INVESTING SPECIAL DRAWING RIGHTS

Towards a fair economic recovery in the Middle East and North Africa

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Using four countries as case studies (Egypt, Iraq, Lebanon and Tunisia), it analyses how SDRs can be transferred from central banks to governments for fiscal use; outlines how the 2021 SDR allocations have been used; and explores priority avenues for fiscal spending aiming at sustainable and inclusive economic recovery that contributes to reducing inequality and avoiding further austerity in the MENA region.

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EXECUTIVE SUMMARY

In 2021, a little-known, international reserve asset that can be exchanged for hard currency was issued and distributed during the COVID-19 pandemic: $650bn worth of Special Drawing Rights (SDRs) showed up in 190 countries' accounts, usually at their central banks.

This paper aims to increase awareness and influence the debate on SDR issues among civil society, the wider public and decision makers in the Middle East and North Africa (MENA) region, with the goal of reaching a more inclusive, transparent and equitable decision-making process on SDR spending.

The study explores the unique characteristics of SDRs and provides an overview of the role of SDRs in the MENA region. Using four countries as case studies (Egypt, Iraq, Lebanon and Tunisia), it then analyses how SDRs can be transferred from central banks to governments for fiscal use; outlines how the 2021 SDR allocations have been used; and explores priority avenues for fiscal spending aiming at sustainable and inclusive economic recovery that contributes to reducing inequality, avoiding further austerity, and ensuring good governance in the MENA region. Finally, it provides policy options and considerations for the use of any future issuance of SDRs.

SPECIAL DRAWING RIGHTS

Special Drawing Rights (SDRs) are a form of international money that is allocated to every member country of the International Monetary Fund (IMF). They are a reserve asset that is convertible to dollars and other hard currencies. SDRs are created ex nihilo ('out of thin air') following a political decision of the IMF Board of Governors, are distributed without conditionality, and are costless. When exchanged for hard currency, a member must pay a quarterly interest rate. For most of 2020 and all of 2021, the annual interest rate was at an all-time low of 0.05%. As of 6 December 2022, the rate was 2.8%.[1] As countries only pay the interest rate and do not repay the amount they exchanged for hard currency, SDRs should thus be considered a debt-free instrument. The IMF itself has recognized that in its guidance[2] clarifying that SDRs should not be counted for actual debt calculations or cash flow purposes in public debt sustainability analyses,[3] especially for countries that have actively used SDRs for fiscal purposes.

The financial and socio-economic shocks of COVID-19 in 2020 resulted in the largest world recession since the Great Depression. Rich countries' central bank liquidity interventions, along with immense fiscal stimulus measures, were swiftly put in place. Via swap lines, the Federal Reserve provided unlimited dollar access to five monetary jurisdictions,[4] and large, but capped, access to a second list of countries.[5] Most developing countries had to wait 17 months to overcome the US veto[6] and access unconditional hard currency liquidity in the form of SDRs. The SDR allocation was the most significant source of debt-free support for developing countries but is still small in comparison to rich countries' monetary power and considering the magnitude of the crisis and its effect on developing countries' public finances.

SDRS IN THE MENA REGION

MENA countries did not have privileged access to Fed swap lines, and therefore government fiscal support amounted to approximately 4% of GDP in the MENA region, against a global average of 22.6% of GDP.[7] The MENA region received $35bn worth of newly issued SDRs (Table 1). Even if unused, the increase in reserves helps countries' macroeconomic buffers. However, some countries have used these to pay back old debts to the IMF – thus representing a source of debt relief – and others have exchanged them for hard currency to cover balance of payments needs.

Table 1 SDR allocation in August 2021, and use through to 31 July 2022

	2021 allocation (SDR million)	**2021 allocation ($m)**	**Used to pay old IMF debts ($m)**	**Exchanged for hard currency ($m)**
Saudi Arabia	9,577	13,408		
United Arab Emirates	2,215	3,101		
Egypt	1,953	2,734	566	2118
Algeria	1,878	2,629		
Kuwait	1,853	2,594		
Iraq	1,595	2,233	184	1947
Libya	1,508	2,111		
Morocco	857	1,200	23	
Qatar	705	987		
Lebanon	607	850		1121
Tunisia	523	732	105	643
Oman	522	731		
Republic of Yemen	467	654		
Kingdom of Bahrain	379	531		
Jordan	329	461	23	440
Syrian Arab Republic	281	393		

Sources: IMF, CEPR.[8] Note: Numbers may not add up due to exchange rate volatility between SDRs and the US dollar.

Lebanon, Tunisia, Jordan and Iraq have exchanged all their remaining SDRs. The first three exchanged these in September 2021 – within a month of the allocation – while Iraq exchanged them in October. Lebanon exchanged not only the SDRs from the most recent allocation, but all of its SDRs, including previous allocations.[9] Egypt used its SDRs for debt payments to the IMF, and exchanged its remaining SDRs in March 2022.

Between September 2009 and July 2021, Yemen, Jordan, Iraq, Tunisia, Egypt and the United Arab Emirates used all or almost all their previously issued SDRs, while Bahrain and Oman used around half of them. This suggests that the countries that have not yet used their newly allocated SDRs are candidates to do so soon.

Syria cannot exchange its SDRs due to US sanctions.[10] The central bank of Yemen has reportedly[11] been looking for a counterparty to exchange its SDRs for hard currency. Saudi Arabia made deposits to the Pakistan and Egypt central banks and created trade facilities with both countries. It has been reported[12] that this liquidity was derived from the increase in Saudi reserves due to the SDR allocation. Saudi Arabia, Oman and Algeria are designated as Voluntary Trading Arrangement partner countries by the IMF SDR Department, which means that when another country is selling, the IMF usually contacts these countries to persuade them to buy SDRs in exchange for hard currency. Although not part of the Voluntary Trading Arrangement, Libya has historically been a large purchaser of SDRs.

FISCAL INVESTMENT OF SDRS

In addition to the balance of payment uses of SDRs, countries can directly transfer the SDRs to government treasuries. Countries can also leverage the assets as a sort of collateral for long-term central bank financing to government treasuries. This has the effect of incorporating equivalent amounts of the allocated SDRs into their government budgets. These financial operations have opened new avenues for coordination between central banks and treasuries – overcoming long-held taboos – and have varying degrees of transparency in the region.

Unfortunately, the unfair distribution of the SDR allocation means that the SDRs allocated to developing countries were still small relative to the needs that exogenous shocks such as the pandemic and war have created. This has pushed several MENA countries to request large, conditionality-ridden loans from the IMF. SDR allocations are free of debt and conditionalities and are largely used at the sovereign discretion of their governments, which – given the governance conditions in the region – makes it more difficult for civil society to engage with the process. Unlike IMF loans, which are used within narrow macroeconomic criteria that have historically favoured austerity which contributed to exacerbating inequality, SDRs are assets that have the potential for a broader development link.

When SDRs are issued they become reserve assets – but assets nonetheless – of 190 countries. SDRs are seldom issued, so it is important to consider them a non-permanent source of funding for governments. This means that SDRs themselves, or resources derived from SDR allocations, should not be used for recurrent spending, but should be encouraged for capital expenditure and generally invested in one-time asset creation. The United Nations Economic and Social Commission for West Asia (ESCWA) social expenditure monitor shows that current social expenditure in the Arab region is 80% of total social expenditure, with capital expenditure at 20%. The report calls for governments to increase their social investments.[13]

SDRs are also foreign exchange reserves – endowments for balance of payments purposes – and are readily exchangeable for hard currency. Therefore, SDR investment should contribute to dealing with balance of payments vulnerabilities, preferably those that are structural. Dealing with balance of payments vulnerabilities also contributes to reduce dependence on debt inflows, particularly on conditionality-ridden IMF loan programmes. Investment in health equipment was unsurprisingly a key concern in the context of the pandemic. However, in the context of multiple crises, other structural issues have resurfaced and again become relevant. While there are differences within the region, these issues are related to energy and food security and sovereignty (as explained below). The country case studies provided further details on the fiscal investment of SDRs.

COUNTRY CASE STUDY: LEBANON

In September 2021, Lebanon's Ministry of Finance announced that $1.135bn worth of SDRs had been deposited in an account for the Lebanese Treasury at the Banque du Liban (BDL).[14] This included $275m from the 2009 SDR issuance.[15]

This happened at a time of financial and political crisis, where the state's official reserves have been used to finance capital flight and private debt flows.[16] Lebanon has also defaulted on its public debt.[17] However, on 7 April 2022 Lebanon and the IMF reached a staff-level agreement for a four-year Extended Fund Facility amounting to a $3bn loan.[18] As of September 2022, the IMF agreement has not yet been approved by the IMF Executive Board to allow a first disbursement since the Lebanese government has not yet implemented the prior actions specified in the staff-level agreement.[19]

The Lebanese government has not communicated any clear policy priorities in terms of SDR spending, but on 14 April 2022, the Council of Ministers finally approved the use of $15m from the SDR account to finance the emergency purchase of wheat, $13m for medication, and $60m for maintenance contracts and equipment that Électricité du Liban may need.[20]

Food and energy security have become key priorities for the survival of Lebanon's population.

Using SDRs on current spending to buy fuel or wheat is not a sustainable investment of this influx of hard currency. SDRs could have potentially been used to address local production as a viable option and enhance productive sectors. They could have either been used to: directly finance projects related to food production and storage (e.g., grain silos) and renewable energy (e.g., solar panel farms, equipping public services providers, such as telecommunications stations, with energy produced from renewables); or provide either soft loans and/or the necessary guarantees for similar projects in the private sector. These projects would help reduce uncertainty over the medium to long term, reduce import bills and contribute to the country's climate change mitigation efforts.

Given the gravity of the economic crisis and existing threat to Lebanon's healthcare and education infrastructure, the SDRs could have been used as seed funds to partially finance the establishment of a universal healthcare coverage scheme or a high-quality public education system.[21] Such schemes would represent a significant step to reducing inequality and boost of the purchasing power of households, one that could help them navigate the economic turmoil.

However, the 2021 allocation was grossly insufficient, considering Lebanon's financing needs, and Lebanon has already wasted the opportunity. Over $5bn of net foreign exchange holdings have been spent since the receipt of the SDR allocation (fourfold the amount of the SDRs).[22]

COUNTRY CASE STUDY: EGYPT

Egypt received $2.7bn as part of the August 2021 allocation, amounting to approximately 3% of the government's budget.[23] Since it is a small amount relative to Egypt's budget, population and gross financing needs,[24] some experts believe that it makes sense for the SDRs to stay in the central bank's reserves and not be used for fiscal purposes. However, it remains of the same magnitude as the latest IMF loan to Egypt, a 46-month arrangement of around $3bn that was approved by the IMF board on 16 December 2022.[25]

Egypt's legal framework allows the possibility of using SDRs for fiscal purposes. However, there is a tug-of-war between using SDRs to pay foreign debts with the IMF or for investments in the domestic economy. In August and November 2021, Egypt paid 94m SDRs and 101m SDRs in charges to the IMF, and similarly sized payments with SDRs in February and May 2022. However, in November 2021 and January 2022, Egypt also paid $230m and $100m in principal, respectively, but did not use its stock of SDRs.[26] In March 2022, Egypt exchanged its remaining SDR allocation for US dollars, according to the IMF website: there was no media coverage.[27]

The experts we spoke to were almost unanimous in saying that education and health should take top priority in terms of funding. Some argue that there has been a bias against education and health since the government implemented its austerity programme in 2014.[28] Public spending on education and health has declined significantly, from 14.57% of GDP in 2015/2016 to 8% in 2022/2023.[29]

As Egypt becomes more dependent on the IMF, the latter remains adamant that the government scale back bread subsidies, despite the dangers of doing so in the context of inflation and the devaluation of the Egyptian pound.[30] This has highlighted the vulnerability of food security in the country.[31] Egypt relies on imports not only for wheat, but for almost all the products needed to feed its population, but focuses on producing food it can export to Europe in order to receive dollars.[32] This strengthens the need for Egypt to plan to increase its food self-sufficiency and decrease its reliance on imports. SDRs could be invested in small farmers, who are currently struggling to sell crucial crops such as wheat. Owners of small agricultural holdings of fewer than three acres are the 'primary producer' of food in Egypt, while larger agricultural holdings focus on exports.[33] The government also plans to cease state investment and economic activity in agriculture and animal production over the next three years.[34] SDR investment could help counteract this loss of investment and help these areas grow in sustainable, rather than profit-driven, ways.

COUNTRY CASE STUDY: TUNISIA

Tunisia's share of the SDRs issued in August 2021 was $776m, or 4.1% of the 2021 national budget. A presidential decree on 14 September 2021 authorized 'for the benefit of the state, the transfer of the Special Drawing Rights allocations assigned by the International Monetary Fund to the Tunisian state'.[35] This was the most significant and explicit piece of legislation related to SDRs in the MENA region.

The SDRs were approved for use in 2021 and have been almost entirely earmarked to cover the state's obligations in terms of salaries and pensions. The average monthly wage bill is TND 1.67bn (equivalent to $521m),[36] and the SDRs offered some level of breathing room for the government.

Tunisia is currently dealing with several economic crises, exacerbated by the COVID-19 pandemic and the war in Ukraine, including heavy debts, a decrease in GDP and mounting inflation. In October 2022, the IMF announced it had reached a staff-level agreement with Tunisia for a new $1.9bn programme.[37] The programme's contents and conditionalities have not yet been divulged, and the IMF board has postponed its meeting to vote on the agreement which was initially scheduled for 19 December 2022[38]

Tunisia also faces three structural deficiencies: a lack of food self-sufficiency, energy sovereignty and low value-added manufacturing. These produce structural trade deficits, which in turn cause currency depreciation that makes imports more expensive. The Tunisian government then tries to artificially stabilize their exchange rates by issuing more dollar- and euro-nominated debt,[39] leading to an external 'debt trap'.

While Tunisia has water scarcity compared with other countries, it currently exports water-intensive crops, reinforcing its dependence on unfavourable loans from international creditors that further undermine agricultural diversification. SDR investments could go towards agricultural and industrialization policies that provide added value to Tunisia and address local needs.

Since 2011, Tunisia's foreign public debt has increased substantially, from 41% of GDP in 2010 to 82% in 2018,[40] with its debt payments similarly increasing since 2017. Since the previous IMF loan ended in 2020, lenders have been reluctant to lend Tunisia until it signs a new IMF loan conditioned on structural reforms. The Tunisian dinar has lost approximately 40% of its value. This devaluation put public enterprises into financial difficulties, such that the exchange rate on outstanding debt was five times greater than total disbursements received from the IMF over the same period.[41]

A recent call for debt cancellation came during the COVID-19 crisis from civil society, who noted that spending on debt repayments by Global South countries was at the expense of healthcare spending.[42] Nobel Laureate Joseph Stiglitz has proposed using SDRs for debt relief,[43] while at least one government, El Salvador, is in part using SDRs to finance debt buybacks at a discounted price, that is, to reduce debt.[44]

COUNTRY CASE STUDY: IRAQ

Iraq received 1.66bn SDRs in the 2021 IMF allocation, deposited in the Central Bank of Iraq (CBI) on behalf of the Ministry of Finance in the last quarter of 2021. The CBI converted the SDR units into US dollars, with a value of $2.36bn.[45] There is no information publicly available on how the funds were used, except that the funds from the SDRs were used to cover the government deficit. In 2020, Iraq's budget deficit was a huge 20% of GDP.[46]

Given the size of the 2020 budget deficit and the monetary financing the CBI had already been applying, the SDRs were not significant. Considering the magnitude of dollar flows attributable to the volatility in oil prices, Iraq's SDR allocation was relatively small. It was also relatively small given Iraq's systemic needs in terms of education, health, water, sanitation and irrigation infrastructure.

Iraq's domestic public debt increased from IQD 4.2tn (equivalent to $2.87bn) at the beginning of 2014 to around IQD 70tn ($47bn) in March 2022.[47] The external debt is estimated to be around $29bn, plus unsettled debt to some Gulf Cooperation Council (GCC) countries of around $40bn.[48] Iraq did not need to use the new SDRs for debt repayment, as total public debt in 2021 amounted to $79bn and the debt to GDP ratio was 45%, much below the Eurozone standard of 65%.[49]

Neither the CBI nor the Ministry of Finance informed the Iraqi public about the receipt or utilization of the new SDR allocation. There is general opacity around government revenue and expenses, confirming complaints from Iraqi civil society about the lack of transparency of government institutions, and adding to the lack of trust due to corruption among political parties.[50]

Iraq has an abundance of oil and other mineral resources, and its exports and budget depend on oil sales. Iraq's oil revenues account for 92% of its total budget revenues. However, almost a quarter of Iraq's 42 million population are below the poverty line. Since the 2003 invasion, the Iraqi economy has faced external and internal structural shocks, with profound impacts on its institutions, infrastructure and human capital. Our research showed consensus that a key issue is the inefficiency and inefficacy of public administration – with a large obstacle being corruption, disorder, and fiscal mismanagement.

SDRs could be used to complete the capital expenditure (one-time equipment or infrastructure investments) components of the health care and housing sectors. For example, in 2012, many new government projects included building new hospitals, 18 of which are still not finished due to a lack of finances and mismanagement.[51] Elsewhere, the Fund for Social Development builds basic infrastructure in rural areas and small villages. SDRs could contribute to the apparently very modest financial allocation for these programmes.[52]

The IMF calls the Iraqi state 'the employer of first resort,[53] while the World Bank[54] warns that Iraq has a human capital crisis. It focuses on the dire needs of the education sector, including broad infrastructure investments and adequate numbers of teachers.

Therefore, the SDRs could be better used if targeted at the lack of technocratic cadres linked to public sector institutions. SDRs could be the building block of a new 'knowledge and development' sovereign wealth fund, that could invest in vocational training, university education and research institutions with the goal of contributing a critical mass of highly-educated and committed technocratic young professionals specialized in Iraq's public sector and in its critical development challenges. This cadre-based approach to the human capital crisis allows for a more self-sufficient and sustainable path to contribute to solutions.

CONCLUSIONS

Given the lack of international monetary power of developing countries, SDR allocations should be significantly larger. As most of the SDRs have already been exchanged for hard currency by the four countries, unless new SDRs are issued, the potential of the 2021 SDRs for investment remains in doubt. A larger and faster issuance and allocation of SDRs is needed to cover the effects of the pandemic and the effects of stagflation, debt crises, and food and energy crises. Governments and civil society around the world should request that SDRs be issued periodically. Given the impact multiple crises (climate change, Covid-19, the Ukraine war, and the food and energy price crises) will have on public finances for some years to come, on top of the pre-existing Sustainable Development Goals (SDG) and climate financing gaps, SDRs should be issued annually.

Unused SDRs should be unconditionally rechannelled from developed countries to developing countries – and regional mechanisms will be important to ensure that this occurs. Efforts are underway – most notably by the African Development Bank – to re-channel rich countries' SDRs as concessional loans to African countries. North African countries might benefit from if this effort is successful, with the caveat that it is nonetheless more debt.

Civil society at the national levels had little awareness and preparedness for SDRs, and in most countries there was no advocacy when SDRs were distributed. Civil society should advocate that legislation is in place for future issuances of SDRs, and demand that SDRs be invested to maximise strategic impact, be it for times of crises or carefully planned development needs, in consultation with civil society and including accountability and transparency mechanisms. SDRs should be invested to maximise the impact of one-time spending, and not as a conventional source of regular expenditure.

1 INTRODUCTION

In 2021, a little-known, international reserve asset that can be exchanged for hard currency was issued and distributed during the COVID-19 pandemic: $650bn worth of Special Drawing Rights (SDRs) showed up in countries' accounts, usually at their central banks.

This paper aims to increase awareness and influence debate on SDR issues among civil society, the wider public and decision makers in the MENA region, with the goal of reaching a more inclusive, transparent and equitable decision-making process on SDR spending.

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1.1 OVERVIEW OF SPECIAL DRAWING RIGHTS

This chapter describes the nature of SDRs as a financial instrument, discusses the possible fiscal uses of SDRs, and then explores the relationships between SDRs and countries in the Middle East and North Africa (MENA) region.

1.1.1 SDRS AS A FINANCIAL INSTRUMENT

SDRs are a form of international money that is allocated to every member country of the International Monetary Fund (IMF). They are a reserve asset that is convertible to dollars and other hard currencies. SDRs are created ex nihilo ('out of thin air') by the Special Drawing Rights Department, a separate issuance and record-keeping unit of the IMF, following a political decision of the IMF Board of Governors – composed of 190 countries' ministers of finance or central bankers.[55] They are distributed without conditionality and are a costless asset that closely resembles general budget support in that its use is completely flexible. When exchanged for hard currency, a member must pay a quarterly interest rate.[56] For most of 2020 and all of 2021, the annual interest rate was at an all-time low of 0.05%. As of 6 December 2022, the rate was 2.8%.[57] As countries only pay the interest rate and do not repay the amount they exchanged for hard currency, SDRs should thus be considered a debt-free instrument.

SDRs were first issued in 1970 in the midst of world monetary reform. They were created as a synthetic reserve asset designed to replace both gold – which had been hoarded by the United States of America (USA) – and the US dollar. The use of the US dollar as an international reserve asset was related to periodic trade deficits in the USA and, at that time, it was widely expected that the USA would not comply with its promise to deliver physical gold in exchange for dollars. In 1971, President Nixon finally announced that the USA would no longer convert dollars for gold, in what was later called the 'Nixon shock'.

The creation of SDRs followed discussions by France, the UK and the USA in the early 1960s. Two key documents were published in 1965: a report to the G10 by the Study Group on the Creation of Reserve Assets, and the UNCTAD Report of the Group of Experts on International Monetary Issues and the Developing Countries. IMF members agreed to the creation of the SDRs in 1967. The USA passed the SDR Act of 1968, which regulated the US vote on SDR matters. By 1969, the changes to the IMF Articles of Agreement were ratified around the world. Since the UNCTAD Report, there has been a proposal on the table to link SDRs to development by skewing their distribution in favour of developing countries or by relending SDRs to development banks. This link has not been approved in any subsequent amendments to the IMF Articles of Agreement.[58]

Fast forward to 2020, when the financial and socio-economic shocks of COVID-19 resulted in the largest world recession since the Great Depression. The initial reactions to the pandemic caused the financial markets to freeze. Lockdowns affected the workings of the international financial system, but the central banks of rich countries were quick to offer backstops. Central bank liquidity interventions along with immense fiscal stimulus measures were swiftly announced and executed.

Some countries had access to hard currency liquidity such as that provided by the Federal Reserve's swap agreements.[59] Swaps are exchanges of countries' currencies: the Federal Reserve gives dollars and gets other currencies, say pounds, in return; while the dollars are very useful abroad, the Fed has little to no use for the pounds. The Fed provided unlimited swap lines to five monetary jurisdictions,[60] while a second list of countries[61] had large but limited access to dollars. Japan's peak access to Fed swaps was over 4% of GDP, while Luxembourg had just under 4% of its GDP. Singapore and the Netherlands reached between 2% and 3% of their GDPs. Belgium, Switzerland, Denmark, Germany, Norway, Finland, Korea, Austria and France peaked above 1% of their respective GDPs.[62] The swaps took off in March 2020 and peaked at $450bn in May 2020.[63]

Developing countries did not have access to such unconditional hard currency liquidity. It would take 17 months for them to have meaningful access, which came in the form of SDRs.

SDRs had been last issued in 2009, in response to the global financial crisis. The first public calls for a sizable SDR allocation to respond to the COVID-19 pandemic came at the onset of the pandemic in March 2020,[64] including by the IMF's Managing Director, Kristalina Georgieva.[65] Oxfam was one of the first organizations to call for a sizeable SDR issuance.[66] However, due to the Trump Administration's veto,[67] it was not until 23 August 2021 that $650bn worth of SDRs were issued and allocated to the 190 IMF member countries.

SDRs by design are not allocated according to who needs them most. Their distribution follows the voting power formula at the IMF, which is heavily skewed in favour of rich countries. Only about one-third of SDRs go to developing countries (excluding China). Even in the context of the pandemic, distribution was according to political economy variables, not health- or population-related variables (Box 1). Modifying the distribution would require a reform of the IMF Articles of Agreement.

Box 1 Unequal allocation of SDRs, progressive use of SDRs

Low-income economies received only 1% of the 2021 SDR allocation.

Fifty-four African countries received a total of only 5% of the SDR allocation, despite hosting 17.2% of the world's population. The United States received 17.4% of the allocation but has only 4.3% of the world's population. Developing countries, excluding China, received only 33% of the allocation.

The allocation of SDRs is unequal. However, the use of SDRs is progressive and has favoured developing economies the most. For example, 43 out of 70 low-income countries used the SDRs. Low-income economies used 65% of the SDRs they received for fiscal purposes. Fortyseven out of 54 African countries have used their SDRs: 75% of the allocation was used for fiscal purposes.

Only one advanced economy – Greece – has used its SDRs; it did so to pay back its old IMF debt.

Source: Cashman et al. (2022). *Special Drawing Rights*.[68]

Rich countries' currencies have hard currency status and therefore most do not need SDRs to have access to international reserves or hard currency. For the USA, Eurozone countries, the UK, Japan and China,[69] SDRs are converted currencies that they themselves issue. For other rich countries, SDRs are a very small part of their international reserves.

The unequal distribution and the non-negative effect of SDRs on rich countries' balance sheets form the basis for calls for rich countries to reallocate their SDRs to developing countries. The promise of reallocation was the reason given for avoiding a larger issuance of SDRs. The UN had called for $2.5tn in additional pandemic-related funding for developing countries.[70] However, a direct reallocation (i.e., donation) of SDRs was never on the table. Instead, rich countries have made commitments to 'channel' a portion of their 'excess' SDRs to developing countries. The distinction between channelling and reallocation (donation) implies lending rather than granting SDRs, in order to preserve the reserve asset characteristic of SDRs for richer countries, and in effect more external debt for developing countries.

As of publication, the mechanisms used for channelling the SDRs are via the IMF, including the Poverty Reduction and Growth Trust (PRGT) and the newly created Resilience and Sustainability Trust (RST) which provides concessional long-term loans to low and vulnerable middle-income countries with climate- and pandemic-related policy conditionality attached. Neither the PRGT nor RST live up to the principles of fair SDR channelling developed by civil society,[71] which include the importance of channelling SDRs in a way that is free of debt and conditionalities. In this context, the United Nations Economic and Social Commission for West Asia (ESCWA) has called for unused SDRs to be rechannelled from developed to developing countries.[72] At the same time, both the PRGT and RST provide additional concessional resources to countries in need. Despite pledges, 12 months into the SDR issuance, no SDRs had been effectively transferred.[73] As of 16 December 2022, only three loans by the RST have been approved, but they have not yet been disbursed.[74]

Along the lines of the original intention of SDRs, the Prime Minister of Barbados has called for a $500bn yearly SDR issuance for climate financing.[75] The US House of Representatives has also passed legislation that directs the USA to support an additional $2tn SDR allocation.[76] An allocation of this magnitude would provide additional financing for developing economies of around $660bn.

1.1.2 FISCAL SPACE

While SDRs had been conventionally analysed in the economic literature as reserve assets exclusively to be used by central banks for balance of payments purposes, the 2021 allocation was in the context of a pandemic that weakened the fiscal positions of developing countries and went beyond orthodox paradigms regarding monetary-fiscal coordination. The SDRs in 2021 were accompanied by statements from IMF leadership, including both the chief economist and the managing director, encouraging the fiscal use of SDRs.[77] This represents an important ideological shift for the IMF and a first significant step in viewing SDRs as a broader tool of development finance (in line with the UNCTAD proposals) rather than a narrow tool for the management of balance of payments.

The IMF reports that advanced economies have, on average, spent over 11.4% of their GDP in additional spending and forgone revenues since the start of the pandemic. The USA has net spent an additional 25.5% of its GDP. However, emerging markets have, on average, increased spending by only 5.7% of their GDP due to pandemic-related fiscal measures. For example, Egypt has only increased its spending by 1.6% of its GDP. Low-income developing countries have, on average, spent an additional meagre 3.2% of their GDP since the start of the pandemic.[78] This uneven capacity to spend determines the speed and scale of government support to its population and is also a determinant of vaccination rates, which are heavily skewed against developing countries.

Governments around the world have faced revenue shortfalls and increased spending needs during the pandemic. This funding gap meant resorting to more debt, including from IMF loans with programmes that are conditional on the introduction of austerity measures. In this context, unconditional debt-free SDRs are a helpful resource if used for peoples' needs.

In 2009, despite the financial crisis, the SDRs were seldom used: they remained on central banks' balance sheets. The total amount of SDRs exchanged in the first five months after the 2009 allocation was $4.7bn (3bn SDRs), less than 2% of the total allocation, by only 15 countries. The IMF documented fiscal use of the SDRs by only seven countries.[79] This was in part due to a lack of information about the potential of SDRs available to policy makers, especially government officials in charge of budgets.

Since the most recent SDR issuance in 2021, CSOs, including Oxfam, have been key players in promoting the allocation of SDRs as an international economic response to the pandemic. In a forum hosted by the IMF, Managing Director Kristalina Georgieva explicitly thanked civil society for its support[80] in getting the SDR issuance passed, while civil society championed Latindadd's Handbook for the Use of SDRs for Fiscal Purposes[81] and encouraged countries to use SDRs for fiscal purposes – most pressingly, for vaccinations, public health systems, social priorities and equitable economic recovery. The handbook lays out the international law-compliant legal and accounting avenues that allow the SDR allocation or currency equivalents to be incorporated into government budgets.

The Center for Economic Policy Research (CEPR) reported[82] that in the first eight months after the allocation, 104 developing countries had already used their newly allocated SDRs in one way or another. Forty-two countries exchanged their SDRs for a total of $16.3bn in hard currency. The vast majority of these countries exchanged all of their newly received SDRs. Seventy-nine countries used their SDRs to pay back $10.9bn of debts to the IMF. Of these 79 countries, the new allocation was a lifeline for 34 countries[83] who had relatively low SDR reserves, including Egypt, Iraq, Jordan, Tunisia and Yemen. Sixty-nine countries[84] have used the SDRs in their government budgets, with a total documented amount of $80.4bn, adding to the evidence that it is legally feasible and economically imperative to use them in this way in the context of the pandemic.

However, some countries' officials remain sceptical of using SDRs for fiscal purposes, despite the pressing needs of their populations. Some of the reluctance arises from a modification to a non-binding recommendation in the most recent IMF statistical reference handbook that stated that the SDR allocation, even if unused, should be statistically reported as debt.[85] This modification is misleading, as in fact, countries have no obligation to repay or repurchase SDRs, whether used or not. The previous version of the IMF Balance of Payments Statistics Manual stated[86] that SDR allocations were not liabilities: that is, they were not debt. The IMF Monetary and Financial Statistics Manual[87] recorded SDR allocations as 'shares and other equity' of the domestic monetary authority. If a country has exchanged its SDRs, it would be understandable that the interest payable would be considered a liability (debt) to the IMF SDR department, but certainly not the principal.

The difference is substantial. This inconsistency has been recognized, such that the IMF has recently issued further guidance,[88] clarifying that SDRs should not be counted for actual debt calculations or cash flow purposes in public debt sustainability analyses,[89] especially for countries that have actively used SDRs for fiscal purposes. In Ecuador's most recent official methodology for debt, the SDR allocations have been excluded from the definition of foreign debt.[90]

Central bank officials may be reluctant to transfer ownership of SDR assets or lend equivalent amounts to government treasuries. However, the IMF Articles of Agreement are clear that the SDRs belong to member countries, represented by the national governments. This has been explicitly stated by the Central Bank of the Philippines[91] and by the Central Bank of Ecuador.[92]

There are also fears that a perpetual interest rate must be paid for the use of SDRs. As the Colombian[93] and Mexican[94] experiences in 2021 show, there are ways for central banks to leverage SDRs to free up hard currency and subsequently transfer that currency to government treasuries without incurring external interest payments. Even if SDRs are exchanged for hard currency, it is worth noting that – by design – interest paid on exchanged SDRs is always the least cumbersome debt service.

To illustrate, had a country signed a conventional fixed-rate $1bn, two-year loan at 6% in 2021, its debt service through 2023 would be $1.12bn; but if it exchanged $1bn worth of SDRs, its debt service through 2023 would be $56m (Table 2). Recall that the annual SDR interest rate is 2.8% at the start of December 2022.[95]

Table 2 Comparison between fixed-rate loan and SDR exchange ($m)

	Allocation	Disbursement / exchange	Principal payment	Interest (2 years)	Total debt service
Loan (2-year loan at 6%)	0	1000	1000	120	1120
SDR if unused (SDR rate of 2.8%)	1000	0	0	0	0
SDR if exchanged (SDR rate of 2.8%)	1000	1000	0	56	56

Finally, there are fears that the SDR interest rate might rise in the future, which could happen. However, even with significant interest rate increases, the interest rate to be paid is – by design – the lowest variable interest rate possible. With the example above, if the SDR rate increased to 3.5%, the SDR debt service through 2023 would be $70m; if the loan had a variable interest rate that was raised to 8.5% (150 basis points above the original rate), this would imply a debt service of $1.17bn (Table 3).

Table 3 Comparison between variable-rate loan and SDR exchange ($m)

	Allocation	Disbursement / exchange	Principal payment	Interest (2 years)	Total debt service
Loan (2-year loan at 8.5%)	0	1000	1000	170	1170
SDR if unused (SDR rate of 3.5%)	1000	0	0	0	0
SDR if exchanged (SDR rate of 3.5%)	1000	1000	0	70	70

The fear should not be a raise in the SDR interest rate per se, but the systemic effects of a raise in interest rates on all developing countries' variable-rate debt, including the kind of loans incurred with multilateral banks. The use of SDRs alleviates the pressure on debt service; nonetheless, this is clearly an area where rich countries can help. When the Federal Reserve, the European Central Bank, the Bank of England, the Bank of Japan and the People's Bank of China raise interest rates for domestic policy considerations, the SDR rate – paid overwhelmingly by developing countries – will accordingly rise.

1.1.3 SDR ALLOCATION IN THE MIDDLE EAST AND NORTH AFRICA

On 23 August 2021, the IMF SDR Department allocated SDRs to each IMF member country. Table 4 reports how many SDRs were received by countries in the Middle East and North Africa.[96]

Table 4 2021 SDR allocations in the MENA region (SDR million and equivalent $m)

SDR allocation, August 2021		
	SDR million	**$m**
Saudi Arabia	9,577	13,408
UAE	2,215	3,101
Egypt	1,953	2,734
Algeria	1,878	2,629
Kuwait	1,853	2,594
Iraq	1,595	2,233
Libya	1,508	2,111
Morocco	857	1,200
Qatar	705	987
Lebanon	607	850
Tunisia	523	732
Oman	522	731
Republic of Yemen	467	654
Kingdom of Bahrain	379	531
Jordan	329	461
Syrian Arab Republic	281	393

Source: IMF. (2021). 2021 General SDR Allocation[97]

Box 2 Comparing SDR allocation to key macro-economic indicators

The macro-economic significance of the SDR allocation is exemplified in four MENA countries used as case studies in this paper (Table 5). While the absolute numbers of the SDR allocation were large and – by far –the most significant debtless source of support for developing countries, compared with the scale of the pandemic's effect on public finances they still feel too small. According to the ESCWA COVID-19 policy responses tracker, government fiscal support amounted to approximately 4% of GDP in the Arab region, against a global average of 22.6% of GDP. [98] However, if compared with parts of each country's budget – Iraq's SDRs, for example, could fund a 119% increase in health spending – one can see that SDRs can make a difference.[99] This highlights the importance of the SDR issuance and the importance of considering another large issuance of SDRs.

Table 5 SDR allocation as a share of 2020 macro-economic indicators

	Official foreign exchange reserves	Annual public expenditures	Annual govern ment deficit	External public debt	Annual debt service to the IMF	Annual foreign debt service
Iraq	4%	3%	6%	3%	181%	34%
Lebanon	2%	5%	13%	1%	∞	240%
Tunisia	7%	6%	22%	2%	331%	31%
Egypt	7%	3%	10%	2%	771%	25%

Sources: IMF. (n.d.). IMF Financial Data Query Tool;100 World Bank. (n.d.). International Debt Statistics;[101] IMF. (2021). Iraq: 2020 Article IV Consultation;[102] (IOF). (2022). Lebanon Citizen Budget[103]

1.1.4 SDR USE IN THE MIDDLE EAST AND NORTH AFRICA

The pandemic worsened the MENA region's already weak fiscal position and its balance of payments vulnerabilities. A sign of these vulnerabilities is the fact that several MENA countries already had programmes with the IMF when the pandemic hit.[104]

Table 6 lists the amount of SDRs that were allocated for each country, and the amounts used to pay IMF debts or exchanged for hard currency. As mentioned above, countries can use SDRs for fiscal purposes, and some countries in the region have already recorded the SDRs in their government budget. Subsequent chapters detail the fiscal use of the SDRs in Egypt, Iraq, Lebanon and Tunisia.

Table 6 SDR allocations and use as of 31 July 2022

	2021 allocation (SDRm)	2021 allocation ($m)	Used to pay old IMF debts ($m)	Exchanged for hard currency ($m)
Saudi Arabia	9,577	13,408		
United Arab Emirates	2,215	3,101		
Egypt	1,953	2,734	566	2118
Algeria	1,878	2,629		
Kuwait	1,853	2,594		
Iraq	1,595	2,233	184	1947
Libya	1,508	2,111		
Morocco	857	1,200	23	
Qatar	705	987		
Lebanon	607	850		1121
Tunisia	523	732	105	643

Oman	522	731		
Republic of Yemen	467	654		
Kingdom of Bahrain	379	531		
Jordan	329	461	23	440
Syrian Arab Republic	281	393		

Source: Cashman et al. (2022). *Special Drawing Rights*[105]

While countries that enter into IMF loans usually receive hard currency, they can pay the IMF back with SDRs. Between August 2021 and July 2022, Iraq, Egypt, Tunisia, Morocco and Jordan used some of their newly received SDRs to pay the IMF for old debts. For example, Egypt has spent around $566m, the equivalent of 20% of its SDR allocation, to pay previous IMF debts.[106] Most countries made their payments in August 2021 – as soon as they received the SDRs – and in November 2021. Egypt also made significant payments in February and May 2022.

Table 7 details each country's IMF loans since the onset of the COVID-19 pandemic.

Table 7 IMF loans during the COVID-19 pandemic (as of 31 December 2022)

	Facility	Date of arrangement	Amount agreed (SDR m)	Amount disbursed (SDR m)	Amount outstanding (SDR m)
Egypt	Extended Fund Facility	16 Dec 2022	2,350	261	261
	Standby Arrangement	26 June 2020	3,764	3,764	3,764
	Rapid Financing Instrument	11 May 2020	2,037	2,037	2,037
	Extended Fund Facility	11 Nov 2016	8,597	8,597	7,432
Iraq	Standby Arrangement	7 July 2016	3,831	1,494	0
Jordan	Extended Fund Facility	25 March 2020	1,146	985	985
	Rapid Financing Instrument	20 May 2020	292	292	292
	Extended Fund Facility	24 Aug 2016	515	223	193
Morocco	Precautionary and Liquidity Line	17 Dec 2018	2,151	2,151	1,500
Tunisia	Rapid Financing Instrument	10 April 2020	545	545	545
	Extended Fund Facility	20 May 2016	1,952	1,162	995

Notes: SDRs are referenced as a unit of account, not as the currency in which the disbursements are transferred. When countries enter into IMF loans, they generally receive hard currency from the available usable currencies the IMF has. As of 31 October 2022, the IMF had $409bn in usable currencies and 23.4bn SDRs as part of its usable resources.

Source: IMF. (2022). *IMF Lending Commitments*[107]

Lebanon, Tunisia, Jordan and Iraq have exchanged all their remaining SDRs (see Table 6). The first three countries exchanged these in September 2021 – within a month of the allocation – while Iraq exchanged them in October. Lebanon exchanged not only the SDRs from the most recent allocation, but all of its SDRs, including from previous allocations.[108] This suggests that, prior to the new allocation, Lebanese officials were not fully aware of the potential use of SDRs or had not faced a crisis of this magnitude.

The Syrian central bank is currently sanctioned[109] by the US Office of Foreign Assets Control (not the IMF). This makes it almost impossible to execute the hard currency leg of an SDR exchange transaction, as banks are reluctant to credit money to these central banks' accounts for fear of US sanctions.

The (Saudi-recognized) central bank of Yemen has reportedly[110] been looking for a counterparty to exchange its SDRs for hard currency. Saudi Arabia has made deposits to the Pakistan and Egypt central banks and created trade facilities with both countries. It has been reported[111] that this liquidity was derived from the increase in Saudi reserves due to the SDR allocation. Saudi Arabia and Oman are designated as Voluntary Trade Arrangement partner countries by the IMF SDR Department, which means that when another country is selling, the IMF usually contacts these countries to persuade them to buy SDRs in exchange for hard currency. Oman is the most recent MENA Voluntary Trade Arrangement partner country and has purchased a sizable amount of SDRs at the IMF's behest (equivalent to $87m).[112]

Box 3 SDRs for vaccines

The MENA region was granted a total of $35bn in SDRs in response to the COVID-19 pandemic. One of the motivations promoted by the IMF[113] behind the SDR allocation was that countries could vaccinate their populations and invest in public health systems and economic recovery. Vaccination has been a priority global policy response, so it is important to illustrate how many vaccines each country would have been able to afford, using their SDR allocation.

Table 8 provides estimates of the purchasing power of the SDR allocation in terms of COVID-19 vaccine doses, using two scenarios developed in May 2022. The first scenario applies the average prices of vaccines, while the second scenario assumes that an intellectual property (TRIPS) waiver is passed at the WTO,[114] that there is enough readily productive capacity around the world and that the price of doses produced with a patent waiver is the lowest of those currently commercially available. Unit prices are determined using the UNICEF COVID-19 Vaccine Market Dashboard.[115]

These calculations also estimate the coverage of both scenarios of the total population of each country, using 2021 estimates from the United Nations Population Fund (UNFPA).[116] This assumes the logistical readiness to distribute and apply the vaccine, and zero vaccine hesitancy.

These estimations provide an approximation of the impact of a public good such as SDRs coupled with a public good such as a progressive global intellectual property policy of a vaccine patent waiver, and rapid and effective technology transfer. A closer estimate would require further unpacking the assumptions described.

Table 8 Estimated purchasing power of SDR allocation in terms of COVID-19 vaccine doses

	SDR allocation	Million doses if unit price is:		2021 populatio n	Coverage	
	($m)	$15.45 (scenario 1)	$2.19 (scenario 2)	(millions)	Status quo (scenario 1)	TRIPS waiver (scenario 2)
Republic of Yemen	665	43.0	303.6	30.5	141%	995%
Syrian Arab Republic	401	25.9	183.0	18.3	142%	1000%
Egypt	2,781	180.0	1,269.8	104.3	173%	1217%
Morocco	1,221	79.0	557.5	37.7	210%	1479%
Jordan	468	30.3	213.9	10.3	294%	2076%
Iraq	2,271	147.0	1,037.1	41.2	357%	2517%
Algeria	2,675	173.2	1,221.7	44.6	388%	2739%
Tunisia	744	48.2	339.8	11.9	405%	2856%
Lebanon	865	56.0	394.9	6.8	823%	5807%
Oman	743	48.1	339.3	5.2	925%	6526%
Libya	2,148	139.0	980.6	7.0	1986%	14009%
Kingdom of Bahrain	539	34.9	246.2	1.7	2006%	14150%
UAE	3,155	204.2	1,440.6	10.0	2042%	14406%
Qatar	1,003	64.9	458.2	2.9	2240%	15800%
Saudi Arabia	13,641	882.9	6,228.7	35.3	2501%	17645%
Kuwait	2,639	170.8	1,205.2	4.3	3973%	28028%

According to WHO recommendations in May 2022,[117] the standard coverage should be 300%: every person should get two vaccine doses plus a reinforcement ('booster') dose. The vaccine coverage in the TRIPS waiver scenario improves many times over.

Under the status quo scenario, Yemen, Syria, Egypt, Morocco and Jordan, in that order, would not have had enough money to cover three vaccine doses for their population. However, if the TRIPS waiver came into effect and lowered the unit price of vaccines, the SDR allocation would have been enough to cover the WHO recommendations many times over.

Considering the entire MENA region, 48% of SDRs would have been enough to ensure the 300% vaccine coverage. However, if the TRIPS waiver was in effect, 7% of the SDR allocation would have been enough to cover three doses for the entire MENA population. With the status quo scenario, $19bn would have been left over for health spending. With the TRIPS waiver, $34bn could have gone towards increases in public health spending.

1.1.5 PREVIOUS USES OF SDRS IN THE MIDDLE EAST AND NORTH AFRICA

Between the August/September 2009 allocations and the month prior to the August 2021 allocation, Iraq, Yemen and Jordan had used practically all of their previous SDRs; Tunisia, Egypt and the United Arab Emirates had used between 73% and 85%; while Bahrain and Oman had used around half of their SDRs. Saudi Arabia had used 13% of its SDRs, but this amounted to 847m SDRs (equivalent to $1.2bn in 2022), the second-highest user by magnitude in the region.[118] As mentioned earlier, Lebanon had never used its previously allocated SDRs. However, Libya was a large purchaser of SDRs. Between 2009 and 2021, it purchased 599m SDRs ($840m in 2022).

2 LEBANON

In September 2021, Lebanon's Ministry of Finance announced that $1.135bn had been deposited in an account for the Lebanese Treasury at the Banque du Liban (BDL), as part of the IMF's SDRs allocation.[119] The total allocation of the IMF's reserve currency comprises $860m from 2021 – part of the IMF's latest global allocation to help member countries with the fallout from COVID-19 – and $275m from 2009.[120]

This allocation happened at a time of financial and political crisis, where the state's official reserves have been used to finance capital flight and private debt flows.[121] Lebanon has also defaulted on its public debt[122] and has reached a staff-level agreement with the IMF in April 2022.[123] This context was one of the reasons for including Lebanon as a case study in this report.

This chapter is divided into two sections. The first covers the legal pathway used by the government to use SDRs as a fiscal resource. The second discusses alternative fiscal uses of SDRs within the context of the Lebanese economy.

2.1 LEBANON AND SDRS: OVERVIEW OF THE LEGAL FEASIBILITY OF THEIR FISCAL USE

SDRs are conventionally defined as official reserve assets and traditionally credited to central banks[124] that are usually independent from national governments, implying that these resources cannot be used for governmental purposes. This section explores the legal and institutional context in Lebanon and finds a legally feasible path for the fiscal use of SDRs.

2.1.1 THE CENTRAL BANK AS A FISCAL AGENT

While there is no decisive legal answer on whether the BDL can transfer assets to the government, in practice, it has become common for the BDL to transfer foreign reserves to cover government expenses or to finance state-owned companies such as the national power company Électricité du Liban. The central bank can therefore buy, sell, borrow or lend SDRs against other assets, but not donate or spend them. From 2009 to 2019 the BDL regularly exchanged, with the Ministry of Finance, treasury bills with Eurobonds.[125] The latter were then sold by the BDL in the market against USD funds. In other words, Lebanon's government was lending dollar funds to the central bank, contrary to the popular belief that the origin of Lebanon's financial collapse was the central bank lending to the government.

The BDL can also buy government-issued debt, but only within the limits and conditions set out in the Code of Money and Credit[126] – the landmark legislation that established the central bank and governs both it and the banking sector at large – specifically Articles 88, 89, 90 and 91.[127] In practice, these articles have not been respected. The BDL has lent heavily to the government and ignored several of the conditions outlined in the articles. The BDL holds about $5bn worth of Eurobonds, or 16% of Lebanon's Eurobond portfolio.[128]

The BDL is independent and enjoys extremely large powers. As stipulated by Article 70 of the Code of Money and Credit, the BDL is entrusted with the general mission of safeguarding the national currency in order to ensure the basis for sustained social and economic growth.[129] Although 'independence' is not explicitly stated, the Code of Money and Credit includes several articles that guarantee the independence of the central bank vis-à-vis the government. Article 13 states that: '[The Central Bank] shall not be submitted to the administration and management regulations and supervisions applicable to the organisations of the Public Sector'; while Article 19 gives political and administrative immunity to the Governor and their deputies.

Two senior government officials sit on the Board of the BDL – the Director-General of the Ministry of Finance and the Director-General of the Ministry of National Economy – but Article 28 clearly states that they 'do not sit on the Board as Government proxies' and that '[T]heir action in the Bank shall not exceed the power attaching to them as members of the Central Board.' The Governor of the BDL has also frequently mentioned the independence that he enjoys in conducting monetary policy.[130]

2.1.2 SDRS WITHIN LEBANON'S LEGAL FRAMEWORK

The only laws that mention SDRs are those whereby Parliament authorises the government to increase its financial contribution in the IMF.[131] SDRs are not mentioned in the Code of Money and Credit, nor in other related laws or regulations, including the Commercial Code (which was recently amended to reflect new business mechanisms and instruments such as Global Depository Rights),[132] or in the section on Lebanon joining the IMF and the World Bank Group.[133]

It is important to note that the BDL had not previously resorted to using the SDRs. Lebanon already had $195.78m in SDRs from previous allocations that had not been used.[134]

In some countries, authorities record the SDRs in the government balance sheet and their domestic legislation specifies that a specific government agency such as the Ministry of Finance is the ultimate owner of SDRs. This is not the case in Lebanon.

Lebanon's fiscal and budget provisions are stated mainly in the Constitution (Articles 81 and following) and the Public Accounting Law (Decree No. 14969 dated 30/12/1963), which was not modified after 2009 to include the concept of SDRs. There was also no mention of SDRs in the September 2022 budget law, the first budget law adopted since the SDR issuance in August 2021.[135]

No laws or executive decrees were passed regarding SDRs in either 2009 or 2021.[136] Several political actors have expressed opinions as to how SDRs should be used.[137] Prime Minister Mikati has mentioned the possibility of 'using part of the amount to invest in electricity production, because we need about two billion dollars to be able to produce all our needs at peak times',[138] while in December 2021, the urgency status was dropped from a bill aimed at regulating how Lebanon's SDRs are disposed of.[139]

2.1.3 LEGAL PATHWAY CHOSEN BY THE GOVERNMENT

Given this legal vagueness around SDRs, there is confusion around how Lebanese institutions are dealing with the SDRs, with no clear arrangements in place at the beginning of 2022.

In its ministerial statement of September 2021 – detailing the incoming government's policy priorities – the Mikati government committed to 'adopt the best way to use the funds derived from the [SDRs] in a way that ensures their sustainable use.'[140] With no need for legislative amendments to authorise this transfer, the government subscribed to the policy path[141] that considers that the funds derived from SDRs belong to the member country's government, not its central bank.

According to the Legal Agenda – a local NGO – Ministry of Finance sources confirmed that the cabinet decides on how to spend the money-equivalent of the SDRs, not the Governor of the central bank or the Finance Minister.[142] Former Minister of Finance, Ghazi Wazni, was keen to clarify that the Ministry of Finance is responsible for the SDRs, not the BDL, and that it is within its power to run the account, but in cooperation with the BDL.[143]

The SDR holdings obtained by Lebanon were converted into hard currency.[144] These funds were directly transferred from the BDL to the Treasury and that their value will appear as revenue in the 2022 budget. Other reports indicated, back in August 2021, that the new SDRs were to be swapped with Qatar and traded for $860m that would then be entered into the central bank's foreign currency account before mid-September 2021.[145] A review of the foreign assets of the central bank does not indicate any significant increase, which would suggest that the amount did not reside on the central bank's assets in the balance sheet.[146]

However, the sub-account of foreign currencies registered an increase of $420m between August and September 2021.[147] This was the first increase in two years, which crucially suggests that the SDR amount was used to boost foreign exchange holdings. This finding was confirmed in an interview with an economist with access to central bank data,[148] who noted that the central bank withdrew $1.1bn from the SDR account (the total value of the last two allocations) in September 2021. The other scenario is that the central bank did indeed transfer that amount to the government account; this could not be verified by analysing BDL's published data.

Local media also reported that the Minister of Finance and the Governor of the central bank met with the IMF in September 2021 to discuss options on how to draw the SDRs.[149]

2.1.4 APPROVAL TO USE SDRS, ACCOUNTABILITY AND TRANSPARENCY

The budget should be submitted to Parliament for review and approval by the end of January of the budget year. The SDRs are transferred directly to BDL which, according to Article 13 of the Code of Money and Credit, is 'a juridical person of public law vested with financial autonomy'. Therefore, in principle the fiscal use of SDRs does not seem to require Parliament's approval since the concept of SDRs did not exist at the time the fiscal laws were enacted, and the yearly IMF membership contribution seems to be paid by the BDL.[150]

Nevertheless, based on accounting practice and as this global allocation aims to boost global recovery following the COVID-19 pandemic, Lebanon's portion that was directly deposited in BDL will credit the treasury's accounts with the value of the SDRs, and consequently any allocation of public resources will undoubtedly abide by the golden rules of public budget (unity, universality, annuity, etc.) and be adopted by Parliament under the Constitution and the Public Accounting Law.

If the SDRs are for additional or exceptional financial use then Parliament must approve any such use that is not part of the budget (Article 85 of the Constitution), but it cannot dictate how the amount is spent. The recent attempt to pass a bill to give Parliament control over how to spend SDRs was defeated, with the Prime Minister explicitly stating that this is the prerogative of the government.

The Public Accounting Law (1963) sets the rules and procedures for drafting and approving the annual budget legislation. Lebanese state institutions operated without any budget legislation between 2005 and 2017, and again in 2020, 2021 and 2022, until Parliament passed the 2022 state budget on 26 September 2022, with three months left in the financial year.[151] The 2022 budget was approved to signal commitment to fulfilling the prior actions outlined in the staff-level agreement between the IMF and the Lebanese authorities, but still violated the budget calendar defined in the Constitution.[152]

There are no transparency or accountability mechanisms designed specifically for SDRs, only broad statements by the authorities on the receipt of SDRs and meetings held with the IMF. A former central bank official told AFP: 'We do not know how [the SDRs] are being used as there is a total lack of transparency and disclosure','[153] while the IMF highlighted the importance that SDRs be used 'in a transparent and responsible manner that supports needed macroeconomic adjustment and reforms. That's true in Lebanon and that's true in every country.'[154] The IMF also announced that it is monitoring how SDRs are used and will be reporting on the issue. However, there is no information on Lebanon in the IMF SDR Tracker (last updated on 30 September 2022).[155]

2.2 POLICY OPTIONS

This section provides policy options for the future use of SDRs in Lebanon, based on desk research of official websites and publications, interviews conducted between February and April 2022, and an online workshop with Lebanese and MENA civil society.[156]

The World Bank estimates that more than half of the Lebanese population is living below the poverty line, while studies by UN relief agencies show that 90% of displaced Syrian households in Lebanon live in extreme poverty.[157] Furthermore, the UN estimates that 72% of the Lebanese population live in multidimensional poverty due to continual currency depreciation.[158] Annual inflation hit a record high of 240% in January 2022 before falling slightly to 208% in March.[159] Russia's invasion of Ukraine at the end of February 2022 had additional repercussions on prices of crucial consumption items such as food and beverages, which rose 390%, with transportation costs rising by 489%. Health expenses increased by 441%.[160] SDR spending should follow the principles of fiscal justice and sustainable social spending, aiming to protect the most vulnerable groups, including men and women workers, children, and those with special needs.

Lebanon's allocated SDR amount, $1.1bn, was wholly insufficient given the country's financing needs. Lebanon has already lost over $20bn of foreign exchange since the onset of its financial crisis in October 2019, including $5bn since receiving the SDR allocation (fourfold the value of the SDRs).[161]

2.2.1 IMPACT ON KEY ECONOMIC INDICATORS

Aside from a temporary bump of reserves, the SDR allocation was not leveraged to give a significant positive impact on key macroeconomic indicators. The economy registered a negative real growth of -10.5% in 2021 according to the Word Bank, following a contraction of 21.4% in 2020 and 7.2% in 2019.[162] The SDR allocation was not used to pay off debt as Lebanon had already defaulted on Eurobonds payments in March 2020, with negotiations with creditors yet to take place.[163]

The national currency has lost more than 90% of its value in the last three years and the central bank's foreign currency reserves have plunged. In the absence of capital controls and while Lebanese authorities failed to enact any economic recovery plan, the Lebanese pound (LBP) continued its downward trend against the US dollar following the receipt of the SDRs in September 2021. The central bank intervened heavily in the foreign exchange market between mid-January and the end of March 2022, bringing the LBP exchange rate against the US dollar down from 33,000 to between 20,000 to 22,000. It is unclear, however, whether the SDRs were specifically used to finance any balance of payment operations during that period.

The BDL has never previously resorted to using the SDRs. As outlined in Section 2.1, while there was no significant increase in the central bank's overall foreign assets, the sub-account of foreign currencies increased by $420m between August and September 2021.[164] As the only increase since the crisis, this could indicate that the allocation was used to boost foreign exchange holdings. In May 2022, Prime Minister Mikati stated that about $11bn in foreign exchange was left at the central bank, 'in addition to the SDRs', suggesting that they are separate accounts.[165] IMF data confirm that Lebanon exchanged $1.1bn (800.5m SDRs, equivalent to the total value of the last two allocations) from its SDR account at the IMF in September 2021.[166]

A staff-level agreement on economic policies for a four-year, $3bn agreement between Lebanon and the IMF was concluded on 7 April 2022.[167] The IMF's Board approval of the loan program hinges on a set of prior actions that the Lebanese authorities need to implement, including restructuring the financial sector and external public debt; establishment a new monetary and exchange rate system; fiscal and energy sector reforms; and strengthening governance and anti-corruption frameworks. However, as of December 2022, the authorities haven't yet implemented these prior actions; the IMF mission to Lebanon noted that progress in implementing the agreed reforms was very slow, despite the urgency of the situation.[168]

Neither the SDRs nor the IMF programme by themselves will solve the issues, but they should be used in a complimentary way and they should contribute to laying the foundations for a strong, inclusive economic model. Recent research by Oxfam shows that 13 of the 15 IMF loan programmes negotiated during the second year of the COVID-19 pandemic require new austerity measures such as taxes on food and fuel or spending cuts that could put vital public services at risk.[169] It is essential that Lebanon avoids new austerity measures that carry serious social and political consequences, and that it instead focuses on cutting inefficient programmes and artificially inflated 'political spending'.

2.2.2 APPLIED POLICY OPTIONS FOR SDRS

The third clause in Article 19 of the Agreement of the International Monetary Fund requires Lebanon to show the need to use the SDRs to finance the balance of payments.[170] The latest allocation, the largest in IMF history, aims to help the most vulnerable countries struggling to cope with the impact of the COVID-19 crisis. Given this, many economists and policy makers around the world[171] have advocated dropping business-as-usual SDR use, including austerity and liability management, and instead moving to socially oriented, inequality-reducing, or asset-creating policies.

In Lebanon, the allocation sparked discussion among economists, policy specialists and activists, especially on how to ensure that SDRs do not turn into an additional tool used by the political system to navigate crises that afflict the country at the expense of society at large.[172]

The spending choices outlined later are based on the following considerations.

1. To maximize their impact, SDRs must not become another piecemeal measure and should instead form part of an overall reform package for Lebanon. Any SDR spending proposal must not ignore the general context: the devastating economic crisis that Lebanon is going through, which is one of the most severe in modern history.[173]
2. Ideally, the SDRs should not be for current spending, not even to finance the much-needed ration card that has been in the planning stage for two years. Spending the SDRs as cash transfers to households misses an opportunity, as it does not address the root causes of the crisis. Moreover, a programme targeting the poorest households (the Emergency Social Safety Net project) is currently financed by the World Bank.[174] International and non-government organizations are also supporting many vulnerable households and livelihoods in Lebanon through various programmes, but the real need is much greater.
3. Despite high levels of corruption and tax evasion, SDRs should not be spent on strengthening institutional frameworks, including regulatory and tax authorities. Governance reform touches the core of the political system, and the implied power struggle requires far greater efforts and overreaching powers to address. Such reforms usually pay for themselves, through the additional revenues raised. The government has also already committed to overhauling the taxation system to increase revenue, including by closing tax loopholes and imposing new taxes, as part of the prospective IMF supported program. Nonetheless, if a new SDR allocation takes place, the new funds could be directed to this area.

4. Lebanon requires new legal and administrative mechanisms to monitor the use of the SDRs by the government and the central bank. A participatory approach should be considered, with specialists and CSOs advising on and monitoring how the SDRs are spent.

2.2.3 GOVERNMENT MEASURES

The Lebanese government has not communicated any clear policy priorities in terms of SDR spending, with differing opinions found in the rare statements by the Prime Minister and ministers. While some ministers were willing to allocate $300m of the SDRs to a ration card to support most Lebanese households or import hydrocarbons, the Prime Minister's top choice appeared to be financing electricity production capacity.[175] The BDL wished to support its foreign currency holdings by replacing the SDRs with cash in Lebanese pounds to finance any government spending decisions.

On 14 April 2022, the Council of Ministers finally approved the use of $15m from the SDR account to finance the emergency purchase of wheat, $13m for medication, and $60m for maintenance contracts and equipment that Électricité du Liban may need.[176]

2.3 CONSIDERATIONS FOR FUTURE SDRS

Several spending options for future SDRs were advanced in our interviews with experts, in addition to a national workshop organized by Oxfam on 9 May 2021.[177] They covered a wide range of economic, social and sectoral policies, including spending on cash transfers to low-income households, the establishment of a national public transit system, debt repayment, universal healthcare, pension funds, energy, and food production. We narrowed these down to two main options based on the policy considerations outlined above.

2.3.1 OPTION 1: USING SDRS TO FINANCE FOOD AND ENERGY SUSTAINABILITY

The war in Ukraine has put additional pressure on food and energy prices. Lebanon has been particularly affected given its strong reliance on imports of energy and agricultural commodities – 80% of its wheat[178] and 70% of its cooking oil imports[179] come from Ukraine and Russia. The world is in for a long food security, and to a lesser extent, energy security crisis. Food and energy security have therefore become key priorities for the survival of Lebanon's population.

Using SDRs on current spending - to buy fuel or wheat, although much needed, is not a sustainable investment of this hard currency influx. SDRs could have been used to address local production as a viable option and to enhance productive sectors. They could have either been used to: directly finance projects related to food production and storage (e.g., grain silos) and renewable energy (e.g., solar panel farms, equipping public services providers, such as telecommunications stations, with energy produced from renewables); or provide soft loans and/or the necessary guarantees for similar projects in the private sector.

While the effects of the suggested projects are unlikely to be felt instantly, given the time-lag between project initiation and food availability or electricity generation and distribution, they would help reduce uncertainty over the medium to long term. They could also reduce import bills and contribute to the country's climate change mitigation efforts.

2.3.2 OPTION 2: USING SDRS TO STRENGTHEN SOCIAL PROTECTION AND PUBLIC SERVICES

Given the gravity of the economic crisis and the existing threat to Lebanon's healthcare and education infrastructure, the experts we interviewed identified these two areas as some of the most pressing strategic issues that could have the broadest impact across society.

Policy priorities should focus on ensuring social rights. Basic universal healthcare and education are funded by the budget, which requires comprehensive tax reform to ensure sustainable financing. But the SDRs could be used as seed funds to partially finance the establishment of a universal healthcare coverage scheme or a high-quality public education system.[180] The remaining funding could come from other concessional sources, such as multilateral development banks. Such schemes are urgently needed and would provide a significant boost to the purchasing power of households, one that could help them navigate the economic turmoil.

2.4 CONCLUSION

The Lebanese government's policy on how the SDRs will be spent and over what timeframe remains ambiguous. The policy options outlined may maximize their impact, especially if the alternative is bad policy.

The share received by Lebanon raised considerable hopes that it could help strengthen the country's depleted foreign currency reserves and dig it out of its worsening economic crisis. Such historic unconditional liquidity should represent an unprecedented financing opportunity for countries to boldly maximize its benefits. However, in Lebanon's case, it may also have presented more challenges. The allocated amount was wholly insufficient given the scale of Lebanon's issues and the country's financing needs.

The bitter truth is that Lebanon has already wasted the opportunity. Over $20bn of net foreign exchange holdings were spent between October 2019 and August 2022, including $5bn since the receipt of the SDR allocation (fourfold the amount of the SDRs).[181] The central bank has been using whatever foreign exchange it holds to defend an undefendable currency. Until there is a credible economic reform and recovery plan, the SDRs and the remaining foreign exchange holdings will be lost on non-productive uses.

3 EGYPT

Over the last decade, the Egyptian government has taken on an unprecedented amount of foreign debt.[182] It has also implemented austerity measures from 2014 onwards,[183] and IMF loan programmes that began with the 2016 IMF loan that saw the deregulation of the Egyptian pound. Within this framework of austerity and debt, on 23 August 2021, Egypt received debt-free financing in the form of 1.95bn SDRs (equivalent to $2.78bn).[184]

This chapter is divided into two sections. The first covers the legal pathway used by the government to use SDRs as a fiscal resource: the second discusses alternative fiscal uses of SDRs within the Egyptian context.

3.1 EGYPT AND SDRS: OVERVIEW OF THE LEGAL FEASIBILITY OF THEIR FISCAL USE

This section highlights the mechanisms of the Central Bank of Egypt (CBE), its importance and independence in Egypt, and whether it is legally feasible within the Egyptian context to use SDRs for fiscal purposes.

3.1.1 THE CENTRAL BANK AS A FISCAL AGENT

The CBE is the fiscal agent of the Egyptian state, with the SDRs registered in the central bank's ledger.[185] However, the CBE's Banking Law and Statute closely link the bank to the government, with the Governor of the CBE currently designated by the President.[186]

The central bank's recent policy orientation has closely matched the government's.[187] Rather than solely pursuing austerity measures as a result of IMF loan program of 2016, the government's economic programme had already introduced austerity measures since 2014.[188] The main objective is to project stable macro-economic indicators such as reducing the fiscal deficit and debt-to-GDP levels and increasing foreign exchange reserves, that enable continued access to foreign borrowing on international capital markets, rather than providing welfare for its population.[189]

The SDR allocation amounted to approximately 3% of the government's budget,[190] which experts interviewed for this research consider to be an insufficient standalone amount to prevent the privatization efforts expected by the IMF.[191] Since $3bn is a relatively small amount with respect to Egypt's budget, population and gross financing needs,[192] some experts believe that it makes sense for the SDRs to stay in the CBE reserves and not be used for fiscal purposes.

3.1.2 LEGAL AVENUES FOR SDR TRANSFER

There are several avenues by which the central bank can transfer the SDRs to the government for fiscal use. The CBE is authorized to finance the government directly, for the purposes of treasury management, and it can also guarantee public financing. It is also authorized to act flexibly in extraordinary circumstances, and the Banking Law (#194/2020) authorizes it to act on behalf of the state. The central bank has the power to manage the gold and foreign exchange reserves of the state,[193] and SDRs are part of the state's reserves.

None of the CBE, Ministry of Finance, Financial Regulatory Authority, Financial Markets Authority, Ministry of Investment, or Ministry of Justice websites include any references to SDRs, and neither to any of these institutions maintain comprehensive searchable online databases. No new legislation or bills have been introduced specifically on the governance of SDRs. Interviews with several relevant officials in Egypt, including the Deputy Minister of Finance and relevant CBE officials[194] confirmed that the SDRs had not yet been transferred to the government, and that they were not aware of any legal or regulatory barriers to transferring SDRs from the CBE to the government. The relevant laws and statute are sufficiently flexible and at the discretion of the President. A CBE–Ministry of Finance agreement similar to those used for channelling conventional IMF loans would be sufficient for the transfer. These officials were initially concerned that if the SDRs are used the country would be incurring a liability. We were later informed that the CBE exchanged a large share of the SDRs for US dollars, which were then transferred to the government budget.

3.1.3 PREVIOUS USES OF SDRS

Due to the large debt that Egypt has with the IMF, it is possible that the IMF has advised Egypt to preserve SDRs on the central bank balance sheet to cover for future repayments to the IMF.[195] In February 2016, Egypt used 272m SDRs (about $375m)[196] for that year's IMF quota increase, which is currently part of Egypt's reserve tranche at the IMF.[197]

The US Treasury's Audit Report for Fiscal Year 2017 reported that: 'In November 2016 the ESF transacted to purchase 500m SDRs from the Arab Republic of Egypt with a dollar equivalent of $681m.'[198] However, Egypt's SDR holdings did not drop by that amount in that month.[199] On 11 November 2016, Egypt received a 1.97bn SDR disbursement from the IMF (about $2.7bn), part of which was in SDRs.[200] It appears that Egypt then sold some of those SDRs to the USA for US dollars.

In mid-2020, Egypt borrowed an additional $5.2bn through the IMF's Stand-By-Arrangement (SBA). The SBA is designed to be used in times of 'economic crisis' when countries 'need financing to help them overcome their balance of payment problems.'[201]

Between 2017 and 2020, Egypt ran down its remaining SDR holdings with quarterly payments of interest and surcharges to the IMF (only 22m SDRs remained, equivalent to $32m). In 2021 and 2022, part of the new allocation was used to make debt payments to the IMF. The balance of SDRs was 230m SDR in July 2022.[202] Egypt is projected to pay the IMF $2.4bn in 2023, not considering the new loan that was approved by the IMF Board in December 2022.[203]

3.1.4 BUDGET FEASIBILITY

Egypt's debt is clearly unsustainable and requires significant relief and restructuring. In 2022, Egypt's debt rose to 87.2% of the country's GDP.[204] In December 2022, the IMF Board approved a new $3bn loan for Egypt over a period of 46 months.[205]

During our consultations, government officials expressed doubts about recording SDRs as liabilities.[206] However, these doubts seem to have been overcome when Egypt decided to exchange and fully use its SDRs. The 2022/2023 budget was approved by Parliament in June 2022. However, official authorities have provided no precise details on the spending of SDR revenues.[207]

3.2 POLICY OPTIONS

In August and November 2021, Egypt paid 94m SDRs and 101m SDRs in charges (interest and surcharges) to the IMF. It made similarly-sized payments with SDRs in February and May 2022.

However, in November 2021 and January 2022, Egypt also paid $230m and $100m in principal, respectively, but did not use its stock of SDRs.[208] In March 2022, Egypt exchanged its remaining SDR allocation for US dollars, according to the IMF website: there was no media coverage.[209] Egypt did not initially disclose that it had received the allocation or what it would spend it on, if anything, raising questions around transparency and access to information.

The main sectors in the Egyptian economy, by GDP, are farming and industry, extractive industries, transportation and construction, education and health.[210] Education and health have below average spending[211] and are quite labor intensive.

Egypt faces a rising budget deficit,[212] increased borrowing costs[213] and a depreciating currency, all compounded by a higher wheat import bill[214] and declining tourism revenue following Russia's invasion of Ukraine. This is accompanied by mounting inflation rates.[215] The deteriorating economic conditions could worsen the already high poverty levels, with around 30% of the population currently reported to be living in poverty.[216]

This section explores policy options for future fiscal uses of SDRs in Egypt, after a brief overview of the economic context, which covers a series of measures that Egypt has taken since March 2022, including devaluing the Egyptian pound; raising interest rates; requesting (and receiving) additional IMF financing; fixing the price of subsidized bread, even in private bakeries; and announcing that it was selling several state assets to private companies.

At the time the research interviews took place, the war in Ukraine had not yet begun. The findings were updated to reflect the repercussions of these developments on the Egyptian economy, based on additional desk review and analysis.

3.2.1 CURRENT IMF PROGRAMME, FOREIGN DEBT, AND AUSTERITY

Egypt has borrowed $20bn (about 5% of its GDP) from the IMF since 2016, making it the IMF's second-largest recipient after Argentina.[217] It also recently negotiated a new loan with the IMF, which it deemed necessary given the capital flight by foreign investment in the immediate aftermath of Russia's invasion of Ukraine. The war, coupled with two years of a pandemic and anticipation of the first hike of US interest rates, have led to more than $10bn in outflows from Egypt's bond market.[218] In December 2022, the IMF board approved a $3bn loan programme for Egypt, over a 46-month period.[219]

The government has made several key economic choices since it took power in 2014, including an alarming rise in foreign borrowing.[220] Prior to 2011, social consensus and economic policy in the country was wary of external borrowing.[221] Since 2014, foreign debt has increased dramatically, with the pound devalued twice.[222] As a consequence, foreign currencies, especially the dollar, have become very valuable, with the government aiming to acquire and keep as much foreign currency as possible. This has been further compounded by increases in wheat and gas prices, as Egypt scrambles to buy wheat in US dollars.

The CBE reserves have decreased since the start of the pandemic. In response, there have been regular announcements of foreign borrowing, mostly from the Gulf region. Since January 2022, Egypt has borrowed $13bn, made up of short-term deposits of $5bn from the United Arab Emirates, $5bn from Saudi Arabia, and $3bn from Qatar.[223] It has been reported[224] that the Saudi deposits' liquidity was derived from the increase in Saudi reserves due to the SDR allocation.

As of the end of March 2022, Egypt faced an unprecedented $158bn in foreign debt, of which it has agreed to repay $33bn by March 2023, accounting for almost all of Egypt's foreign currency reserves, according to the World Bank.[225]

In May 2022, the government signalled its intention to sell off state assets, outlining a plan to fully withdraw from certain sectors of the economy as it seeks to attract $40bn in investment over the next four years. Prime Minister Mostafa Madbouly stated that Egypt wanted private investment to rise to 65% of the country's total within three years, up from around 30% at present.[226]

The government's austerity programme also aims to reduce the number of food subsidy beneficiaries, while spending on the current welfare programme did not increase even during the COVID-19 pandemic.[227] The experts consulted for this research believe that not spending the SDRs is a political choice which is in line with the government's austerity approach.

3.2.3 INTEREST RATES, INFLATION, AND DEVALUATION OF THE POUND

Although the CBE's policies have largely followed the government's in recent years, one of the few areas of conflict is interest rates: the Finance Ministry favours lower interest rates, while the CBE is focused on targeting inflation, so prefers to increase interest rates to control inflation.[228] Annual inflation climbed to 15.3% in August 2022, compared with just over 6% in August 2021.[229]

With the increase of interest rates by the US Federal Reserve, compounded by an attempt to make Egypt's markets more attractive to investors, in March 2022 the central bank decided to float the Egyptian pound, which had been de facto pegged to the US dollar since the exchange rate was liberalized in 2016. The CBE also raised interest rates across the board.[230]

The CBE's deregulation of the exchange rate has led to a significant increase in inflation, which is increasing daily. The decision compounded levels of inflation that were already at their highest level in nearly three years.[231] This explains the government seeking further IMF loans and financing from Gulf States. Experts interviewed predict that there could be another potential drop when the Fed raises interest rates again.

In August 2022, Deutsche Bank and Goldman Sachs viewed the Egyptian pound to still be about 10% overvalued, despite a devaluation of more than 15% in March. The pound would need to weaken by about 23% to help the economy adjust, according to Bloomberg Economics.[232] In the likely case that this happens, the pound would decline to a record EGP 20–25 per US dollar, which would further increase the already record-high levels of inflation.[233]

3.2.4 IMPORTS AND FOOD SECURITY

Egypt is extremely dependent on imports, making it very vulnerable to the whims of the global economy, as the war in Ukraine has made clear. Egypt is the largest importer of wheat in the world,[234] with 24% of its imports being agricultural products like wheat, maize and meat.[235] It imports almost 80% of its wheat from Russia and Ukraine.[236] The war has heightened the stress exerted by the pandemic on interconnected global supply chains and driven up the prices of key commodities that Egypt imports – including energy, wheat and other grains – contributing to draining the dollar liquidity of the CBE faster than expected. The Finance Minister estimated in March 2022 that soaring wheat prices alone would incur additional costs of as much as EGP 15bn (equivalent to $955m) to the year's budget.[237]

The Egyptian government has a large-scale subsidized bread programme, with approximately 70 million beneficiaries. Given the effects of the war, it decided to ration the amount of flour delivered to bakeries to produce subsidized loaves, but beneficiaries of the programme have been unable to purchase their full share.[238] At the beginning of April 2022, the Cabinet announced that Egypt's stockpile of wheat designated for the bread subsidy system would most likely run out in two and a half months.[239] In May 2022, the Finance Minister said that Egypt had enough wheat to last until the end of the year, but that due to the rising costs the government was still planning to 'rationalize' bread subsidies, which cost more than $3bn annually, 'over a gradual basis' – a prospect raised before the outbreak of the Ukraine conflict but which has been delayed.[240]

The Egyptian government has already taken emergency measures[241] to act as a buffer to reduce commodity price increases. It also stepped in to fix the price of unsubsidized bread, arguably the country's most vital food commodity, in public and private bakeries. Bakeries must abide by the new prices for three months or until further notice, and those that violate the regulations face fines.[242] The decision came after the price of unsubsidized bread increased by approximately 50%. The measures directly contradicted Egypt's austerity measures to cut expenditure and scale back government intervention in the market. However, despite these efforts, Oxford Economics anticipate that consumer prices will continue to soar, taking a toll on low-income Egyptians.[243]

Egypt's decision to halt some major imports in April 2022 to preserve its dollar reserves has also started to garner complaints about its import restrictions, which could potentially result in reciprocal actions from countries it has trade agreements with, such as Russia and the EU.[244]

3.3 CONSIDERATIONS FOR FUTURE SDRS

Egypt's legal framework allows the possibility of using SDRs for fiscal purposes. However, there is a tug-of-war between using these to pay foreign liabilities to the IMF, or for investment in the domestic economy.

This section presents considerations regarding the best future use of SDRs based on desk research from official websites and publications, interviews with academics and economic analysts, and an online workshop with Egyptian and MENA civil society.[245] The main findings from the workshops and consultations are that future SDRs would be best spent on enhancing social protection in the form of education and health support – in a country where out-of-pocket health expenditure stood at 62.75% in 2019[246] and public spending on education and health remains low[247] – as well as putting mechanisms in place to enhance food sovereignty.

Given the significant debt flows expected for Egypt's economy, such as the newly announced IMF programme, but also the context of multiple food and inflation crises, with increased levels of poverty and inequality, SDRs should be spent in a fair and sustainable manner. Egypt needs to take substantial measures to move towards inclusive economic recovery measures. Based on our analysis of Egypt's most pressing socio-economic issues, we present two main considerations for the best use of future SDRs:

- SDRs can be used to invest in an area of social spending, preferably in education or health, with the aim of addressing pressing issues caused by neglected funding these areas; and
- SDRs can be used to implement a longer-term project that aims to move Egypt away from dependency on imports, towards creating at least partial food sufficiency.

3.3.1 SOCIAL SPENDING: EDUCATION AND HEALTH

The experts we spoke to were almost unanimous in saying that education and health should take top priority in terms of funding. Some argue that there has been a bias against education and health since the government implemented its austerity programme in 2014.[248] The experts suggest that Egypt suffers from undercapitalization and lack of investment, as well as a misallocation of investments. Most investments are related to construction, mega real-estate projects, and extractives. There is a severe lack of public investment in education, health and public transportation, with spending on education and health declining from 14.57% of GDP in 2015/2016 to 8% in 2022/2023.[249]

To give some examples, the government is currently constitutionally obliged to spend a minimum percentage of GDP on health and education (3% and 6%, respectively). However, the current year's budget contains no amendments to government spending on health and education.[250] In July 2018, Egypt issued a Universal Health Insurance Law that aimed to expand health coverage to its population. Its implementation, since July 2019, has seen the government relying on the private sector to lead the investments, with its own role greatly curtailed.[251] This creates space for the private sector to consider profit maximization rather than sustainable solutions for Egyptian citizens.

Similarly, the Education Ministry requested a budget for the coming fiscal year of EGP 162.35bn (equivalent to $8.8bn) from the ministries of finance and planning; however, the allocation was 19.3% less than this request.[252] During the 2020/21 academic year, the number of students in pre-university education jumped by around 1 million, while the number of teachers dropped by 10,000, according to the state statistics agency.[253]

3.3.2 FOOD SECURITY

As Egypt becomes more dependent on the IMF, the latter remains adamant that the government scale back bread subsidies, despite the dangers of doing so in the context of inflation and the devaluation of the Egyptian pound.[254] This has highlighted the vulnerability of food security in Egypt, and led to discussions around further reducing the weight of the subsidized loaf.[255] This strengthens the need for Egypt to plan to increase its food self-sufficiency (Box 4) and decrease its reliance on imports.

Egypt relies on imports not only for wheat, but for almost all the products needed to feed its population (for example, it imports 98% of its seeds), and focuses instead on producing food it can export to Europe in order to receive dollars.[256] The produce that it exports are usually labor intensive and require large amounts of water and fertilizer.[257]

SDRs could potentially be invested in small farmers, who are currently struggling to sell crucial crops such as wheat. According to the Food and Agricultural Organization of the United Nations (FAO), owners of small agricultural holdings of fewer than three acres produce about 47% of field crops in Egypt: these small fields are the 'primary producer' of food in Egypt, while larger agricultural holdings focus on exports.[258] In March 2022, the Egyptian government requested that farmers supply at least half of their crop to public warehouses, proclaiming it a 'national duty'; by June, farmers had delivered more than 3.5m tons of wheat.[259] In addition, the government plans to cease state investment and economic activity in agriculture and animal production over the next three years.[260] SDR investment could help counteract this loss of investment and help these areas grow in sustainable, rather than profit-driven, ways.

Even though the amount of water and arable land that can be used to increase agricultural production may not be enough to stop Egypt's reliance on imports, investing in smallholder farms that focus on sustainability can improve rural people's livelihoods while making agricultural systems more resilient and environmentally sensitive. Projects could focus on areas such as improving access to agricultural inputs, providing knowledge on sustainable farming practices that conserve soils and use water resources effectively, and improving smallholder farmers' access to markets.[261]

Box 4 Food security, food self-sufficiency and food sovereignty

The right to adequate food is enshrined in the 1948 Universal Declaration of Human Rights and the 1966 International Covenant on Economic, Social and Cultural Rights.

Food security as defined by the World Food Summit in 1996 'exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life'. SDG 2 further aims at ending hunger, achieving food security and improved nutrition, and promoting sustainable agriculture.

Food security is a critical issue in many countries of the MENA region, especially since the onset of the Ukraine war. Using SDRs to make structural improvements to agricultural systems is relevant to the priorities of the region. It is crucial that countries seek to achieve food self-sufficiency and food sovereignty, taking into consideration their local resources and agricultural potential, and coupled with measures to ensure sustainability.

Food self-sufficiency is defined by FAO as 'the extent to which a country can satisfy its food needs from its own domestic production.'[262] It addresses how much of the food consumed is produced locally as opposed to how much is imported, with the aim for each country to ensure that food production is sufficient to cover the essential food consumption needs of its population. Many factors come into play in determining the capacity of a country or region to achieve self-sufficiency, including agricultural land and water availability. It is important that policies aiming towards enhancing agricultural productivity factor in issues related to the sustainability of a country's natural resources.

Food sovereignty focuses on the governance and political economy of production and consumption and tackling inequalities in food access among the population. It relates to who makes decisions in food systems and emphasizes local production. It puts small producers and consumers at the heart of food systems, giving them a voice and decision-making power, as opposed to having big corporations and the market at the center. It is based on six main principles: focuses on people, values food providers, localizes food systems, rejects corporate control, builds knowledge and skills, and works with nature.

Sources: FAO. (2006). Food Security Policy Brief, June 2006;[263] OHCHR. (2010). The Right to Adequate Food;[264] ESCWA. (2022). Tracking Food Security in the Arab Region;[265] United Nations. (n.d.) Sustainable Development Goals, Goal 2;[266] Gordillo and Mendez Geronimo. (2013). Food Security and Sovereignty.[267]

4 TUNISIA

Tunisia is at an economic crossroads, much like the entire MENA region. Despite a history of IMF programmes, it is now embarking on a new, debt-ridden, IMF loan programme. Tunisia's share of the SDRs issued in 2021 was $776m, or 4.1% of the 2021 national budget, and the country was quick to find a legal pathway to use SDRs for domestic purposes. This chapter reviews the legal steps taken to use the SDRs for domestic economic purposes and presents considerations on how future SDRs could be better invested, given Tunisia's socio-economic context.

4.1 TUNISIA AND SDRS: OVERVIEW THE OF LEGAL FEASIBILITY OF THEIR FISCAL USE

This section outlines the legal pathways for Tunisia to transfer the SDRs from the Central Bank of Tunisia (BCT) to the government and provides details of the BCT's institutional arrangements.

4.1.1 THE CENTRAL BANK AS A FISCAL AGENT

The BCT was founded in 1958, two years after the nation's independence, by Law 58-90 (19 September 1958),[268] which gave it the 'general mission' of maintaining price stability. It was also tasked with 'looking after monetary policy; controlling money circulation and ensuring the smooth operation of payment systems; supervising credit institutions; and preserving the stability and security of the financial system'. Prior to the 2011 revolution, the bank was deemed to enjoy reasonable independence, notably following a 2006 law which further clarified its focus on price stability.[269] However, frequent changes in governments since the 2011 revolution, and the inevitable political upheaval,[270] compelled the state to issue Law 2016-35 (25 April 2016) underlining the BCT's independence 'in following its objectives, in exercising its missions, and managing its resources'.[271]

The BCT defines its current policy as 'proactive' and its decisions as 'energetic', focusing on controlling inflation and, secondly, macro-economic stability and economic growth. Its independence,[272] according to its Governor, 'has strengthened the confidence and the credibility that Tunisia enjoys among partner countries, international financial institutions, market investors, and rating agencies'.[273] In fact, this independence has entailed pursuing reforms so that the currency market is further deregulated.

4.1.2 LEGAL AVENUES FOR SDR TRANSFER

A presidential decree on 14 September 2021 authorized 'for the benefit of the state, the transfer of the Special Drawing Rights allocations assigned by the International Monetary Fund to the Tunisian state, following the agreement between the Ministry of Economy, Finance and Investment Support and the Central Bank of Tunisia'.[274] This decree is the most significant and explicit piece of legislation related to SDRs in the MENA region.

President Saied had suspended Parliament and dismissed the government fewer than two months prior.[275] On 22 September 2021, a few days after the decree authorizing the transfer of the SDRs, he declared he would rule by decree and suspend parts of the constitution until a referendum on a new constitution is held in July 2022, thus further cementing his one-man rule.[276] The following week, the BCT transferred the first tranche of the SDRs, 26%, to the Ministry of Economy, Finance and Investment Support,[277] following its 'dinerization' – the transfer of the foreign currency received from the IMF into Tunisian dinars, prior to its transfer to the government. The SDRs were approved for use in 2021.

The IMF states that 'the SDR is an unconditional reserve asset, which means that the decision on how to utilize the SDRs rests with each member country'.[278] In Tunisia, the SDRs have been almost entirely earmarked to cover the state's obligations in terms of salaries and pensions. The average monthly wage bill was around TND 1.67bn (equivalent to $521m),[279] and the SDRs are likely to have offered some breathing room for the government.

4.2 POLICY OPTIONS

This section presents policy options for the use of SDRs in Tunisia, based on desk research, interviews with academics and economic analysts,[280] and an online roundtable with CSOs.

The main findings are that the SDRs would be best spent on social protection in the form of creating mechanisms to enhance food self-sufficiency and sovereignty, as well as to start a conversation on debt cancellation. The findings address the key aspects of Tunisia's socio-economic landscape: tackling foreign debt, the impact of the Russia-Ukraine war, and food security and imports.

4.2.1 KEY ECONOMIC INDICATORS

Tunisia is currently dealing with several economic crises, exacerbated by the COVID-19 pandemic and the war in Ukraine, including heavy debts, a decrease in GDP and mounting inflation – which saw a historic recession of about 9% in 2020.[281] Unemployment increased from 15% prior to the pandemic to 17.8% by the end of the first quarter of 2021, and continues to disproportionately affect women (24.9%) and young people aged 15–24 (40.8%). The World Bank predicts that poverty and vulnerability are set to increase further,[282] with additional pressures on the most vulnerable in the country. An IMF loan is touted as vital to address these issues, the most pressing being the balance of payments deficit, which has pushed Tunisia to require more external borrowing and be more susceptible to acquiescing to austerity conditions set by its creditors, including the IMF. The loan is presented as the only option to avoid defaulting on foreign debt and continue importing products in foreign currency (mainly wheat, oil and gas).

Given the depreciating exchange rate, budget deficit and increased public debt, despite government expenditure being high, GDP growth decreased by 8.8% in 2020.[283] The ESCWA social expenditure monitor states that Tunisia's expenditure on health, education and social protection ranged from 12 to 13% of GDP between 2014 and 2019, almost on par with middle-income countries.[284] Expenditure has increased primarily due to the sustained increase in the public sector wage bill and, to a lesser extent, to an overall increase in subsidies and public interventions (7.6% of GDP). ESCWA expected such public expenditure patterns to persist throughout 2022.

Tunisia also faces three structural deficiencies: lack of food self-sufficiency, energy sovereignty and low value-added manufacturing. These produce structural trade deficits which cause currency depreciation that makes imports more expensive. The government then artificially stabilizes exchange rates by issuing more dollar- and euro-nominated debt,[285] leading to an external 'debt trap'.

4.2.3 BUDGET FEASIBILITY

While the SDR issuance perhaps provided some breathing space, it did not cover the state's financing needs beyond the short term, with public expenditure between the disbursement of the SDRs to the end of 2021 estimated at TND 10bn (equivalent to $3.1bn).[286] Tunisian economists believe that the state will find it very difficult to balance its 2022 budget without a new IMF agreement.[287]

On 28 December 2021 – three months behind schedule – the Tunisian President issued the government's 2022 Finance Law.[288] The Finance Minister summarized the new budget, stating that 'The budget deficit, excluding donations, will be within 9.3 billion dinars. The deficit is expected to hit some 6.7 percent of gross domestic product. The result is a need for financing estimated at 18.673 billion dinars in addition to a treasury need of 1.310 million dinars'; adding that, 'negotiations with the IMF will restart at the beginning of 2022'.[289]

4.2.4 FOREIGN DEBT, AUSTERITY AND IMF NEGOTIATIONS

As of April 2022, Tunisia is required to repay debt securities worth $850m to the IMF, which is the principal of the debt, in addition to several other loans to other financial institutions.[290] Large trade deficits depreciate the value of the local currency against foreign currency, which in turn increases inflation.

Tunisia's negotiations with the IMF to secure a $4bn loan involved several parties, notably the Tunisian General Labour Union (UGTT), the country's largest trade union. Tunisia would need to commit to 'deep reforms' and public spending cuts to secure a rescue deal with the IMF.[291] In a meeting with the IMF in May 2022, the Tunisian government proposed removing food and energy subsidies from the discussions.[292] After failing to reach an agreement with the government, on 16 June 2022 the UGTT held a national strike involving 96% of employees from 159 state institutions and public companies, rejecting the government's austerity proposal that included freezing public sector salaries and jobs, lifting subsidies, and privatizing state-owned firms.[293] The UGTT is a key actor in socio-economic reforms in Tunisia; it also has the political leverage and ability to mobilize the public and obstruct the government.

The IMF demanded a consensual agreement between the government and the UGTT along with other requirements, stating that Tunisia 'failed to uphold its obligations in the past'. If the loan goes ahead, it would be Tunisia's third in a decade, and is aimed at addressing the government's budget deficit of 10% of GDP.[294]

The reform programme had reached an impasse, mainly due to the unstable economic environment, a lack of agreement with the UGTT, and Tunisians' resistance to unpopular cuts to subsidies and challenges to IMF policy.

Two leading Tunisian CSOs, the Forum Tunisien pour les Droits Économiques et Sociaux (FTDES) and Al Bawsala, launched a campaign in December 2021 against public debt (called 'we've been mortgaged enough!'), demanding more transparency in IMF negotiations, as well as improved tax revenues, by instituting progressive taxation (for individuals and companies), fighting tax evasion, and reviewing the rules and utility of tax benefits, which amount to TND 4.7bn (equivalent to $1.4bn) in foregone revenue.[295] The CSOs believe that there is 'total opacity' within the government with regards to the use of SDRs, with unanswered requests for meetings.

In February 2022, IMF staff in Tunisia met with Oxfam and several Tunisian CSOs to discuss tax and fiscal policy, public investment in education, social spending and access to health. Recommendations on tax revenues for health spending were shared with the IMF staff, including broadening progressive taxes, investing in better health, water and sanitation infrastructure, and broadening coverage of the health system and improving its management by reforming procurement, control systems and digitalization.

In October 2022, the IMF announced it had reached a staff-level agreement with Tunisia for a new $1.9bn programme,[296] but the IMF board has postponed its meeting to vote on the agreement which was initially scheduled for 19 December 2022.[297] The programme's contents or 'prior actions' – as the first set of conditionalities are known – have not yet been divulged.

4.2.5 IMPACT OF IMF PROGRAMMES

Tunisia received disbursements from the IMF in 2013, 2016 and 2020. In the first wave (2012–2016), the IMF focused on reforming the financial and monetary sector framework, including the devaluation of the dinar and the independence of the central bank, which removed its ability to finance the government deficit.[298] Tunisia met the 2016 loan conditions, but according to experts the conditions caused serious harm to the economy, damaging Tunisia's trade deficit and increasing the cost of manufacturing.

The IMF's programme set the conditions for austerity, through the strict control of fiscal and monetary policies, which resulted in social spending cuts, salary caps, recruitment freezes in public services, and changes in the tax system, which in turn led to price increases.[299] The ensuing austerity measures resulted in growing discontent among large vulnerable populations over decreasing purchasing power, worsening labor standards, and deteriorating public services.[300] As a result, the country faced protests against price and tax rises, specifically the increase of bread and grain prices following the adoption of the IMF plan.[301]

The second loan (2016–2020) led to the BCT stopping intervening in the currency markets to defend the value of the Tunisian dinar, which resulted in the dinar's depreciation and increased import prices, leading to price increases, rising public debt ratios and external debt service.

4.2.6 FOOD SECURITY AND IMPORTS

The food deficit caused by the Russia-Ukraine war, coupled with the disruption of supply chains caused by the pandemic, has led to food insecurity in Tunisia. Commodity price shocks have particularly affected energy and food-importing countries such as Tunisia, which imports most of its energy needs in foreign currency. Tunisia is highly dependent on imports, and Ukrainian wheat accounted for half of its wheat imports in 2019.[302] The FAO's food price index soared after Russia's invasion to levels 50% above the average of pre-pandemic years.[303]

In 2022, Tunisia's balance of trade deficit worsened by 67% to TND 9.92bn (equivalent to $3.1bn), from a deficit of TND 5.94bn ($1.85bn) in 2021.[304] In 2021, the import and export values of the agriculture and food sector in Tunisia were approximately TND 7.8bn and TND 5.1bn ($2.7bn and $1.8bn), respectively. Since 2018, the country's agriculture and food industry has had a trade deficit, with the value of imports exceeding that of exports each year.[305]

According to the National Observatory of Agriculture (Onagri), the food trade balance has almost doubled in the past 12 months, posting a deficit of TND 1.56bn in June 2022 (equivalent to $487m), against TND 806.9m ($252m) during the same period in 2021.[306] In 2022, the average import prices of durum wheat reached $665/tonne, up from $435 in 2021 and $327 in 2020. Likewise, import prices for 1 tonne of soft (common) wheat increased from $231 in 2020, to $307 in 2021 and $416 in 2022.[307]

In 2021, soft wheat was the leading food product imported into Tunisia, with an import value of around TND 1.1bn ($385m), an increase on the previous year. Other key agricultural and food products imported between 2020 and 2021 were barley, corn, durum wheat, and vegetable oils.[308] In response to the high international prices and challenging domestic fiscal environment, in June 2022 the World Bank announced a $130m loan to help Tunisia finance soft wheat imports for bread production and barley imports for feed.[309]

In 2022, bakeries started rationing bread and food markets have been rationing flour-based products, while the price of the staple Tunisian baguette was raised from 190 millimes to 250 or 500 millimes. There was reportedly also an increased shortage of subsidized flour.[310] Even prior to the Russia-Ukraine conflict, Tunisia was facing severe flour shortages due to difficulties in securing import contracts, which undermined its credibility as a trading partner. But with the war, the price of wheat doubled. Through devaluation, purchasing goods became more expensive given Tunisia's reliance on imports.[311]

According to experts, the EU's Common Agriculture Policy forced farmers in the Global South, including in Tunisia, to switch to cash crops, which are very water and energy intensive,[312] but gave the country dollar and euro revenues to pay for energy imports. This resulted in an external debt trap, making achieving food self-sufficiency very challenging. Thus, while Tunisia has water scarcity compared with other countries, it currently exports water-intensive crops, reinforcing its dependence on unfavourable loans from international creditors that further undermine agricultural diversification.

There is an urgent need for a radical shift in the Tunisian economy, especially investment in food and energy sovereignty, which must be tied to a coherent economic policy. The Food Sovereignty and Environment Observatory (OSAE), tackling Tunisia's dependence on wheat imports, has advocated for a food sovereignty policy so Tunisia can feed itself without relying on foreign loans.[313]

4.3 CONSIDERATIONS FOR FUTURE SDRS

Based on our analysis of Tunisia's most pressing socio-economic issues, we can highlight two policy priorities that could be considered for future SDRs:

using future SDRs to implement a working industrial and agricultural strategy for the medium to long term that seeks to strengthen local production with the aim of enhancing food self-sufficiency and sovereignty. This includes transforming the food sector, increasing production, and creating the domestic basis for industrialization.

executing debt cancellation via sovereign debt buybacks with large effective reductions with respect to nominal value, financed by SDRs.

4.3.1 FOOD SELF-SUFFICIENCY AND SOVEREIGNTY, AND INDUSTRIALIZATION EFFICIENCY

The coalescence of recent crises has highlighted the stark reality of Tunisia's dependence on imports to feed its population. Tunisia does not produce enough processed agricultural products, and local agriculture depends on imported inputs for production, and therefore becomes dependent on foreign exchange.[314] The continuing growth of food imports also highlights the constraints posed by global capital and unchecked free trade agreements. Investing in Tunisia's food self-sufficiency and sovereignty, especially in grains, could help to decrease its dependency on volatile world markets.

Historically, food prices and political instability often coincide. Food prices in North Africa, especially in Tunisia, have reached an all-time high, exceeding those of 2011, prior to the Arab Spring uprisings.[315]

Future SDR allocations could also invest in national industries and industrialization policies that provide added value to Tunisia and address local needs. It is important for Tunisia to diversify and improve productive capacities and economic opportunities for producers, and to rethink resource management, including around water. In December 2021, the government signed two projects with the UN to improve food security and resilience to climate change through a National Action Plan for the agricultural sector in Tunisia.[316] The resulting Plan is pending, and it is yet to be seen if it adequately responds to the challenges of the Tunisian food system and broader economy.

4.3.2 DEBT CANCELLATION

IMF loan programmes since the 2011 revolution included conditionalities stipulating floating the exchange rate, which led to the Tunisian dinar losing approximately 40% of its value. This put public enterprises into financial difficulties, such that the exchange rate on outstanding debt was five times greater than total disbursements received from the IMF over the same period.[317]

Tunisia's foreign public debt has increased substantially, from 41% of GDP in 2010 to 82% in 2018,[318] with its debt payments similarly increasing since 2017. When Tunisia signed a major loan programme with the IMF in 2016, just over 5% of its GDP went to servicing its debt; but this has increased year-on-year, to almost 12% by 2021.[319] For at least a year, Tunisia has been paying more in foreign debt repayments than it is receiving in foreign loans, according to the Finance Ministry.[320] New loans are going towards relieving old debts: a debt trap.

In January 2018, the government reduced spending through public sector recruitment and wage freezes, and increased state revenues through indirect consumption taxes. Price increases were compounded by a rise in VAT and other consumption taxes, which had a detrimental effect on the lower and middle classes.[321]

Since the IMF loan ended in 2020, lenders have been reluctant to lend to Tunisia until it signs a new IMF loan premised on cutting public spending. Without a new IMF agreement, Tunisia is being shut out of the international credit market, which could lead to more payment issues for vital goods such as food.[322]

The IMF insists that it does not impose conditions on its lenders;[323] however, the leaked Tunisian document states that an increase in energy prices is a 'precondition for the conclusion of an agreement with the IMF.'[324]

A recent call for debt cancellation came during the COVID-19 crisis from the Observatoire Tunisien de L'Economie (OTE), along with other signatories from around the world, who noted that spending on debt repayments by Global South countries was at the expense of healthcare spending.[325] Nobel Laureate Joseph Stiglitz has proposed using SDRs for debt relief,[326] while at least one government, El Salvador, is in part using SDRs to finance debt buybacks at a discounted price, that is, to reduce debt.[327]

4.4 CONCLUSION

The main issue for Tunisia is the pressing need to break the cycle of import dependency. Even though, like other MENA countries, it suffers a dearth of foreign reserves, the measures that are put to consideration could help enhance Tunisia's hard currency reserves in the long run, as well as provide important financial resources that could contribute to the creation of major economic projects that provide jobs and added financial value to the country.

5 IRAQ

Iraq received 1.66bn SDRs in the 2021 IMF allocation, deposited in the Central Bank of Iraq (CBI) on behalf of the Ministry of Finance in the last quarter of 2021. The CBI converted the SDR units into US dollars, with a value of $2.36bn.[328] This chapter covers the legal framework used by Iraq to transfer the SDRs for fiscal use and discusses the best uses of future SDRs in the context of Iraq's economy.

5.1 IRAQ AND SDRS: OVERVIEW OF THE LEGAL FEASIBILITY OF THEIR FISCAL USE

This section analyses the legal framework in Iraq, the role of the CBI as the fiscal agent of the SDRs, and Iraqi budget law, to determine how the SDRs were incorporated into the fiscal framework.

5.1.1 THE CENTRAL BANK AS FISCAL AGENT

The CBI, the fiscal agent of the Iraqi government,[329] took over the SDR allocation in the account opened with the Federal Reserve Bank in New York in foreign currency, and the CBI recorded an amount in Iraqi dinars in an internal account.[330] The Accounting Department of the Ministry of Finance considered it a transfer revenue within the revenues of the 2021 federal general budget.[331]

Despite this, the CBI is legally independent from the government and does not receive any direction regarding the conduct of its monetary policy to achieve economic stability. Article 26 of the Central Bank of Iraq Law stipulates that the CBI is prohibited from lending to the government, either directly or indirectly. However, it consults with the government on coordinating economic policies. The CBI is accountable only to the House of Representatives, according to the 2005 constitution.

According to Article 26, the CBI is allowed to buy and sell government debt instruments through the secondary market only and within open market operations. The CBI has provided extensive finance to the government in the last few years.[332] The fifth section of the Central Bank of Iraq Law, particularly Article 27 related to the management of foreign reserves, explicitly refers to the SDRs within the management of the official foreign reserves of the country whose official fiscal agent (i.e. the CBI) undertakes as a state bank. The CBI is therefore also the state bank according to the Central Bank of Iraq Law.

5.1.2 LEGAL AVENUES FOR SDR TRANSFER

The Iraqi legal context allowed the SDR transfer from the CBI to the government's budget through a series of operations. As the CBI is the financial agent of the government, it has powers to manage the official foreign reserves of the state, in accordance with Article 27 of the Central Bank of Iraq Law, including Iraq's share of the SDR allocations on behalf of the Ministry of Finance.

The CBI converted the SDRs into US dollars, with a value of $2.36bn,[333] and a domestic currency equivalent of the SDRs was transferred to Iraq's budget. Despite the fact that the facility granted to Iraq is not considered a loan because it includes a non-reimbursable element, the allocated SDRs were recorded in the budget as a 'very long-term loan'. The 2021 budget law included one financing source in the form of long-term loans to bridge the deficit, of approximately IQD 30tn ($20.5bn).[334]

The IMF does not have an ongoing programme with Iraq. On the revenue side of the budget, approximately $6bn was programmed as a loan from the IMF. Because there were no IMF loans in the pipeline, it is reasonable to conclude that the 'very long-term loan' from the IMF corresponds to the SDR allocation.

5.2 POLICY OPTIONS

This section explores policy options for the use of future SDRs in Iraq, based on desk research from official websites and publications, interviews with academics and economic analysts, and an online workshop with Iraqi and MENA civil society.[335]

The main findings are a general lack of transparency in Iraqi institutions, and a need for more long-term investment in developing human capital, reducing poverty, and improving the health sector. SDRs should be used to invest in knowledge-intensive public administration transformation, as a key first step to overcoming some of the most pressing aspects of Iraq's rent economy, which is highly dependent on oil revenues.

5.2.1 ECONOMIC BACKGROUND

Iraq has an abundance of oil and other mineral resources, and its exports and budget depend on oil sales. Iraq's oil revenues account for 92% of its total budget revenues. However, almost a quarter of Iraq's 42 million population are below the poverty line.[336] The poverty rate in some southern governorates, such as Al-Muthana Governorate, is over 50%.[337] According to the Ministry of Planning, in 2018 unemployment rates were 13.8% among all adults, and 27.5% among young people (15–24 years old).[338] Unemployment rates increased dramatically due to the COVID-19 lockdown, with ILO estimating that the overall rate was 14.2% in 2021.[339] Iraqi economists interviewed for this research suggest a much higher rate of between 25% to 30%.

The reasons for the divergence between impressions and reality are clear. Since the 2003 invasion, the Iraqi economy has faced three external and internal shocks. The first was in 2009, following the international banking and financial crises. The second was in 2015/2016, as international oil prices plummeted to around $28 per barrel and Iraq's oil revenue declined to less than 50% of the levels in previous years. The third and most severe shock was in 2020, following the COVID-19 lockdown of the world economy and sharp reduction in Iraq's oil revenues.[340] In 2020, Iraq's budget deficit was a huge 20% of GDP. The deficit was primarily covered with monetary financing from the CBI and other state-owned banks.[341]

Iraq's domestic public debt increased from IQD 4.2tn (equivalent to $2.87bn) [342] at the beginning of 2014 to around IQD 70tn ($47bn) in March 2022.[343] The external debt is estimated to be around $29bn, plus unsettled debt to some Arab Gulf countries of around $40bn.[344] In periods of high oil prices and related high budget revenues, many resources have been wasted due to fiscal and macro-economic mismanagement. The benefits of high GDP growth rates in some years are widely perceived to have not been fairly distributed to the governorates or the population of Iraq.[345]

Neither the CBI nor the Ministry of Finance informed the Iraqi public about the receipt or utilization of the new SDR allocation. There is general opacity as to government revenue and expenses. This confirms complaints from Iraqi civil society about the lack of transparency of government institutions and adds to the lack of trust due to corruption among political parties.[346]

Given the size of the 2020 budget deficit and the monetary financing the CBI had already been applying, the SDRs were not significant either in quantity or in procedure. Considering the magnitude of dollar flows attributable to the volatility in oil prices, Iraq's SDR allocation was relatively small. It was also relatively small given Iraq's systemic needs in terms of education, health, water, sanitation and irrigation infrastructure.

Iraq did not need to use the new SDRs for debt repayment, as total public debt in 2021 amounted to $79bn and the debt to GDP ratio was 45%, much below the Eurozone standard of 65%.[347]

5.2.2 HEALTH SECTOR

The new SDR allocation for Iraq equated to 119% of the actual spending of the Ministry of Health in 2021. This percentage decreases if health spending in the Kurdistan Region is also considered.

Prior to the COVID-19 pandemic the standard of public health care in Iraq was far below the level of most other countries in the MENA region, and since then it has continued to deteriorate. During 2020 and 2021, severe fires in two main hospitals caused the deaths of many patients, including infants. These were in addition to many smaller fires due to careless management and a lack of financial resources for preventative measures. In 2012, many new government projects included building new hospitals. Some 18 large new hospitals with a capacity of 400 beds are still not finished, due to a lack of financial resources and mismanagement. The management and services of existing hospitals are also unprofessional.[348] Between 2000 and 2017 the number of hospital beds (per 1,000 people) did not change substantially, ranging from 1.2 to 1.3.[349]

Actual spending on the health care sector as a percentage of total public expenditure has increased from 1.5% in 2019 to 2.8% in 2021, and as a percentage of GDP from 0.56% to 1.04% during the same period but remains below the international standard (Table 8).

There is a need to invest in healthcare, but most healthcare spending is recurrent (e.g., wages and salaries), thus SDRs would do little in that respect. SDRs could be used for the capital expenditure (one-time equipment or infrastructure investments) components of the healthcare sector.

Table 9 Share of actual government spending by the Ministry of Health (% of budget and % GDP)

	2019	**2020**	**2021**
IQD bn	1,666	1,727	2,877
$bn	1.14	1.18	1.97
As percentage of: - of total expenditure - of GDP	 1.5% 0.56%	 2.3% 0.87%	 2.8% 1.04%
New SDR allocation (IQD bn)			3,426

Source: Ministry of Finance and Central Organization for Statistics in Iraq.[350]

5.2.3 BASIC INFRASTRUCTURE FOR POVERTY REDUCTION

The Ministry of Planning, in cooperation with the World Bank, conducted a survey in 2020 about poverty in Iraq. Almost 25% of the population (10 million people) were below the poverty line. The most affected regions were the governorates of Al-Muthenna (52%), Al-Diwaniya (49%), Dhi Qar (48%) and Anbar (40%).[351] A previous Ministry of Planning survey in 2018 showed that 18% of the population were below the poverty line.

In 2018, the Ministry of Planning formulated a strategy for poverty reduction. The Fund for Social Development builds basic infrastructure in rural areas and small villages, and low-cost housing for internally displaced persons and marginalized people who live in precarious conditions outside large cities. SDRs could contribute to the apparently very modest financial allocation for these programmes.[352]

5.2.4 PUBLIC SECTOR AND HUMAN TALENT

The IMF calls the Iraqi state 'the employer of first resort,[353] and argues that Iraqi youth is primarily hired by the public sector. The World Bank warns that Iraq has a human capital crisis, even without taking into account the 'brain drain' as a consequence of war.[354] It focuses on the dire needs of the education sector, including broad infrastructure investments and adequate numbers of teachers.

In recent years, government expenditure on education in Iraq has decreased relative to total government spending and GDP. While education expenditure saw a slight increase in 2019, reaching IQD 10.8tn (equivalent to $8.64bn), 93% of the total amount was paid in wages and employee compensation. This expenditure only accounted for 3.9% of GDP that year, and 9.7% of total government expenditure, the lowest in the past five years.[355] Iraq's spending per student is also considerably higher for university education than for pre-university, which can be attributed to the very low university enrolment rates across the country – about 8% in 2019. In 2017 – the latest year for which data are available – Iraq's spending per student in higher education was, on average, one of the highest in the region at IQD 3m ($2,562 at the 2017 rate) and over three times its spending per student in pre-university education, which was one of the lowest in the region at IQD 843,000 ($718.70 at the 2017 rate).[356] The relatively small government budget on education, paired with this gap in allocation, demonstrates a lack of efficiency in public spending on education.

The IMF and the World Bank papers emphasize that the priority is austerity for the sake of sustainable public finances, but the recent increase in oil prices has allowed Iraq to bounce back quickly after the pandemic shock and it again has both balance-of-payments and fiscal surpluses. The World Bank calls for investment in health, education and social protection. Therefore, the SDRs can be better targeted at a key development issue: the lack of a critical mass of technocratic cadres with committed links to public sector institutions. This would maximize the impact of the SDRs through a conscious effort to invest in knowledge for the public sector and for development solutions.

SDRs could be the initial building block of a new 'knowledge and development' sovereign wealth fund, that could invest in sizable multi-year grants for vocational training, university education and research institutions with the goal of developing highly-educated and committed technocratic young professionals specialized in Iraq's public sector and in its most critical development challenges. This cadre-based approach to the human capital crisis is important because it allows for a more independent and sustainable path to contribute to solutions.

At a hypothetical cost of $100,000 per cadre, the SDR-backed wealth fund could potentially invest in over 23,000 cadres. This is a large number for any country, and if adequately managed, could be a gamechanger in a matter of a few years.

The research showed consensus that a key issue is the inefficiency and inefficacy of public administration – with a big obstacle being corruption and disorder. Therefore, it is crucial that Iraqi civil society has a voice in the prospective sovereign wealth fund. It would be important for these cadres, as part of their training and research, to undertake specialized challenges issued by a Planning Council comprising several ministries – including the Ministry of Higher Education and Scientific Research and the Ministry of Science and Technology – but led by the Ministry of Planning. Promoting the visibility of these cadres in domestic media and spaces of social validation is key.

5.3 CONSIDERATIONS FOR FUTURE SDRS

The main development issues in Iraq are not about a lack of financial resources, as coping strategies have been adequately developed, including financing from the CBI. The foreseeable future will include a windfall of oil revenue for Iraq. The context of war, regional tensions and political instability plays a role in the economic model and its challenges. Climate change poses a direct threat to the health and well-being of large parts of the country.[357]

Health, housing and infrastructure can be covered with regular oil revenues and the regular spending cycle. The use of SDRs should bypass legacy spending patterns and become a source of investment in future cadres of the Iraqi public sector as engines of development, and whose maturity would then change the inadequate spending cycles. The instrument proposed is a knowledge and development sovereign wealth fund which heavily invests in knowledge – the only infinitely renewable resource.

6 GENERAL CONCLUSIONS AND CONSIDERATIONS FOR FUTURE SDRS

6.1 CONCLUSIONS

SDRs are a debtless form of support for developing countries. While the initial distribution of the allocation was unequal because it followed IMF quotas – and thus voting power – the use of SDRs disproportionately benefits developing countries because they need the liquidity much more.

The MENA region received $35bn worth of SDRs in 2021. This most recent allocation of SDRs was used predominantly for budget purposes, breaking the paradigm that they could only be used for international liquidity purposes. Some countries have used these SDRs to pay back old debts to the IMF – thus representing a source of debt relief – while others have exchanged them for hard currency to cover balance of payments needs. Most MENA countries made use of the SDRs, with the SDRs transferred to the government budgets in all four countries studied. Despite advice that initially deterred governments from coordinating between central banks and ministries of finance, governments in Egypt, Iraq, Lebanon and Tunisia found legal and accounting paths to make fiscal use of the SDRs.

Our modelling suggested that the impact of the SDR allocation could have been multiplied several times over if countries had reached a timely decision on a TRIPS waiver for pandemic-related vaccines and technology. This shows that a global public good such an issuance of SDRs works best when coupled with other public goods.

The absolute numbers of the SDR allocation are large and – by far – were the most significant debtless source of support for developing countries: Table 5 provides examples of the size of the allocation relative to some key macro-economic indicators in each of the four countries. However, compared with the scale of the crisis' effect on public finances they still feel too small. Rich countries had their own monetary power – hard currency issuance or cross-border swaps – to deal with the economic effects of the pandemic, and their spending was much larger – both in absolute and in relative terms – than that of developing countries.

The 1965 UNCTAD Report of the Group of Experts on International Monetary Issues and the Developing Countries proposed linking SDRs to development. The development link was never approved.[358] Along the lines of the original intention of SDRs, the Prime Minister of Barbados has called for a $500bn yearly SDR issuance for climate financing.[359] The US House of Representatives has passed legislation that directs the USA to support an additional $2tn SDR allocation.[360] An allocation of the magnitude proposed by US lawmakers would provide additional financing for developing economies in the order of $660bn.

Civil society at the national levels was not aware of or prepared for SDRs, and there was virtually no advocacy in most countries when SDRs were distributed.

The case studies highlighted the varying spending needs that countries could use SDRs for, with a special emphasis by experts on the need to invest in sustainable development such as in the agriculture, food and energy sectors. Civil society groups pressed for investments in healthcare and social protection schemes.

6.2 CONSIDERATIONS FOR FUTURE SDRS

The legal and accounting paths found between ministries and central banks should become more permanent arrangements, so that developing countries can cope with external shocks without having to submit to international capital markets or foreign indebtedness. These arrangements should have adequate safeguards to avoid malpractice. Civil society should take advantage of the SDRs to increase their monitoring of the balance-of-payments policy of central banks and demand an increase of transparency and democratic accountability of central banks, at least to the same degree of scrutiny that government budgets face.

Given the lack of international monetary power of developing countries, the SDR allocations should be significantly larger. Not even a donation of the committed portion of rich countries' SDRs would compensate for a new issuance of the same amount of SDRs; much less so a condition-filled loan from rich countries via the IMF. A larger and faster issuance and allocation of SDRs is needed to both partially cover the effects of the pandemic and to cover the effects of stagflation, debt crises, and food and energy crises. Governments and civil society around the world should support the original spirit of the SDRs as they were designed in the 1960s and request that SDRs be issued periodically; given the impact multiple crises (climate change, Covid-19, the Ukraine war, and the food and energy price crises), will have on public finances for some years to come, on top of the pre-existing SDG and climate financing gaps, SDRs should be issued annually'. Unused SDRs should be unconditionally rechannelled from developed countries to developing countries – and regional mechanisms will be important to ensure that this occurs. Efforts are underway – most notably by the African Development Bank – to re-channel rich countries' SDRs as concessional loans to African countries. North African countries might benefit from if this effort is successful, with the caveat that it is nonetheless more debt.

Civil society should advocate that legislation is in place for future issuances of SDRs, and demand that SDRs be invested using criteria aligned to ensure strategic impact, be it for times of crises or carefully planned development needs, in consultation with civil society and including accountability and transparency mechanisms. SDRs should be invested to maximise the impact of one-time spending, and not as a conventional source of regular expenditure.

ANNEXES

ANNEX 1 – RESEARCH METHODOLOGY

This report aimed to produce in-depth research on SDR fiscal spending in Lebanon, Egypt, Iraq and Tunisia. To do so, it first examined the legal steps needed and/or already taken to shift SDRs from central banks to government budgets in each country. It then outlined policy options on SDR spending in each country, based on the principles of fiscal justice and sustainable social spending.

For each country, the context and recommendations developed are a result of public record research, analyses of legal frameworks for SDR disbursement and of socio-economic indicators, as well as consultations with key experts and a workshop with representatives of local CSOs.

METHODOLOGY

DESK RESEARCH ON THE LEGAL FEASIBILITY OF USE OF SDRS

The first step was public record research to understand the legal framework (monetary and fiscal) of SDR disbursement in each country, based on a guiding questionnaire. This was mainly researching government websites, central bank websites, IMF legal databases, Article IV reports and BIS central bank hub, complemented by interviews with specialists or government officials.

Method:

- Identified relevant laws, regulations and agreements between institutions relating to central bank independence, central bank operations regarding government, central bank international reserve assets, and any mention of SDRs.
- Analysed any additional mentions of SDRs in government or official websites, as well as in specialized commentary or media publications.
- Outlined the political context for an SDR transfer law.
- Defined possible pathways for the fiscal use of SDRs, including budget steps.

DESK RESEARCH ON SDR SPENDING

To better understand the use of SDRs to date in each country, desk research was also conducted to shed light on what has been done, what the outcomes were, and what can still be done. This was based on the assessments of the use of SDRs in each country.

Method:

- Pinpointed exact dates/week of SDR exchange/transfer/use.
- Identified any insights on the use of SDRs to date in each country through relevant media discussions, resolutions, reports, and budget printouts.
- Uncovered available information on the outcomes of SDR exchange/ transfer/use in each country.

CONSULTATIONS

After gathering the available information on the legal frameworks and use of SDRs in the four countries, consultations were held to present and discuss findings with relevant stakeholders, and to answer any pending questions.

The approach for each country differed slightly in terms of the number of consultations, the types of interviews conducted, and the general purpose of each interview. However, at least three consultations were held for each country. Hybrid interviews were arranged with experts, government officials, staff from international financial institutions or multilateral agencies, specialists, analysts, and relevant academics.

Method:

- Addressed any questions that were left unanswered and shed light on the wider socio-economic context of the country.
- Confirmed desk research findings on monetary and fiscal legal frameworks for SDR disbursement.
- Gathered views on each country's pressing issues and on the most effective policy options for SDR spending.
- Discussed the relevance and magnitude of one-time asset-creation investments, direct one-time social spending, revolving funds via credit, small, earmarked funds for domestic and international rule changes such as more SDRs, tax justice or debt relief.

WORKSHOP

After drafting the background of SDR spending and recommendations, a workshop was hosted in each country to present the findings and proposed policy options to local experts and/or CSOs.

The aim was to empower CSOs with legally feasible tools to tactically demand the use of SDRs, but also to discuss the recommendations that had been developed. These workshops were hybrid, up to three hours long, and organized in the same way across all four countries.

Method:

- Presented an overview of SDRs, amounts, experiences elsewhere, general fiscal space options, and the domestic political economy of fiscal SDR spending.
- Presented a country-specific overview of the social and economic context and a base proposal of optimum spending of SDRs, based on the desk research and consultations.
- Provided a space for questions on SDRs and feedback on the presentations – identified and discussed social spending needs and priorities with a group of experts and CSO representatives.

REPORT ON CONSULTATIONS AND WORKSHOP – LEBANON

METHODOLOGY

The researcher held five consultations and a national workshop in Lebanon. The consultations aimed to gain insights on, and confirm findings pertaining to, the monetary and fiscal legal frameworks for SDRs disbursement in Lebanon and gather views on the most effective policy options for SDR-equivalent spending. After drafting the recommendations, a national workshop was hosted to present findings and proposed policy options. The workshop also aimed to assess CSOs' positions on the recommendations and identify additional social spending needs and priorities.

SUMMARY OF CONSULTATIONS AND WORKSHOPS

- To maximize their impact, SDRs must not become another piecemeal measure and should instead form part of an overall reform package for Lebanon.
- Being assets themselves, the use of SDRs should prioritize asset-creating investments that could, directly or indirectly, generate net future income in foreign currency, which would help bring down the deficit of the balance of payments.
- Lebanon requires legal and administrative mechanisms to monitor the use of SDRs by the government and the central bank.
- It is highly recommended that the spending of SDRs considers a participatory approach with specialists and CSOs to advise on and monitor how the amount is being spent.
- The Lebanese government's policy goals on what the SDRs will be spent on and over what timeframes remain ambiguous to date.
- Until there is a credible, effective economic reform and recovery plan – established and managed by a truly reformist government – the SDRs and the remaining foreign exchange holdings will be wasted on unproductive, useless spending.

CONSULTATIONS

1. Expert consulted: Karim Daher

   Position: Lawyer and Co-Managing Partner at HBD-T Law Firm
   Date of consultation: January 2022
   Type of consultation: Semi-structured interview

2. Expert consulted: Sabine Kik

   Position: Head of Private Legal Department, Faculty of Law, Lebanese University
   Date of consultation: January 2022
   Type of consultation: Semi-structured interview

3. Expert consulted: Lara Saade

   Position: Lawyer and independent legal and constitutional expert
   Date of consultation: January 2022
   Type of consultation: Semi-structured interview

4. Expert consulted: Kamal Hamdan

   Position: Managing Director at Consultation and Research Institute
   Date of consultation: March 2022
   Type of consultation: Unstructured interview

5. Expert consulted: Sibylle Rizk

   Position: Director of Public Policy at Kulluna Irada
   Date of consultation: March 2022
   Type of consultation: Unstructured interview

WORKSHOP

Date of workshop: 11 May 2022

Attendees: 20 participants representing and regional and local CSOs as well as ESCWA and Oxfam

REPORT ON CONSULTATIONS AND WORKSHOP – EGYPT

METHODOLOGY

The researcher held three consultations and a workshop in Egypt. The consultations aimed to understand the wider socio-economic context of the country and arrive at appropriate policy recommendations. After drafting the recommendations, a workshop was hosted to present findings and proposed policy options, identify and discuss social spending needs and priorities with experts and/or CSOs, and receive feedback on policy options.

SUMMARY OF CONSULTATIONS AND WORKSHOPS

Egypt is currently undergoing various socio-economic crises, mainly related to foreign debt, food security and capital flight. The consultations and public record research found that SDRs would be best spent on enhancing social protection in the form of education and health support, as well as putting mechanisms in place to enhance food sovereignty.

CONSULTATIONS

1. Expert consulted: Osama Diab

   Position: Economist/ Lecturer at KU Leuven University
   Date of consultation: 17 January 2022
   Type of consultation: Structured interview
   Interview questions: on different socio-economic indicators

2. Expert consulted: Beesan Kassab

   Position: Economics Reporter, Mada Masr
   Date of consultation: 1 February 2022
   Type of consultation: Semi-structured interview
   Interview questions: on different socio-economic indicators

3. Expert consulted: Salma Hussein

   Position: Senior Reporter, macro-economics beat – Al-Ahram
   Date of consultation: 4 February 2022
   Type of consultation: Unstructured interview
   Interview questions: on different socio-economic indicators

WORKSHOP

Date of workshop: 14 June 2022

Attendees: 21 participants representing and regional and local CSOs as well as ESCWA and Oxfam

REPORT ON CONSULTATIONS AND WORKSHOP – TUNISIA

METHODOLOGY

The researcher held three consultations and a workshop in Tunisia. The consultations aimed to understand the wider socio-economic context of the country, and arrive at appropriate policy recommendations. After drafting the recommendations, a workshop was hosted to present findings and proposed policy options, identify and discuss social spending needs and priorities with experts and/or CSOs, and receive feedback on policy options.

SUMMARY OF CONSULTATIONS AND WORKSHOPS

Tunisia is currently undergoing a number of socio-economic crises, mainly related to foreign debt and food security. The consultations and public record research found that SDRs would be best spent on enhancing social protection in the form of putting mechanisms in place to enhance food sovereignty, as well as start a conversation regarding debt cancellation.

CONSULTATIONS

1. Expert consulted: Fadil Aliriza

   Position: Founder and Editor-in-Chief of Meshkal.org, an independent news website
   Date of consultation: 3 June 2022
   Type of consultation: Structured interview
   Interview questions: mainly on different socio-economic indicators

2. Expert consulted: Fadhel Kaboub

   Position: Associate Professor of Economics at Denison University
   Date of consultation: 9 June 2022
   Type of consultation: Structured interview
   Interview questions: on different socio-economic indicators

3. Expert consulted: Salma Hussein

   Position: Co-founder and President of the Tunisian Observatory of the Economy
   Date of consultation: 19 June 2022
   Type of consultation: Structured interview
   Interview questions: on different socio-economic indicators

WORKSHOP

Date of workshop: 8 September 2022

Attendees: 22 participants representing and regional and local CSOs as well as ESCWA and Oxfam

REPORT ON CONSULTATIONS AND WORKSHOP – IRAQ

METHODOLOGY

The researcher studied various laws related to the mandate of the CBI and the Ministry of Finance, as well as publications from both institutions related to financial flows in the balance of payments and the budget.

More than 10 consultations were also held with various stakeholders. These aimed to gain insights on the monetary and fiscal legal frameworks for SDR disbursement and address the large gaps in Iraq's economy. After drafting the recommendations, a workshop was hosted to present the findings and recommendations, receive feedback from local CSOs on proposed policy options, and identify and reflect on what other opportunity SDRs could present in the context of Iraq.

SUMMARY OF CONSULTATIONS AND WORKSHOPS

The consultations and workshops enabled findings to be confirmed and potential options raised on how SDRs may be spent in Iraq. The consultations helped determine the inner workings of the SDRs and the central bank budget process. The research confirmed the opacity of the current status of SDRs in the country. The workshop highlighted a general lack of transparency in Iraqi institutions, and a need for more long-term investment on developing human capital, reducing poverty and improving the health sector. It is recommended that a sovereign wealth fund be established that invests heavily in basic infrastructure and human development.

CONSULTATIONS

1. Expert consulted: Dr Mudher Mohammed Saleh

   Position: Former Deputy Governor of the CBI, currently Member of the Board of Directors of CBI and Financial Advisor to the Prime Minister

Date of consultation: 23 December 2021; 4 January 2022; 11 June 2022
Type of consultation: Exchange of information and views on the subject matters

2. Expert consulted: Dr Ahmed Ibraihi Ali

   Position: Member of the Board of Directors of CBI
   Date of consultation: 5 January 2022; 17 May 2022
   Type of consultation: Exchange of information and views on the subject matters

3. Expert consulted: Dr Mahmoud Daghir

   Position: Former General Director at CBI, presently private consultant for banking
   Date of consultation: 5 January 2022; 17 May 2022
   Type of consultation: Exchange of information and views on the subject matters

4. Expert consulted: Prof. Dr Kamil Alawi Al-Fatlawi

   Position: University Professor for Public Finance at the University of Kufa
   Date of consultation: 5. January 2022
   Type of consultation: Semi-structured interview on budget law

5. Expert consulted: Prof. Dr Haydar Toama

   Position: University Professor for Public Finance at the University of Karbala
   Date of consultation: 5 February 2022
   Type of consultation: Semi-structured interview on fiscal policy

WORKSHOP

Date of workshop: 22 June 2022

Attendees: 27 participants representing and regional and local CSOs as well as ESCWA and Oxfam.

ANNEX 2

PRESIDENTIAL DECREE NO. 2021-116 OF 14 SEPTEMBER 2021 (WITH ENGLISH TRANSLATION)

أمر رئاسي عدد 116 لسنة 2021 مؤرخ في 14 سبتمبر 2021 يتعلق بالموافقة على الإحالة لفائدة الدولة لمخصصات حقوق السحب الخاصة المسندة من صندوق النقد الدولي إلى الدولة التونسية، موضوع الاتفاقية المبرمة بتاريخ 14 سبتمبر 2021 بين وزارة الاقتصاد والمالية ودعم الاستثمار والبنك المركزي التونسي.	Presidential Decree No. 2021-116 of 14 September 2021, approving the retrocession to the State of the allocation of Special Drawing Rights granted by the International Monetary Fund to Tunisia, subject of the agreement concluded on 14 September 2021, between the Ministry of Economy, Finance and Investment Support and the Central Bank of Tunisia.
إن رئيس الجمهورية،	The president of the Republic,
بعد الاطلاع على الدستور وخاصة على الفصل 80 منه،	Having regard to the Constitution, in particular its Article 80,
وعلى القانون عدد 71 لسنة 1977 المؤرخ في 7 ديسمبر 1977 المتعلق بضبط علاقات البنك المركزي التونسي مع صندوق النقد الدولي من جهة وصندوق النقد العربي من جهة أخرى،	Having regard to Law No. 77-71 of 7 December 1977, establishing the relations between the Central Bank of Tunisia on the one hand and the International Monetary Fund and the Arab Monetary Fund on the other hand,
وعلى القانون عدد 29 لسنة 2016 المؤرخ في 5 أفريل 2016 المتعلق بتنظيم المصادقة على المعاهدات،	Having regard to Law No. 2016-29 of 5 April 2016, relating to the ratification of treaties,
وعلى الأمر الرئاسي عدد 69 لسنة 2021 المؤرخ في 26 جويلية 2021 المتعلق بإعفاء رئيس الحكومة وأعضاء بالحكومة،	Having regard to Presidential Decree No. 2021-69 of 26 July 2021, terminating the functions of the Head of Government and members of the Government,
وعلى الأمر الرئاسي عدد 80 لسنة 2021 المؤرخ في 29 جويلية 2021 المتعلق بتعليق اختصاصات مجلس نواب الشعب،	Having regard to Presidential Decree No. 2021-80 of 29 July 2021, relating to the suspension of the powers of the Assembly of People's Representatives,
وعلى الأمر الرئاسي عدد 85 لسنة 2021 المؤرخ في 2 أوت 2021 المتعلق بتسمية مكلفة بتسيير وزارة الاقتصاد والمالية ودعم الاستثمار،	Having regard to Presidential Decree No. 2021-85 of 2 August 2021, appointing an official from the Ministry of Economy, Finance, and Investment Support,
وعلى الأمر الرئاسي عدد 109 لسنة 2021 المؤرخ في 24 أوت 2021 المتعلق بالتمديد في التدابير الاستثنائية المتعلقة بتعليق اختصاصات مجلس نواب الشعب،	Having regard to Presidential Decree No. 2021-109 of 24 August 2021, relating to the extension of exceptional measures relating to the suspension of the powers of the Assembly of People's Representatives,
وعلى الاتفاقية المبرمة بتاريخ 14 سبتمبر 2021 بين وزارة الاقتصاد والمالية ودعم الاستثمار والبنك المركزي التونسي الملحقة.	
يصدر الأمر الرئاسي الآتي نصه:	

الفصل الأول ـ تتم الموافقة على الإحالة لفائدة الدولة للمخصصات بمبلغ خمسمائة واثنين وعشرين مليون وخمسمائة وتسعة وأربعين ألفا وستمائة وثمانين (522 680.549) من حقوق السحب الخاصة المسندة من صندوق النقد الدولي إلى الدولة التونسية، موضوع الاتفاقية الملحقة بهذا الأمر الرئاسي، والمبرمة بتاريخ 14 سبتمبر 2021 بين وزارة الاقتصاد والمالية ودعم الاستثمار والبنك المركزي التونسي. وتسدد الدولة التونسية العمولة الموظفة على استعمال المبلغ المذكور لفائدة صندوق النقد الدولي وكذلك أصل المبلغ في حالة إلغاء المخصصات، وفقا للإجراءات المعمول بها لدى الصندوق والمحددة بالاتفاقية المذكورة. الفصل 2 ـ ينشر هذا الأمر الرئاسي بالرائد الرسمي للجمهورية التونسية. تونس في 14 سبتمبر 2021 . رئيس الجمهورية قيس سعيد	Having regard to the agreement concluded on 14 September 2021, between the Ministry of Economy, Finance and Investment Support and the Central Bank of Tunisia attached hereto. Takes the following Presidential decree: Article 1 – Is approved, the retrocession to the State of the allocation of SDRs in the amount of 522,549,680 SDRs granted to Tunisia by the IMF, subject of the agreement annexed to this Presidential Decree, concluded on 14 September 2021 between the Ministry of Economy, Finance and Investment Support and the Central Bank of Tunisia. The Tunisian State shall reimburse the commission applied for the use of the aforementioned amount, for the benefit of the International Monetary Fund, as well as the principal of the amount, in the event of cancellation of the allocation, and so in accordance with the procedures in force with the Fund set out in the aforementioned agreement. Art. 2 – This Presidential decree shall be published in the Official Journal of the Republic of Tunisia. Tunis, 14 September 2021. The President of the Republic Kais Saied

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