; Bruno Avila, Policy Analyst; El-Hadji Fall, Economist; Mariana Gonzales, Partnerships Advisor; Paolo Galli, Senior Regional Advisor; Sarah Bell, Communications Expert; and Leilei Katof, Partnerships Analyst.
- <sup>2</sup> IMF World Economic Outlook (WEO) database, April 2021.
- <sup>3</sup> <https://blogs.imf.org/2021/04/06/managing-divergent-recoveries/>
- <sup>4</sup> The DSSI and CF are available to 73 developing countries. The DSSI allows countries to postpone their debt service payments to official bilateral creditors. Later the CF was adopted to offer a pathway for greater debt treatment (restructuring or rescheduling) for countries with more severe problems. Under the CF, the amount of debt eligible for treatment will be determined by a Debt Sustainability Assessment and conditional on fair burden sharing between private and official creditors. Three (African) countries have signed up for debt treatment under the CF.
- <sup>5</sup> Sovereign Debt Vulnerabilities in Developing Economies, UNDP, April 2021.
- <sup>6</sup> SDRs are distributed as per member states' IMF quotas which reflect countries' relative position in the world economy.
- <sup>7</sup> <https://www.undp.org/press-releases/new-undp-study-reveals-magnitude-limited-debt-relief-eligibility-developing>
- <sup>8</sup> We identified 72 countries with available external debt data as "highly debt-vulnerable." Here another 10 have been added based on their DSA risk ratings. Despite not having a (recent) DSA risk or credit rating, Eritrea and Yemen are included due to their high gross debt levels. Threshold values for gross debt-to-GDP for all countries are taken from most recent DSAs and a threshold of 35 percent is used for both Eritrea and Yemen (equal to the DSA threshold for LICs with weak debt carrying capacity). Syria and Libya are not included due to missing data.
- <sup>9</sup> Data on gross public debt and GDP is from the World Economic Outlook (WEO) database, April 2021.
- <sup>10</sup> "Debt dynamics" refers to changes in the debt-to-GDP ratio stemming from the different debt-creating flows, such as the primary balance and "automatic flows" stemming from interest, GDP growth and exchange rates, and the shares of foreign and local currency-denominated debt. Other debt-creating flows, such as privatization receipts, recognition of contingent liabilities (e.g., bank recapitalization), debt relief, etc., can also significantly affect debt dynamics, and usually debt dynamic analyses also include a residual variable that represents changes coming from things such as sales or purchases of financial assets, "one-off" factors affecting debt stock, changes to definitions of debt and fiscal balances, cross-currency movements, etc.
- <sup>11</sup> We base our calculations on the WEO April 2021 dataset.
- <sup>12</sup> Countries pay interest on their SDR quota allocation and earn interest on their SDR holdings. When these two are the same, countries therefore on net pay zero interest. If a country decides to use some of its quota allocation (that is, if holdings fall short of allocation) it will pay the SDR interest rate on the difference. The SDR interest rate is set weekly as the weighted average of short-term interest rates in government debt instruments in the money markets for the currencies that make up the SDR currency basket and with a floor of 0.05 percent (5 basis points).
- <sup>13</sup> <https://www.myjoyonline.com/dr-gideon-boako-ghanas-novel-zero-coupon-bond/>
- <sup>14</sup> This is assuming that Ghana pays the current SDR interest rate of only 0.05 percent for four years.
- <sup>15</sup> This is using the World Bank's country income groupings.
- <sup>16</sup> The total 69-country group of PRGT-eligible countries would receive close to \$21 billion.
- <sup>17</sup> The IDS 2021 database for external debt does not include debt issued in 2020 and 2021 and data is missing for several countries. For example, external debt data is missing for Iraq, Kiribati, Marshall Islands, Micronesia, South Sudan, and Tuvalu. Gross government debt data is taken from WEO April 2021. Data for Somalia is missing.
- <sup>18</sup> Despite calls to do so, no private creditors have so far participated in the DSSI.
- <sup>19</sup> At the Africa summit in Paris earlier this year, the French government announced that it will work toward persuading rich nations to channel \$100 billion of SDRs to African states by October this year.
- <sup>20</sup> It can be noted that if a country donates SDRs it will incur a permanent SDR interest cost, and it retains the liability to the SDR department. On-lending SDRs to increase lending capacity of the PRGT is therefore a more likely option. Under the PRGT, a subsidy account allows for subsidization of interest costs, and contributors can choose to participate in the so-called 'encashment regime' which allows loans to the PRGT to count as reserves.
- <sup>21</sup> <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2021/04/27/A-Post-Pandemic-Assessment-of-the-Sustainable-Development-Goals-460076>
- <sup>22</sup> <https://blogs.imf.org/2021/04/05/funding-the-recovery-of-low-income-countries-after-covid/>
- <sup>23</sup> <https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>
- <sup>24</sup> Excess debt here refers to the amount of debt in excess of countries' threshold ratio (as per their DSAs) for gross public debt-to-GDP.
- <sup>25</sup> Based on data from the World Bank's World Development Indicators (WDI) database.
- <sup>26</sup> <https://www.greenclimate.fund/>
- <sup>27</sup> Green Climate Fund pledge tracker.
- <sup>28</sup> <https://www.esm.europa.eu/>
- <sup>29</sup> The average lending rate (including margin and fees) of pool-funded loans was 0.73 percent as of February 28, 2021.
- <sup>30</sup> [https://www.un.org/sites/un2.un.org/files/sg\\_policy\\_brief\\_on\\_liquidity\\_and\\_debt\\_solutions\\_march\\_2021.pdf](https://www.un.org/sites/un2.un.org/files/sg_policy_brief_on_liquidity_and_debt_solutions_march_2021.pdf)
- <sup>31</sup> Since the COVID-19 pandemic started, the PRGT normal annual access limits has been raised to 245percent of current quotas. <https://www.imf.org/en/News/Articles/2021/03/25/pr2184-imf-execboard-approves-temp-exts-and-modification-of-access-limits-lending-facilities>
- <sup>32</sup> It should also be noted that coming forward under for instance the CF is likely to be associated with a ratings downgrade and a temporary loss of access to financial markets, which must be adequately handled through financial support following a restructuring. As an example, ratings company FITCH has stated that "...we [FITCH] believe a decision to seek debt restructuring under the Framework is unlikely to be compatible with a rating higher than 'CCC':" <https://www.fitchratings.com/research/sovereigns/on-lending-could-amplify-positive-impact-of-imf-sdr-allocation-02-06-2021>
- <sup>33</sup> It should be noted that the IMF has indicated that it will take action to integrate climate in their annual country economic assessments (Article IV consultations). It can also be noted that a number of Directors within the IMF are emphasizing the need to adequately account for the impact of climate change on sovereign risk and debt sustainability.
- <sup>34</sup> According to the International Energy Agency (IEA), a net-zero emissions pathway would require a fall in demand for oil by 75percent, gas by 55percent, and coal by 90percent, by the year 2050. <https://www.iea.org/reports/net-zero-by-2050>
- <sup>35</sup> See for instance <https://www.cgdev.org/publication/how-might-sdr-allocation-be-better-tailored-support-low-income-countries>
- <sup>36</sup> <https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/04/24/pp040318financing-of-the-funds-concessional-assistance-and-debt-relief-to-lics>
- <sup>37</sup> <https://www.imf.org/en/About/Factsheets/IMF-Support-for-Low-Income-Countries>
- <sup>38</sup> <https://www.esm.europa.eu/lending-rates>
- <sup>39</sup> See footnote 35.
- <sup>40</sup> <https://climatedata.imf.org/>