CENTRO STUDI SUL FEDERALISMO

Report

A EUROPEAN UNION - AFRICAN UNION PLAN ON THE NEW IMF ALLOCATION OF SDR

February 2022

The papers collected in this booklet were prepared within the initiatives of the project "For a European Union - African Union Plan on the New Allocation of the IMF's SDRs", coordinated by the Centro Studi sul Federalismo (CSF) with the Robert Triffin International Foundation (RTI) and the Centre Studies on European and Global Governance (CesUE), admitted to the funding by the Italian ***Ministry of Foreign Affairs and International Cooperation****.*

Ministry of Foreign Affairs
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We thank ***Valentina Bassano*** *(Centro Studi sul Federalismo) for her invaluable contribution in preparing this Report.*

Introduction

EU FOR AFRICA: REVITALIZING THE ROLE OF THE SDR

Fabio Masini

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

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

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

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

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

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

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

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

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

Fabio Masini *

TIME FOR A NEXT GENERATION AFRICA

1. Introduction

After the formal decision of the *Board of Governors* earlier in the month, on 23rd August 2021 the IMF agreed a *General Allocation* of $650bn in Special Drawing Rights (SDRs),[1] issued to the 190 countries belonging to the organisation.[2] This allocation is the largest ever issued by the IMF; the second largest dates to 2009, when, after the international credit crunch that followed the US-dominated financial crisis, trust had to be restored, liquidity pumped into the system, and new emerging global actors acknowledged. SDRs were introduced in the Articles of Agreement of the IMF in 1969; between this date and the 2009 allocation issues only amounted to about $40bn.

The debate on how to use such money, which ultimately depends on country-specific decisions (as the allocation goes to IMF member States and bears no specific conditionality) started as early as the beginning of 2021, soon after rumours emerged about the imminent, historic decision. Some convincing arguments were put forward: in favour of poverty reduction and increasingly sustainable development models (UNPD 2021); an enhancement of health systems (Georgieva 2021); poverty reduction (Wolf 2021); the completion of vaccine campaigns (Eichengreen 2021). The WTO Director Okonjo-Iweala suggested that special attention should be paid towards a global approach towards Africa's recovery, irrespective of IMF quotas (Olawoyin 2021), implying a reallocation of resources. These proposals have not, as yet, been followed by any specific detail on how they might be accomplished.

Fundamentally, all the proposals conceived appealed to the sense of responsibility from rich countries towards the poor (Sembene 2021). Macron, at the summit on the financing of African

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[1] Equivalent to 456.485,3 SDRs; $650bn is the maximum amount that the IMF can issue without prior consent from the US Congress.

[2] Currently, all members of the IMF adhere to the SDR Department. The fact that the *General Department* and the *SDR Department* are kept strictly separate, reflects the idea that assets in one department cannot be used to meet liabilities of the other.

economies on 18th May 2021, called "for the reallocation of 100 billion SDRs from the richest countries to African countries" (Benhaddou 2021). Again, a workable project has yet to follow.

We suggest a different approach here; what follows is a development of the reasons why the EU's quotas of SDRs should be devoted to meeting an EU strategic goal, such as triggering sustained and sustainable endogenous growth in Africa, and at the same time strengthening the continent's integration process and institutions. Our starting assumption is that no EU Member State is currently under the threat of major financial distress; recovery is robust, intra-EU balance of payments disequilibria are efficiently and smoothly regulated through the Target 2, and external disequilibria are in favour of the EU. We can permit ourselves to use SDRs for a longer-term, strategic, investment: to set Africa on a path of stable recovery and sustainable development.

We are aware that there are critical technical and political issues that need to be addressed before a proposal of this type becomes workable. For this reason, two further enquiries follow on from this opening contribution, developing the juridical and institutional aspects of the suggestion, and assessing its expected macroeconomic impact.

In this paper we focus on a general analysis of how such resources might be used; in section one we rehearse the main points raised in the recent debate and highlight alternative uses of these funds; before illustrating our proposal in section two.

2. The recent debate on the relocation of SDRs to Africa

This unprecedented issue of $650bn in SDRs was the end of a process that started as an international reaction to the pandemic, with its related economic, social, and health crises. Before the pandemic, the debate over SDR allocations was roughly divided between three lines of reflection. The first concerned the changing balance of international economic power that needed (and still does) to be addressed, through a similar general allocation of SDRs; this is what happened ten years ago.

A second line called for further strengthening their role, especially for Africa (some suggested starting with the Maghreb area), progressively extending the use of SDRs to the whole continent, thus helping its integration process (Flor 2020). From this point of view, the use of SDRs was considered instrumental to reinforcing the fragile tissue of pan-African institutions.

The third is related to those who, having critically examined the experience of the financial crisis in 2007-08 and its subsequent general allocation, observed that countries had merely exchanged the SDRs for convertible currencies and spent these (Sobel[3] 2020), or simply had an inflation-producing effect, especially in countries where the receipt of SDRs resulted in an increase of more than 10% in reserves (Chitu 2016) due to the moral hazard. In both cases the receipt of the SDRs failed to trigger any endogenous growth mechanisms; as such, critics argued against any further general allocation.

[3] Mark Sobel: *US Treasury Official* on international monetary and financial policy, US representative in the *IMF Board*, now *Center for Strategic and International Studies*.

Things changed with the pandemic, that increased the divide between rich and poor countries; this suggested the use of intervention from international institutions or some joint, cooperative redistributive mechanism from the most developed towards still developing countries. In April 2020, soon after the G20 refused to issue a proposed general allocation of SDRs for $500bn, Gavyn Davies (former Goldman Sachs partner and former President of the BBC) suggested in the *Financial Times* to use SDRs "to help low-income countries boost health and other fiscal spending as coronavirus spreads" (Davis 2020). One year later, on June 1, 2021, Martin Wolf (2021) wrote in the *Financial Times* suggesting that SDRs should be channelled to buy vaccines.

In the meanwhile, the managing director of the IMF, Kristalina Georgieva, repeatedly pointed out the need to use these resources for both poverty reduction and health assistance, helping with the vaccination against Covid-19 (ECA 2021). Resources channelled to Africa via SDRs are very low compared to the region's needs, $33bn in total: insufficient to tackle all of the major issues concerning the structural underdevelopment of most African countries. Hence Georgieva's suggestions to recapitalize the IMF's *Poverty Reduction and Growth Trust,*[4] and establish a brand-new *Resilience and Sustainability Trust*. Nevertheless, according to the general goals of the IMF, and given its aversion to regional cooperation, such funds should not (necessarily) be solely channelled to Africa. Georgieva's argument can count on a robust data set: among the 190 IMF member receiving countries, the 135 developing countries share is $275bn, roughly 40% of the allocation, while the 55 richer countries received around $375 bn.

Moreover, she can count on the support of Vera Songwe, under-secretary general of the UN and executive secretary of the UN Economic Commission for Africa, who – in an extensive article published in the *Financial Times* on February 24 this year – appealed for solidarity from rich to poor countries.

On September 10, 2021, Barry Eichengreen critiqued Georgieva's suggestion of recapitalising the *Poverty Reduction and Growth Trust* (PRGT) (Eichengreen 2021), proposing that a specific fund should be created with the unique goal of solving the pandemic emergency across the whole world. This proposal had one clear advantage over alternatives, and is an interesting suggestion. It would be very easy to manage in terms of conditionality; the IMF would only need to verify that such funds were used to enhance health systems. Furthermore, Eichengreen suggests that the IMF should use regional development banks as intermediate beneficiaries, "which are already authorized to hold SDRs and convert them into dollars and other hard currencies", and which would strengthen regional integration. We have found suggestions along this same vein, proposing a strengthening of regional institutions through the use of SDRs to build stronger regional safety nets.

In brief, three strategic, (not necessary competing) lines seem to emerge from the debate as regards the use of SDR allocations: the first is the US-led suggestion to use them to fully vaccinate Third World countries (money that would be eventually channelled back to the United States,

[4] Also a few CEPAL economists tackled the relocation of SDRs to reduce poverty, strengthen regional economic integration and trigger major economic and social transitions. See:
https://www.eurodad.org/special_drawing_rights_saving_the_global_economy_and_bolstering_recovery_in_pandemic_times

given that most vaccine producers are there); the second is to use the SDRs to address the need for pushing underdeveloped countries (among which African ones are of course numerous) along a sustainable development path; the third to use such resources to strengthen an African reserve fund.

As concerns the third of these, we are fully aware that building a sound financial safety net for poor countries is crucial to boosting development. According to a recent G-20 policy insight (Gallagher *et al*., 2020), this is a prerequisite to achieve the *Sustainable Development Goals* set at the UN level. At the same time, we believe the agreements signed over the past few years between the IMF and African financial institutions have already gone a good way along the path to a strengthened financial system in Africa. This is the reason why we believe this issue should not be tackled with this project.

The debate is heating up, and will probably be the case in the forthcoming months. Georgieva recently discussed with African Ministers of Finance the support of their request to the IMF of the allocation being directed to address a wide variety of needs concerning the international financial architecture. These allocations were namely to finance: a) innovative sustainable finance mechanisms; b) a recapitalization of the PRGT for low-income countries; c) an improvement of access to vaccines; d) an improvement of access to capital markets; e) an establishment of a *Resilience and Sustainable Fund* providing long-term financing to low and middle-income countries; f) the establishment of a mechanism of carbon pricing, that may help to counter greenhouse gas emissions and climate changes; g) the capitalization of development banks; h) the restructuring of debt in the poorest countries (ECA 2021).

Meanwhile, at the IMFC annual meeting last October, the ECB's President issued a statement[5] (Lagarde 2021) whereby she re-affirmed that SDRs are funds with a reserve status.

3. A proposal for a *Next Generation Africa*

In contrast to all proposals put forward until now, briefly reviewed above, our new proposal does not aim at redistribution, or to building a stronger safety net, or indeed concentrate purely on the struggle against Covid-19. It is not motivated by charity, but by purely pragmatic considerations; for Europe, Africa's development is a key investment.

From this point of view, this proposal is perfectly aligned with the scholarly interest and policy proposals already made by the *Centro Studi sul Federalismo* and the *Triffin International Foundation* over the last few decades, devoted to kick-starting robust endogenous growth in

[5] We refer to this passage: "National central banks of EU Member States may only lend their SDRs to the IMF if this is compatible with the monetary financing prohibition included in the *Treaty on the Functioning of the European Union*. Retaining the reserve asset status of the resulting claims is paramount. This requires that the claims remain highly liquid and of high credit quality. The direct financing of multilateral development banks by national central banks of EU Member States through SDR channeling is not compatible with the monetary financing prohibition". It should be noted, though, that the statement refers to (single) central banks not being allowed to channel multilateral development banks; nothing is said about the possibility that a joint, *ad-hoc* fund, agreement, or institution may perform such task. This argument requires careful consideration and further enquiry; political will, nevertheless, is surely able to find a viable way out.

Africa as an opportunity for Africa itself and for Europe (e.g. De Rambures, Iozzo, Viterbo 2020; Flor 2020; Majocchi 2020).

The sustainability of its growth is crucial for the sustainability of European development, in the short-, medium-, and long-run. In the short-run it may provide incentives for decreasing migrationary pressures.[6] In the middle-term Africa may provide a market for European products and services; with an increasing growth of welfare, the consumption basket in Africa becomes more oriented towards capital intensive products, thus also improving the quality of European productive capacity. In the long-run, Africa is a strategic partner for Europe, both in terms of trade (see Tab. 2 annexed) and potential industrial partnerships.

Our starting assumptions are: a) that this one-shot opportunity of SDRs allocation should be used to tackle a strategic issue for Europe, the risk of increasing migrationary flows from Africa, due to worsening climate changes (a few years ago, the EC President Juncker said the Commission's forecasts expected 250 million migrants from Africa to Europe due to climate changes before 2050), resource scarcity, and increasing political and military tensions; b) the use that each African country can make of the SDR allocations should be made conditional on investing in a few, key priorities.

We also argue that five priorities could be financed: *energy independence*, *digital infrastructure*, *health*, *green transition*, and *education*. We explore two scenarios: under the first, all EU27 SDR allocations are wholly directed to this project. The relative weight of each priority is indicated in percentage points for each of the five relevant macro-actions.

Under the second hypothesis, only a part of such resources should be used for this purpose, say €50bn, but more money might be raised through financial markets. A multiplier effect of 5 seems to be reasonable, considering the type of investment and risks; hence the total sum under consideration reaches €250bn.

The resources allocated to these five priorities might follow this scheme, under the two scenarios:

Allocation hypotheses	**1st Scenario**		**2nd Scenario**	
Priority	%	**Billion €**	%	**Billion €**
Energy independence	*30*	**43,2**	*20*	**50,0**
Digital infrastructures	*20*	**28,8**	*15*	**37,5**
Health	*20*	**28,8**	*20*	**50,0**
Green transition	*15*	**21,6**	*25*	**62,5**
Education	*15*	**21,6**	*20*	**50,0**
Total	*100*	**144,0**	*100*	**250,0**

In both cases, there might be, as is the case with the Next Generation EU, both grants and loans. Although their relative share should be negotiated with African counterparts, we may consider

[6] We are aware that there is also a wide literature on the possibility that, in the medium term, growth impacts positively on education's quality, but not on living conditions, therefore further raising individual's (especially skilled youth) expectations to find a better professional opportunity abroad. This is a serious risk. In case this happens, this improvement will fall into the long(er) run benefits.

Health and *Education* being financed through grants, and the other items through loans.[7] The rationale behind this is that the latter are investments with higher returns in the short-run, making them palatable to the market, while the return on investment related to health and education might only be more visible in the longer-run. Under Scenario 2 this would imply €100bn in grants and €150bn in loans.

From the institutional point of view, there are several critical points that need to be addressed in the conditional use of SDRs for development purposes. Some of them have been extensively analysed by Plant (2021). Although deeper analyses on these points will follow in the next months, I suggest the approach chosen should consider at least three aspects: a) there is no need to change the Articles of Agreement of the IMF, because it would simply be unfeasible (requiring approval by three fifths of the IMF members representing 85% of the total voting power, with the United States having *de facto* veto power); b) there is a need to strengthen the multilateral approach to European cooperation with Africa, also implying enhancing integration on the African side (as the last two Presidents of the European Commission have also been trying to suggest); c) the need to maintain strict monitoring on the utilisation of the resources towards agreed priorities, again through a *multi-* or preferably *supra-national approach*, rather than following country specific or bilateral agreements.

The mechanism might work as follows, with two potential options, not necessarily self-excluding. On the European side, the *European Investment Bank* (EIB), already well-structured both in technical and statutory terms to manage a similar kind of investment project, might apply to the IMF to become a *prescribed holder* for SDRs. The *European Bank for Reconstruction and Development* (EBRD), already an SDR *prescribed holder*, and empowered to lend to the countries of North Africa (indeed, it is already engaged in development projects within the Mediterranean basin), is also thought to be able to help in this. The EBRD's capital base already includes both the EIB and the European Commission with 10% each. Furthermore, it also has the advantage of being a largely inclusive institution, with shares of its capital also held by (among others) China, Japan, Russia, the United States, and some central-Asian republics. For this purpose, we might think that an *ad-hoc* technical branch of the EBRD might be opened in one of the Mediterranean countries to manage this project and ensure better coordination with African counterparts. In the case of the EIB we may consider the use of the *African Investment Platform*, managed together with the European Commission through the *EU External Investment Plan* and *Boost Africa.*[8] A synergic mechanism should be designed to ensure that each institution plays the role it is best designed for.

The EIB and/or the EBRD should collect the SDRs from each EU Member State for the creation of a new *ad-hoc* trust fund; this would be on agreement with the ECB, which in the euro-area is ultimately responsible for the allocation/destination of such reserve-assets from Member States, in which the ECB recognizes that such investment funds do not violate the monetary financing prohibition under Art. 123 TFEU. Under scenario 2 (which we deem the most plausible) this fund might have a paid-up capital of €50bn, to use as collateral for the emission of €250bn SDR-denominated bonds on the financial markets.

[7] On the different nature and technicalities connected to these two different types of funds the arguments raised by Plant (2021) should be carefully acknowledged.

[8] https://www.eib.org/en/products/mandates-partnerships/boost-africa/index.htm

Such funds should than be directed, both as grants and loans, to the EU's African counterparts. On this front, we may consider involving the *African Development Bank* (with its concessional arm: the *African Development Fund*) and the Cairo-based *African Export-Import Bank*. The institutions involved should decide how to share the monitoring of funds destined towards different priorities. The resources from this project might be provided over a ten year time-span.

We reiterate that some of these investments would return to Europe in the form of demand for technology, know-how, goods, services, thus reinforcing the European recovery, while at the same time strengthening the newly-born African common market.

4. Concluding Remarks

Europe is an ageing continent, with adverse demographic dynamics. It faces massive migration from Africa, where multiple, complex conflicts push people to search for glittering illusions in the perceived wealth of Europe. Furthermore, climate change and water accession difficulties worsen the framework, a situation that will be further exacerbated in the coming future.

This current proposal allows for a two-fold goal to be met: to trigger robust endogenous growth in Africa; and to enhance the long-term perspective of growth in Europe, at the same time reducing potentially devastating externalities. Both these effects would further positively impact on global growth perspectives.

The idea presented above, to collect and channel EU Member States' SDR allocations towards a long-run investment plan for Africa, offers an interesting opportunity; it does so with several critical points, especially concerning the juridical and institutional profiles required for the functioning of such endeavour.

From the EU MS' perspective, there are several risks associated with the present proposal. The most important concerns the eventuality of an emergence of country-specific critical narratives, suggesting alternative choices on the destination of such resources. The SDRs are an international reserve asset designed to supplement the official reserves and provide liquidity in the event of adverse balance of payments crises, including public debt servicing. This may give rise to a relevant risk of the emergence of country-specific narratives calling for such use of SDRs. Indeed, in Italy, right-wing politician Giorgia Meloni had already suggested something similar in the Spring of 2020, well before the country received its share of about €17,5bn.[9]

The form of our proposal may nevertheless also have important consequences; to strengthen the architecture of the international monetary and financial system, a similar attempt might also be designed and implemented in Latin America, where resources should be channelled to reduce structural divides in terms of potential growth compared to the most developed countries. Finally, this suggestion might also lead to an increasing role for SDRs in the private sector, thus setting the path for their widespread use worldwide.

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[9] Meloni G. 2020. "Il prestito del MES non è la soluzione. Dal Fondo monetario nuovi diritti speciali", *Corriere della Sera*, May 27.

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Olimpia Fontana *

NEXT GENERATION AFRICA:
ECONOMIC IMPACT AND MUTUAL BENEFITS FROM A STRATEGIC EU-AFRICA PARTNERSHIP

1. Introduction

In a rapidly changing global context, the EU is looking ever more closely at cooperative relations with Africa, with the awareness that the two Continents have much to gain from closer cooperation. At the 2007 Africa–EU Summit in Lisbon, with the launch of the Joint Africa–EU Strategy (JAES), a change of pace took place, which set out the intention of both partners to move beyond a donor-recipient relationship towards a long-term cooperative relationship on jointly identified, mutual and complementary interests. Although, more than a decade later, the Strategy has not produced the expected results, the narrative of wanting to overcome the traditional partnership based on development aid is still very much alive. However, two relevant facts should be considered to shape the future of economic relations with Africa.

First, new impetus from Europe, both at institutional and national levels, has recently emerged.

In 2017, the German Federal Ministry for Economic Cooperation and Development published on the occasion of the Germany Presidency of the G20, the cornerstones of a "Marshall Plan with Africa", where the reference to the famous American financial plan for post-war European reconstruction helped to clarify the enormous effort required for African development[1]. Furthermore, the term "with" (instead of "for") Africa underlines the desired symmetrical nature of the partnership. At the EU level, closer partnership was promoted in 2018, with the launch of the "Africa–Europe Alliance", focused on creating sustainable investment and jobs (EC, 2018). The

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[1] The Marshall Plan is based on three pillars of: i) economic activity, trade and employment; ii) peace and security; iii) democracy and the rule of law (see the German Federal Ministry for Economic Cooperation and Development at https://www.bmz.de/en/countries/marshall-plan-with-africa).

initiative is primarily an economic and financial plan that fits into the framework of international arrangements, such as the United Nations Sustainable Development Goals (UN SDGs) and the 2015 Paris Agreement for climate change. The main pillars of the Alliance are the deepening of economic integration and trade relations – both within African and with Europe – and a comprehensive plan for strategic investments on the African continent, the European External Investment Plan (EIP) with the aim of attracting more investment not only in Africa but also in the EU Neighbourhood. The European Fund for Sustainable Development (EFSD) – the financial arm of the EIP - consists of a total of €5,1 bn that is allocated through two different instruments: a blending platform (the Africa Investment Platform - AIP, formerly the Africa Investment Facility); and a guarantee, that is, a budgetary instrument designed to reduce investment risks by providing irrevocable first-loss guarantees for financing and investment operations in Africa. These financial instruments are expected to leverage the total investment 10 times the initial allocation of funds, i.e. €50 bn of investments made, both in Africa and in the EU Neighbourhood, in the energy, climate, connectivity, water and sanitation sectors.

In March 2020, following the outbreak of the pandemic, the European Commission (EC) reaffirmed its strong interest in a strategic partnership with Africa, as new prospects and challenges emerge from economic, political, social, technological, demographic, climate and environmental perspectives (EC, 2020). The EU recognises a stronger partnership along five dimensions: 1) green transition and energy access; 2) digital transformation; 3) growth and jobs; 4) peace and governance; 5) migration and mobility.

The second aspect to consider is the recent award by the International Monetary Fund (IMF) of $650 bn in Special Drawing Rights (SDRs) to countries belonging to the organisation. The largest allocation ever issued by the IMF triggered a heated debate on the use of SDRs for purposes other than as an instrument to fix imbalances in balance of payments. Since the decision on the use of such additional money ultimately depends on the specific will of a country, several suggestions on the use of SDRs have been made by international institutions, academics and observers. They range from the goal of reducing poverty to campaigns for completing vaccination, and they always appeal to the sense of responsibility of rich countries towards the poor. The renewed interest that the EU has shown in recent years in the African continent could be coherently combined with the funds made available by the allocation of SDRs to EU member countries. As Masini (2021) suggested, the EU's quotas of SDRs could be devoted "to meeting an EU strategic goal, such as triggering sustained and sustainable endogenous growth in Africa, and at the same time strengthening the continent's integration process and institutions." Indeed, the proposal to launch a Next Generation Africa (NGA) has several merits, as it would benefit both parties to the agreement. Possible solutions to the institutional arrangements and regulatory obstacles of the proposal have already been carefully addressed by Casano (2022) and Viterbo (2022).

This article contributes to the NGA proposal in two ways. First, we discuss the recent economic situation for African countries at an aggregate level, especially after the outbreak of the pandemic. Prospects for economic recovery are undermined by potential risks related to Covid that further exacerbate pre-existing vulnerabilities. Secondly, we provide a rough estimate of the impact of the NGA on African economic growth at an aggregate level and on the financing needs of basic infrastructure such as the transport and energy sectors. We also discuss other dimensions (trade, demography, immigration, environment) where a strategic partnership with Africa would have effects, especially in the long-term.

2. Impact of the Covid-19 pandemic on poor countries

Although the pandemic situation in Africa is worsening, as globally, the spread of Covid-19 in Sub-Saharan Africa remains significantly lower than in the Americas, Europe and Asia. Africa suffered fewer economic losses from the pandemic than other regions of the world, and had relatively modest death rates per million people compared to other regions (African Development Bank - AfDB, 2021). The low burden of Covid-19 can be explained by several factors, such as the young age demographic, the lack of long-term facilities reducing the chance of transmission, previous exposure to other circulating coronaviruses and limited access to testing, which results in undercounting of deaths related to Covid-19 (Adams et al. 2021).

However, prolonged lockdowns have had a serious economic and social impact in all African countries, particularly in the Sub-Saharan region. The Covid-19 pandemic has had a very different impact on rich and poor countries. On the one hand, high income countries experienced sharp economic downturn in 2020 because of the pandemic, but were later able to provide unprecedented relief and stimulus, for example, in the form of cash transfers, unemployment insurance, wage subsidies, and deferral of tax and social security contributions. On the other hand, governments in developing countries had much less fiscal space to provide similar levels of relief. As a result, although the economic downturn was on average less severe in low-income countries, the impact on household living standards has been far worse, particularly for the poor and vulnerable.

In general, the effect on households from disadvantaged groups in developing countries has been severe (Bundervoet et al., 2021). Estimates on the short-term impact of Covid-19 indicate costs in terms of job losses, especially for women, young workers, less educated (who already were at a disadvantage on the labour market) with associated high loss of income. Food security is also a concern, although it cannot be directly attributed to the pandemic. Whilst food insecurity is widespread in lower-income countries even in normal times, it has been exacerbated by income and employment disruptions. According to the AfDB (2021), Covid–19 is estimated to have increased the proportion of people living with less than $1,90 a day by 2,3 % in 2020 and by 2,9 % in 2021, leading to extreme poverty rates of 34,5 % in 2020 and 34,4 % in 2021.

What appears to be more concerning are the long-term effects of the pandemic on the people of Africa. Almost all African countries closed schools for an extended period because of Covid–19, and there were no options for virtual or hybrid teaching. The interruption of schooling is one of the most significant concerns for the future. Whilst return to schooling was high on average in developed countries, early dropout was particularly high among low-income households in low-income countries, which is highly regressive. As the UN reports "School closures make girls and young women more vulnerable to child marriage, early pregnancy, and gender-based violence – all of which decrease their likelihood of continuing their education... the learning crisis could turn into a generational catastrophe" (UN, 2020, p. 10). The long-term consequences for human capital development and productivity growth could be exacerbated by the impact of early childhood malnutrition on educational and socio-economic outcomes later in life, depending on whether the food security persists.

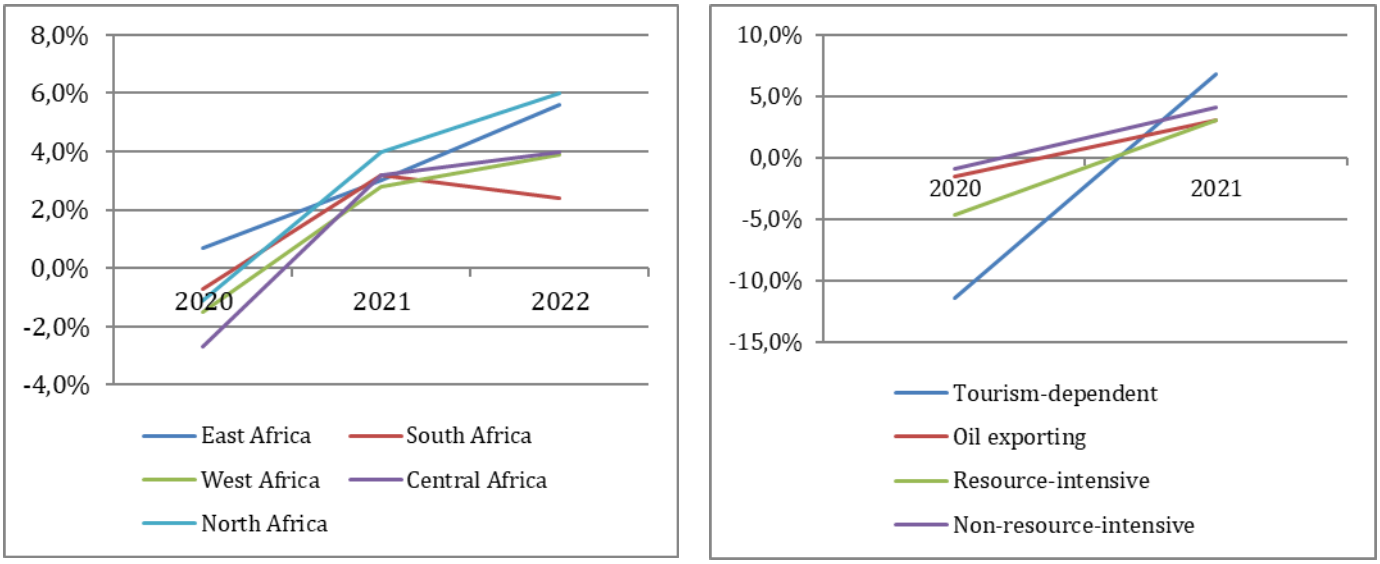
3. Macroeconomic situation of African countries

Unsurprisingly, Africa's macroeconomic fundamentals have been weakened by the pandemic. What is less obvious is the lower-than-expected impact on the continent, compared to developed countries, due to the specific demographic, social and health conditions of the continent. According to AfDB's estimates, real GDP in Africa is projected to grow by 3,4% in 2021, after contracting by 2,1% in 2020.

However, two caveats on growth projection need to be considered. First, growth performance varies by regions and by economic characteristics, and the expected GDP recovery masks significant heterogeneity across countries and sectors (fig. 1). Central, West and Southern Africa are the regions that were hardest hit by the pandemic, while East Africa seems to be the most resilient, thanks to less dependence on primary commodities and greater diversification. Regarding the impact across sectors, tourism-dependent economies have experienced the sharpest decline in growth in 2020 (11,5%) – with a rapid recovery expected in international travel and tourism – followed by resource-intensive economies (4,7%), while oil exporting and other non-resource-intensive economies have contracted less (1,5% and 0,9% respectively).

Second, other potential risks hang over African countries. Repeated waves of Covid around the world could negatively impact countries that are most dependent on external demand for commodities as well as the investment sentiment on the financial market. Indeed, foreign direct investment, as well as other financial flows (remittances, official development assistance, portfolio investment) have been declining since 2017, affecting all sectors, including tourism, leisure, energy, aviation, hospitality and manufacturing.

Fig. 1: GDP growth projections (by regions and by sectors)



Source: AfDB (2021)

Another concern for most African countries relates to rising fiscal deficits which could result in rapid accumulation of debt. Fiscal deficits are estimated to have nearly doubled, to 8,4% of GDP in 2020, from 4,6% in 2019, following strong stimulus spending by many countries to alleviate the economic impact of the pandemic – direct public investment in health, support to small and medium-sized enterprises, and cash transfers – albeit with significant differences between countries. Fiscal measures have been implemented at varying rates, with most countries exceeding the critical threshold of 15%, sometimes 30%, particularly for non-oil resource intensive economies, due to a collapse in both the demand for and price of oil and other primary commodities, resulting in reduction in government revenues to respond to the pandemic (fig. 2). Overall, debt accumulation on the continent is expected to accelerate rapidly due to the combined effect of higher public spending and shrinking GDP and revenue.

In essence, the picture sketched above tells us that growth in some African countries will not return to the pre-pandemic level any time soon and this will intensify the narrative of two contrasting Africas, in terms of speed of growth: one of countries that depend on exports of commodities, like oil and gas, and another of countries with diversified domestic economic structures. Furthermore, the accumulation of public debt and the reduction of financial flows from abroad will reduce the room for manoeuvre for African governments, at a time when the economy most needs to stabilise after an exogenous shock.

4. Macroeconomic impact of the Next Generation Africa

The NGA intends to develop an investment plan in strategic sectors for African countries in order to have a robust process of sustainable endogenous growth that would also be beneficial for Europe in a closer partnership with Africa. As suggested by Masini (2021), the most plausible configuration of the NGA could be a total amount of €250 bn, resulting from the combination of a partial SDR allocation of the EU27 (€50 bn out of €144 bn) and private investment leveraged from the market, with an implicit leverage ratio of five. In detail, the fund would be distributed across five priorities:

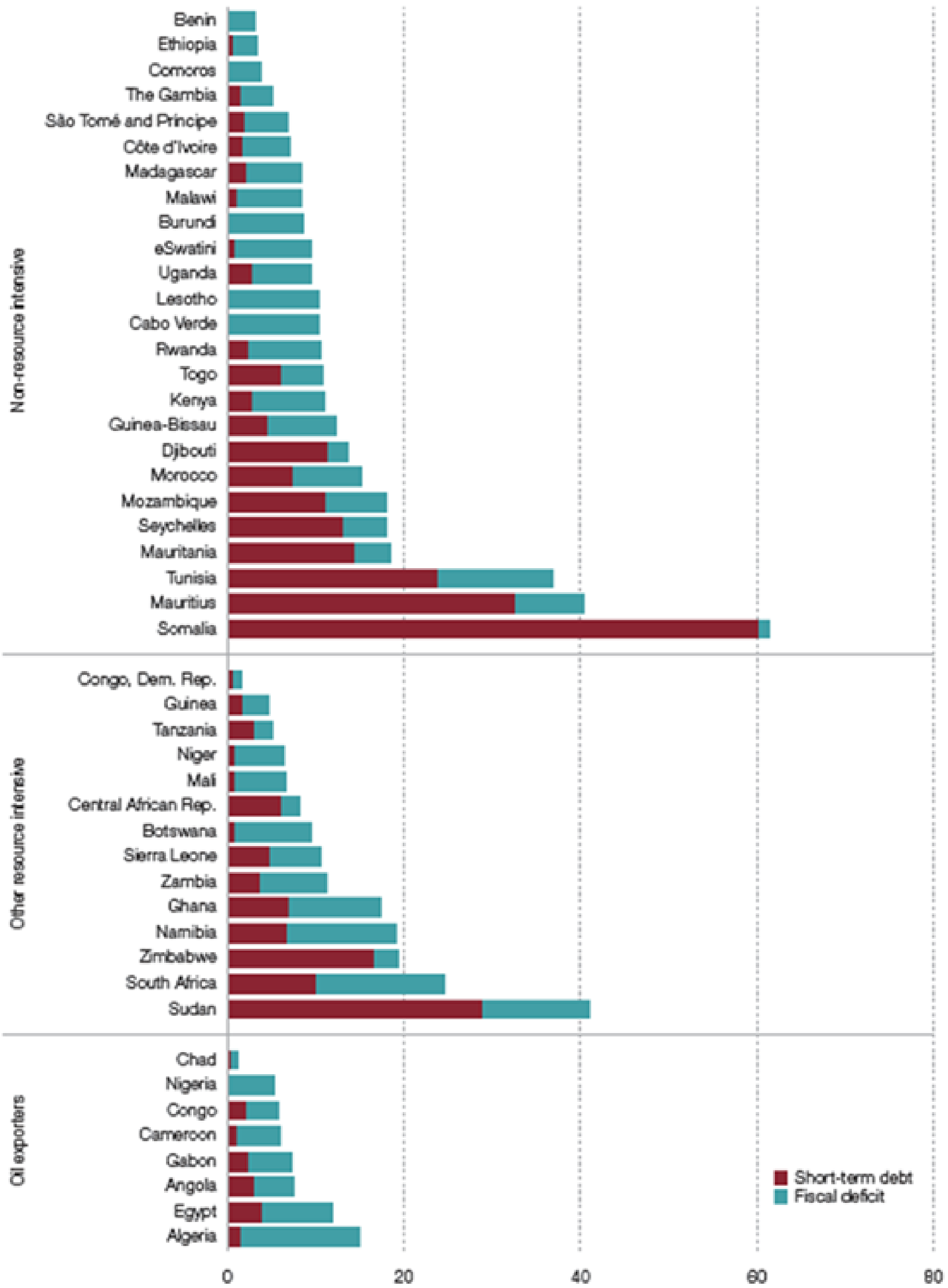
- energy independence (20%),
- digital infrastructure (15%),
- health (20%),
- green transition (25%),
- education (20%).

This allocation is aligned with the EU agenda for climate change and pandemic recovery (the EGD and Next Generation EU). This section attempts to provide an estimate of the macroeconomic impact of the NGA over the coming years according to a simple analysis of the fiscal multiplier[2].

The debate on the fiscal multiplier has reignited after the financial and Eurozone countries, particularly in 2014 when the IMF acknowledged that "increased public infrastructure investment raises output in both the short and long term, particularly during periods of economic slack and

[2] The exercise is based on a technical guide provided by the IMF (Batini et al., 2014). Although it would be a public-private investment plan, we can consider as a discretionary fiscal policy.

Fig. 2: Gross financing needs in 2020 (% of GDP)



Source AfDB (2021)

when investment efficiency is high" (IMF, 2014, p. 75). Since then, the role of public investment has been strongly reconsidered as a tool to stimulate growth, thanks to its impact on GDP and the ongoing crowding of private investment. However, some caveats about the size of the fiscal multiplier need to be considered – how large would be the impact of a fiscal expansionary measure on output. First, an estimate of the fiscal multiplier is tricky, as the direct effect of the expansionary measure on output is difficult to isolate, due to the interrelationships between the variables. Second, there is little consensus in the literature on the size of multipliers. Third, little is known about the extent of fiscal multipliers in emerging and low-income countries. Nevertheless, with this in mind, one may wonder to what extent would investment in the NGA increase the GDP of African countries.

To estimate the fiscal multipliers, several factors must be considered: (i) the structural characteristics of the country, such as openness to trade, labour market rigidities, the size of automatic stabilisers, the exchange rate regime, the level of debt, the efficiency of the public sector administration (ii) the conjunctural position of the economic cycle, i.e. whether the economy is experiencing a period of recession or expansion. In general terms, the effect of a stimulus is greater for a closed economy, with fixed exchange rates and rigid institutional factors, when monetary policy is no longer effective, and it increases during recession[3].

As African countries have a combination of these factors, it is difficult to determine whether the fiscal multiplier for the continent is high or low, without a thorough econometric analysis that is beyond the scope of this paper. There is evidence in the literature that fiscal multipliers are higher for advanced than for developing countries, and few studies provide an estimate for least developed countries. According to Batini et al. (2014) the fiscal multiplier for emerging and low-income countries is generally at a low level, between 0,1 and 0,3, in "normal" times for the first year, with an increase of up to 1,2 in the second year. However, when the economic conjuncture is considered, the multiplier could increase to 0,9 in the first year. This is because during a recession the private sector (households and businesses) is credit-constrained and cannot invest as before, justifying a compensatory intervention by the public sector. Sheremirov and Spirovska (2019) find higher results, with values of 0,8 and 1,6 depending on the economic cycle, with effects on GDP growth for at least four years.

According to an analysis of the consequences of the pandemic and future economic projections (section 2 and 3), it is reasonable to assume that the recovery in most African countries would need to be sustained by an additional investment programme, as the recovery is subject to great uncertainty linked to the international outlook. Moreover, the problem of high public debt reduces further the room for manoeuvre to support the recovery, and most fiscal deficits have been allocated to the protection of sectors and actors most affected by Covid, at the cost of other spending categories. This requires international support through grants and concessional loans to help African countries support the recovery process and pursue a longer-term sustainable growth path.

Under the simplistic assumption that the investment in NGA would be made over a period of 10 years and assuming a conservative fiscal multiplier of 0,9 (first year) and 1,2 (second year), the above analysis suggests that an investment plan of €25 bn per year would have an effect on the GDP in two stages:

1) an increase of output of €2,5 bn each year up to the end of the period thanks to a first-year multiplier of 0,9 on investment

2) from the second year, an additional increase of €30 bn thanks to a second-year multiplier of 1,2.

[3] In simple words, the spending is not counterbalanced by other variables in the economy nor dissipated abroad.

Over an 11-year period, the total amount of additional GDP originating from the NGA would be €525 bn (table 1). In terms of growth, this means a further increase of GDP of 1,1% per year. Of course, these are rough estimates that do not take into account the specific conditions of the countries, nor of particular sectors of investment, whether in physical or human capital. The literature tends to indicate a stronger link with the growth of public spending on human capital (i.e. social investment) than on physical capital. Public investment in education increases the level of human capital and this is considered by many to be a major source of long-term economic growth (Bassanini and Scarpetta, 2002). Spending on education could also support economic growth by reducing inequalities.

Table 1: Estimated impact of the NGA on African GDP (€ bn)

Year	Increase of GDP after NGA investment	
	First year (fiscal multiplier of 0,9)	Second year (fiscal multiplier of 1,2)
1	22,5	-
2	22,5	30
3	22,5	30
4	22,5	30
5	22,5	30
6	22,5	30
7	22,5	30
8	22,5	30
9	22,5	30
10	22,5	30
11	-	30
Total increase of GDP	**225**	**300**

Source: own calculation

5. Financing needs of Africa Infrastructure

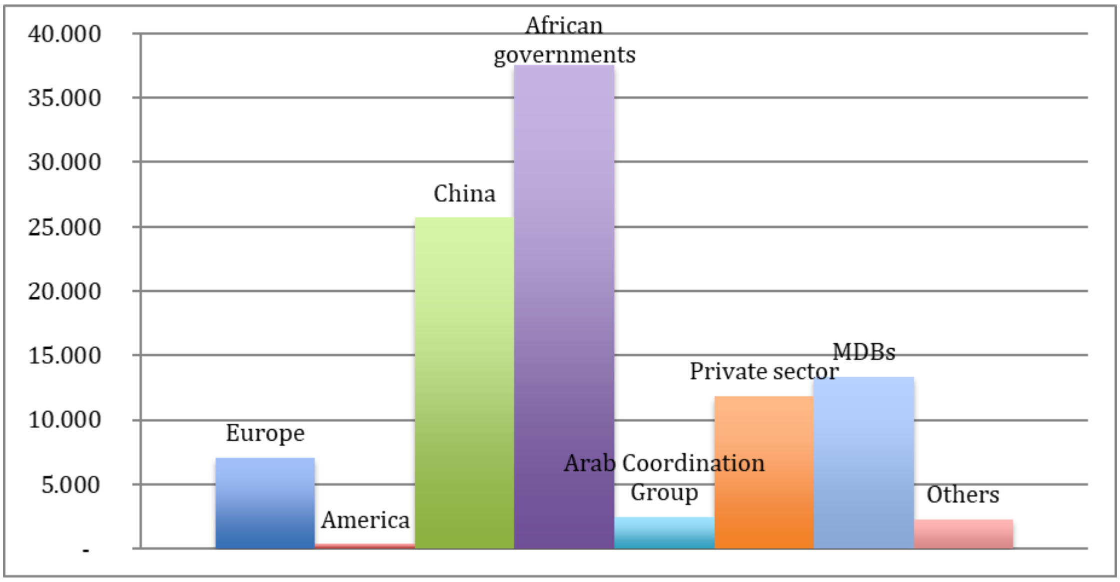
In order to develop a profitable trade partnership with Africa, realise the internal and external dimensions of the EGD and provide the younger generations with an economic, social and political role, the continent needs basic infrastructure in sectors and services such as access to food, water, electricity, healthcare and schools. However, the level and quality of infrastructure in Africa are inadequate. Africa is the least infrastructure-equipped region in the developing world, even compared to low- and middle-income countries in other regions. This is partly due to the low level of development of many countries on the continent. According to the Infrastructure

Consortium for Africa (ICA, 2019), three key messages emerge in relation to the four main sectors of water, transport, energy and ICT.

- **Europe plays a limited role in the Africa's infrastructure financing**

  In 2018, total commitments for African infrastructure amounted to \$100,8 bn, up 24% from 2017 and 33% from the 2015-2017 average. Regarding the geographical source of financing (fig. 3), it is interesting to note that the bulk of investment comes from African national budgets themselves (37% of the total), while among international players, China is the main investor in African infrastructure projects (25%), followed at a distance by Europe (7%), through both EU institutions (the European budget, the European Investment Bank, the EU-AITF) and Member States (mainly France, Germany and Italy). Less relevant are the contributions of the Arab Coordination Group (2,4%) and North America (less than 1%). At the institutional level, Multilateral Development Banks (MDBs) play a significant role (13%), in particular the AfDB and the World Bank Group (8%). The private sector accounts for 11% with a concentration in the ICT and energy sectors.

Fig. 3: Source of financing (2018, \$ m)



Source: own elaboration on ICA (2018)

- **Africa has significant but affordable infrastructure needs**

  One of the most problematic issues with infrastructure is the persistence of a funding gap – the difference between what is currently being provided and what would be needed. Africa's infrastructure deficit varies considerably by sector. While Africa leads most other regions with comparable per capita income in mobile telecommunications, it shows great deficiencies in water supply, although improvements have been made. In the transport and electricity subsectors the funding gap is much smaller, but Africa still lags behind its comparators. Table 2 shows the estimate for Africa's infrastructure needs based on the cost of achieving specific targets for each sector. The most significant funding gap is in water and sanitation. In the transport and energy sectors, the financing gap is smaller, but still very significant. One of the main challenges is to make these sectors more attractive to the private sector by improving the financial sustainability of projects[4]. In fact, the very small gap in ICT is due to the fact that the sector is almost completely privatised.

Table 2: Investment needs by sectors

Infrastructure sector	Target by 2025	Annual cost ($ bn)
Water supply and sanitation	100% access in urban and rural area	56 - 66
Power	100% urban electrification 95% rural electrification	35 - 50
ICT	Universal mobile coverage 50% of population within 25 km of a fibre backbone Fibre to home internet penetration rate (10%)	4 - 7
Road and other transport sectors air, rail and port	80% preservation (maintenance and rehabilitation) 20% development (upgrading and new construction)	35 - 47
Total		130 - 170

Source: AfDB (2018)

- **Private sector involvement is crucial**

Of the total commitments, private sector financing amounted to $11,8 bn, primarily for the ICT sector and renewable energy projects. However, it is important to emphasise that, with the exception of ICT, full private sector involvement, essentially through Public Private Partnerships (PPPs), where a private party provides significant financing in the form of equity and debt and is responsible for operations, is not widely used in Africa compared to other regions. A range of policy and institutional assumptions would need to be examined to address the lack of private sector involvement. First, a better understanding of the risks affecting individual projects and the application of risk mitigation. Second, the provision of a stockpile of viable projects that are better prepared to attract investors to the market. In May 2021, at the Summit on the Financing of African Economies in Paris, the President of the AfDB, Akinwumi Adesina said: "Financing is not the problem, but rather the lack of bankable projects"[5]. Therefore, project preparation facilities would be essential to make projects bankable; for example, to help African

[4] Financial sustainability is understood as the returns to investment net of capital and operation costs.

[5] See the ICA website at https://www.icafrica.org/en/news-events/infrastructure-news/article/summit-on-financing-african-economies-financing-is-not-the-problem-its-the-lack-of-bankable-projects-672680/

governments to address the critical phase of planning and designing strategic national networks, such as transport. More generally, the private sector is attracted to institutions that benefit from good governance and professional staff, that are effective in carrying out responsibilities and efficient in using resources.

In conclusion, the results of section 4 and 5 highlight the need for a broad infrastructure investment plan for Africa, particularly for water, power and energy sectors, as confirmed by the latest available data. In particular, Europe is not present on the continent as other players, such as China, which is investing heavily in Africa as it represents a strategic element of its Road and Belt Initiative. The financing needs to bridge Africa's infrastructure gap is estimated to be between $130 and $170 bn, an amount that the NGA-generated portfolio would cover, even for social infrastructure, such as schools and hospitals. In order to leverage the amount of public resources made available by the allocation of SDRs of the EU27 and reach a total investment of €250 bn, the role of MDBs, such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) would be essential, given their expertise in providing technical assistance to develop new projects that would be attractive to investors. If Europe wishes to engage in a closer partnership with Africa, it must definitely invest more in the infrastructure network of African countries as it is the backbone of a developing society.

6. Complementarities and synergies between Europe and Africa

In addition to the economic and financial benefits that would derive from the NGA, other social, political and more general strategic aspects must be considered in order to prompt a partnership of mutual interest.

Despite repeated initiatives devoted to the African continent by European institutions, the EU approach to Africa is still perceived as paternalistic and hindering the development of more balanced relations, made of complementarity and synergies between the two continents. In particular, there would be great opportunities in terms of trade, environmental and digital ambitions, demographic projection and migration pressures.

- **Trade**

  Promoting economic integration at the continental and regional levels is an essential component of a strategic partnership, as it provides markets that require goods, services and investments. The African continent has embarked on the creation of a Continental Free Trade Area with the African Continental Free Trade Area (AfCTA); through the removal of tariff and non-tariff barriers on goods and services, the aim being to facilitate intra-African trade, promote regional value chains to enable the integration of the African continent into the global economy, boost industrialisation, competitiveness and innovation, ultimately contributing to Africa's economic development and social progress. The EU actively supports, with a view to a more ambitious goal, a project aimed at creating a comprehensive continent-to-continent free trade agreement with Africa (European Commission, 2018). For Europe, the African continent is the fourth largest trading partner, with a share of European international trade of 7,5% (as an average between import and exports), after Asia (41%), other European non-EU countries (24%) and North America (19%) (Eurostat, 2019). For Africa, the EU remains the largest trading partner: in 2017, 37% of African exports and 35% of African imports (with a total value of €243 bn) were with the EU.

However, Europe's trading reputation on the African continent is being challenged, as there are signs of a change in the relative weight of international trading partners. In recent years, the trend has been that of a decrease in trade relations with Europe. If Europe is considered the continent's "old friend"; the emerging economies, namely the BRICS (Brazil, Russia, India, China, South Africa), and in particular China, have become the continent's "new friends", just behind the EU, with a total volume of $150 bn in 2017[6]. At the same time, trade relations between African countries themselves, considered "good" friends, as internal trade is less vulnerable to external shocks, remain stable, albeit relatively underdeveloped (Sandrey, 2015).

One of the reasons for the low level of trade between good friends – the African countries themselves – is the dependence of the domestic economies on the production of raw materials, with a specialisation limited to one or a few products. This structure does not facilitate internal trade relations, due to a low level of complementarity between economies, and above all it does not allow the creation of internal value chains, which would allow greater diversification of production. Conversely, low diversification exposes domestic economies to the impact of natural disasters and price fluctuations, particularly for agricultural products. An integrated internal market would be attractive to Europe because more diversification would facilitate the development of more resilient partner economies that are less prone to changing commodity prices (including in terms of changes in the energy paradigm; see below the "green and digital transition").

- **Demographic projection and migration pressure**

The demographic projection estimates that by 2100 Africa's total population would be 4,2 bn, with an average age of 35 years, that would account for 41% of the global working-age population. In contrast, the European population is projected to steadily decline by the end of the century, reaching 416 million in 2100 (EPSC, 2017). The huge growth of the African population represents a significant potential economic opportunity, as Africa will be home to the world's youngest and fastest growing middle-class, with rising consumer spending that could absorb promising business and trade opportunities in several sectors, from housing to technological devices. Providing people with education, training and skills should be a common strategic priority, with a view to creating a knowledge society committed to shared values. Support to education and employability presents a great opportunity to match the needs of the labour market on both continents, particularly in view of a declining and ageing European population that will need to attract additional workers.

[6] Data from China-Africa Reaserach Initiative, School of Advanced International Studies (SAIS), John Hopkins, http://www.sais-cari.org/data-china-africa-trade

Migration to Europe is expected to increase for at least two reasons. First, migration could increase in the short to medium term as a result of a development process. The literature predicts that once economic growth is triggered, this can increase the pressure to emigrate, because the increase in GDP per capita is accompanied by an increase in the level of education, which, however, does not correspond to adequate immediate employment opportunities in the local context (Angenendt et al., 2017). Migration is reduced only when certain levels of general socio-economic well-being are achieved, which, for the majority of Sub-Saharan African countries, from which most of the migration (especially irregular) to Europe originates, can only take place over decades. Second, global warming is expected to change human habitation over the next 50 years. Tropical regions, including Sub-Saharan Africa, are projected to become unfit for human life by 2070, with an estimated 3,5 bn people directly affected (Xu et al., 2020). In addition to unacceptable human suffering, the result will be additional migration pressures on more temperate regions, such as Europe.

In summary, migration to Europe will be an increasingly compelling issue both in the short and long run, which would require major investments in Africa in strategic sectors such as human capital in order to meet the EU's demographic needs, as well as mitigation and adaptation measures to tackle climate change.

- **Green and digital transition**

The EU is the most ambitious player in the world in the fight against climate change. With the European Green Deal (EGD) it aims to achieve carbon neutrality by 2050 by dissociating economic growth from the use of natural resources. To be successful, the EGD must take into account its geopolitical repercussions and be accompanied by an external strategy that matches its internal ambitions accordingly.

The transition to a net zero carbon future matters greatly for African countries. On the one hand, the reduction in demand for fossil fuels could depress global commodity prices, reducing the revenues of oil-dependent African countries with disruptive effects on their economies. The European decarbonisation path focuses on the energy production sector, which accounts for almost 80% of EU's GHG emissions. This implies that coal, oil and gas will be gradually phased out in a shift to clean energy from renewable resources. The implication would be significant for African countries, especially for those more dependent on raw material exports. For example, exports of crude oil to the EU and imports of refined petroleum products to Africa account for the largest share of trade between Africa and the EU. In addition, phasing out fossil fuels will cause a decline in non-clean energy infrastructure.

On the other hand, however, Europe's energy transition could benefit African countries. Renewable electricity production – one of the pillars of the EGD – will require Europe to rely in the coming decades on imports of solar and wind energy from neighbouring regions, such as North Africa. The African continent is an excellent location for solar and wind energy, able to satisfy both the internal demand for energy - in case of a significant increase in consumption as a direct consequence of rapid economic development - and future exports to Europe. Africa has another advantage over advanced countries. Instead of a transition, Africa can directly leapfrog to a sustainable and universally accessible supply, thereby skipping the intermediate steps that characterised the inefficient and unsustainable use of fossil fuel energy. According to Colantoni et al. (2021) the continent's leap forward concerns four dimensions. The first leap, from fossil fuels to renewable energy sources, is an essential element in ensuring decarbonisation. The second one involves a development pathway strongly based on electrification with a suitably decentralised structure, comprising "smart" or micro-grids. This architecture will be key to achieving universal access to energy considering the dispersion of the African population and the fact that the lack of energy mainly affects the continent's rural population. The third innovation concerns the possibility of developing a new business approach, based on flexibility, smart operations, and digitalisation, instead of traditional competitive markets. And finally, widespread digitalisation, which is key to developing various aspects of energy systems for renewables-based electrification, such as constant monitoring of energy demand and supply. Europe can accompany the African leapfrog towards its energy future with the necessary technologies and knowledge transfer that would be necessary for the production and distribution of renewable energy.

Furthermore, African countries have an abundance of crucial "green" minerals (rare earths, such as cobalt and nickel). The demand for these critical minerals will increase tremendously in the coming decades. This will have two consequences: on the one hand the projected demand creates opportunities for Africa to replace Asian supply chains, but on the other hand there are risks of reinforcing technological dependencies for Africa, accelerating environmental devastation, compounding climate disruptions, and importing Europe's carbon emissions (Usmann et al., 2021). In general, a possible solution to avoid new forms of colonial exploitation would be to establish genuine partnerships in sourcing rare earths and energy supplies from Africa by building local industrial capacity, localising value chains and sharing technologies.

7. Conclusions

A successful partnership between Europe and Africa must be based on recognising the untapped potential of a closer economic relationship. On the one hand, the ambitious Agenda 2063 adopted under the banner of the African Union plans to transform "Africa into the global powerhouse of the future" with major projects in infrastructure, education and technology and to strengthen African integration and unity[7]. On the other hand, the EU must pursue its ambitious long-term environmental agenda, the European Green Deal, while at the same time facing increasing competition from the G2, China and the US, in strategic sectors, such as technologies of the future.

[7] The African Union identifies flagships projects of Agenda 2063, which encompass amongst others infrastructure, education, science, technology, arts and culture as well as initiatives to secure peace on the continent. See https://au.int/en/agenda2063/flagship-projects

The NGA would serve both ambitions. For Africa, it will contribute substantially to igniting an endogenous growth path that would create the conditions for African countries to become stable and less vulnerable partners with Europe. The advantages for Europe are manifold and should be seen in the light of its strong commitment to a carbon-free planet. A strong strategic and long-term vision will be needed to inspire the ultimate political will of EU Member States to allocate their SDRs to the NGA.

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Annamaria Viterbo [*]

THE REALLOCATION OF SPECIAL DRAWING RIGHTS TO THE BENEFIT OF THE AFRICAN CONTINENT: A PROPOSAL FOR EURO AREA COUNTRIES

1. Introduction

On 2nd August 2021, the IMF Board of Governors approved a historic allocation of Special Drawing Rights (SDRs) equivalent to US$650 billion.

SDRs are an international reserve asset that can be issued by the IMF whenever a long-term global need so requires, and which is supported by the obligations of members under the Articles of Agreement.[1]

The decision to create SDRs is taken by the IMF Board of Governors with a qualified majority of 85% of the total voting power. SDRs are then allocated to members participating in the SDR Department (currently all 190 IMF members) in proportion to their quotas.[2]

Once they receive their allocation, IMF member States can either 1) hold SDRs to strengthen their international reserves and improve market access or 2) exchange them for 'freely usable currencies'[3] to diversify the composition of their international reserves, ease liquidity constraints and create room for additional spending.[4]

Furthermore, SDRs can be used in a number of authorised transactions between IMF members (e.g. to extend bilateral loans and to settle financial obligations) or to pay off obligations owed to

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[1] Pursuant to Art. XVIII, Section 1 of the IMF Articles, the issuance of SDRs should meet a «long-term global need to supplement existing reserve assets in a manner that will promote the attainment of the IMF's purposes and avoid economic stagnation and deflation, as well as excess demand and inflation in the world».
[2] See IMF Art. XV, Section 1 and Art. XVIII.
[3] The IMF Executive Board finally determined that the US dollar, the euro, the renminbi, the yen and the pound sterling (the currencies included in the SDR basket) are 'freely usable currencies'.
[4] The value of the SDR is calculated by the IMF on the basis of a weighted basket of currencies. Currently, the currencies in the SDR basket are the US dollar (with a weight of 41.73%), the euro (30.93%), the Chinese renminbi (10.92%), the Japanese yen (8.33%) and the British pound sterling (8.09%).

the Fund (such as repaying loans and paying for an increase in quotas). Further uses can be authorised by the Executive Board with a qualified majority of 70% (Art. XIX, Section 2, let. c).[5]

In particular, IMF members do not have to meet any requirements to initially receive their share of a general SDR allocation from the Fund; they can trade SDRs on the voluntary market (on which see below) even in the absence of a balance of payments need and without entering into an IMF macroeconomic adjustment programme; moreover, they are decoupled from any kind of conditionality or repayment obligation. In fact, SDRs do not have to be repaid, do not have a maturity date, and do not have a scheduled amortisation plan.

SDR allocations thus provide each member with a supplementary, unconditional and almost costless reserve asset.

The IMF Executive Board can also grant the power to hold SDRs to 'prescribed holders', that is international organisations (e.g. multilateral development banks) or supranational institutions that perform central bank functions on behalf of more than one member of the IMF (e.g. the European Central Bank - ECB).[6]

Designated 'prescribed holders' may acquire and receive SDRs (e.g. as loan repayments),[7] but they are not entitled to receive direct allocations from the Fund.

Needless to say, SDRs are not a form of currency as they cannot be used as a means of payments by private entities or individuals.

IMF members can convert SDRs into hard currency in two different ways: a) on the so-called 'voluntary market' or b) through the 'designation mechanism'.

Nowadays, exchanges of SDRs are organised either directly between members and/or prescribed holders or facilitated by the Fund through Voluntary Trading Agreements (VTAs). At present, 33 countries and only one prescribed holder – the ECB – have a VTA in place.

Countries that cannot find a counterparty on the voluntary market can rely on the designation mechanism by which the Fund will designate the member with a strong external position which will be obliged to provide freely usable currencies to the requesting country.

2. Rechanneling SDRs to the benefit of vulnerable countries

In October 2021, the G20 countries declared their readiness to contribute the equivalent of $45 billion of their newly allocated SDRs to help vulnerable countries.[8] This is seen as a key step towards a total global ambition to rechannel $100 billion to the countries which are most in need.

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[5] On the additional uses of SDRs, see IMF, *Selected Decisions and Selected Documents of the IMF*, 2020, in particular those based on Art. XIX, Section 2 (https://www.imf.org/en/Publications/Selected-Decisions/selected-decisions-list).

[6] Currently there are 15 prescribed holders: four supranational central banks (European Central Bank, Bank of Central African States, Central Bank of West African States, and Eastern Caribbean Central Bank); three intergovernmental monetary organizations (Bank for International Settlements, Latin American Reserve Fund, and Arab Monetary Fund); and eight intergovernmental development organisations (African Development Bank, African Development Fund, Asian Development Bank, International Bank for Reconstruction and Development and the International Development Association, Islamic Development Bank, Nordic Investment Bank, and International Fund for Agricultural Development).

[7] See IMF, *Executive Board Decision n. 6467-(80/71)S*, 14 April 1980. This decision was adopted to give borrowing countries the possibility to use SDRs instead of hard currencies to reimburse MDBs loans, and therefore at their convenience.

This ambitious goal can be achieved by industrialised countries in different ways.

Most of the proposals concern the rechanneling of SDRs back to the IMF, either into the existing Poverty Reduction and Growth Trust (PRGT) or into the future Resilience and Sustainability Trust (RST) proposed by the IMF Managing Director, Kristalina Georgieva.[9]

The PRGT is the key financial tool through which the IMF provides interest-free concessional lending to low-income countries. The commitment to increase the PRGT's lending capacity using SDRs, however, has received a lukewarm response from developing countries. Concerns revolve around the fact that PRGT facilities are open only to low-income countries and that they involve standard (neoliberal) conditionality.

The RST, on the other hand, has yet to be finalised and, although it is designed to provide long-term concessional lending to vulnerable middle-income countries and small developing states as well, it is expected to complement regular IMF-supported programmes, thus creating additional old school conditionality.

Other proposals concern the rechanneling of SDRs towards multilateral development banks (MDBs) which are already SDR prescribed holders.[10] Reference is made to the African Development Bank (AfDB), the African Development Fund (ADF) and the Asian Development Bank (ADB). In fact, these three organisations can rely on contributions from their wealthiest regional and non-regional members. In fact, together with countries in the region, their membership includes most of the G20 countries and about half of the members of the euro area.

Last but not least, reference should be made to a number of proposals relating to the creation of SDR-backed mechanisms designed to accelerate the delivery of vaccines, to support investment in vaccine production and to strengthen preparedness for future epidemics.[11]

3. The key role of euro area countries: looking beyond legal constraints

Euro area countries are expected to redirect at least half of their current cumulative holdings of SDRs (equivalent to €173 billion, as of August 2021) to the benefit of vulnerable countries. However, they face additional legal challenges.

Indeed, in the euro area it is the Eurosystem (the European Central Bank and national central banks) that holds and manages the reserves of the Member States.[12] Consequently, national central banks (NCBs) hold and manage the SDRs of their respective Member States. The

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[8] See *G20 Rome Leaders' Declaration*, Rome, 31 October 2021, par. 10. For instance, the Italian government committed to contribute to the PRGT with 20% of its SDR allocation, equivalent to 4 billion USD. See Italian Ministry of Finance, Press release n. 200 of 31 October 2021, https://www.mef.gov.it/en/ufficio-stampa/comunicati/2021/G20-to-channel-45-billion-US-dollars-to-help-vulnerable-countries-aiming-for-100-billion-globally-00001/

[9] K. Georgieva, *Remarks by IMF Managing Director on Global Policies and Climate Change*, Venice, 11 July 2021, https://www.imf.org/en/News/Articles/2021/07/11/sp071121-md-on-global-policies-and-climate-change

[10] See, for instance, D. Andrews, *Reallocating SDRs to Multilateral Development Banks or other Prescribed Holders of SDRs*, CGDEV Policy Paper, 12 October 2021, available at https://www.cgdev.org/publication/reallocating-sdrs-multilateral-development-banks-or-other-prescribed-holders-sdrs

[11] J. Hicklin and H. Brown, *Vaccine Financing: How a Redesigned IMF Instrument Can Provide a Shot in the Arm for the Global Pandemic Response*, CGD Notes, 5 April 2021, available at https://www.cgdev.org/publication/vaccine-financing-how-redesigned-imf-instrument-can-provide-shot-arm-global-pandemic

[12] See Art. 127(2) of the TFEU.

mobilisation of these SDRs requires compliance with the monetary financing prohibition (Art. 123 of the TFEU).

This provision prohibits NCBs from granting overdraft facilities, or any other type of credit facility, to public authorities and bodies of the Member States. This prohibition however is subject to the exemptions set forth by Council Regulation (EC) no. 3603/939, including that relating to the financing by NCBs of «obligations falling upon the public sector *vis-à-vis* the IMF».[13]

SDR loans provided by euro area countries to the IMF's PRGT clearly fall under this exemption.[14] The key fact is that these loans result in a series of SDR-denominated claims that the NCBs have against the IMF and that SDRs retain all the characteristics of reserve assets. [15]

Due to these legal constraints, euro area countries willing to lend the SDRs held by their respective central banks to international organisations other than the IMF will first have to verify the compliance of this kind of operation with the monetary financing prohibition.[16] To this end, the SDRs, once transferred as loans or donations to an MDB, will have to maintain their nature as reserve assets.

Furthermore, it will also be necessary to revise the Council Regulation (EC) no. 3603/93 to include among the exemptions from the monetary financing prohibition 'financing by NCBs of obligations falling upon the public sector *vis-à-vis* MDBs'.

The legal constraints described above can be overcome. For example, in order to channel the 'European SDRs' to the European Bank for Reconstruction and Development (EBRD) with a view to promoting green and sustainable investments in Africa while strengthening the African regional integration process through a Next Generation Africa plan,[17] the following steps will be required.

First, the IMF should designate the EBRD as a prescribed holder of SDRs. Pursuant to IMF Art. XVII, Section 3, this decision requires an 85% majority of the total voting power.

Second, the Agreement Establishing the EBRD should be amended to allow for the payment of subscriptions in SDRs (Art. 6.3 of the EBRD Statute) as well as to authorise the Bank to administer special SDR funds (Art. 18 and 19 EBRD). This can also be an opportunity to change the EBRD unit of account from the ECU to the SDR (Art. 4 and Art. 35.1 EBRD). Pursuant to Art. 56 EBRD, amendments must be approved by no less than three-fourths of the members (including at least

[13] See recital fourteenth and Art. 7 of the Council Regulation (EC) n. 3603/93 of 13 December 1993 specifying definitions for the application of the prohibitions referred to in Articles 104 and 104b(1) of the Treaty (OJ L 332, 31.12.1993, p. 1).

[14] For instance, Italy's contribution to the PRGT is regulated by Article 16(6-sexies) of the Decree Law of 30 December 2016 n. 244, converted by the Law of 27 February 2017 n. 19. Banca d'Italia is authorised to enter into a loan agreement with the Fund to increase the PRGT lending capacity for a maximum amount of SDRs (which is likely to increase after the 2021 allocation). In parallel, the State provides a guarantee to Banca d'Italia on the reimbursement of principal and interest due on PRGT loans to cover risk.

[15] See Opinion of the European Central Bank of 28 December 2020 on NCB participation in International Monetary Fund borrowing arrangements (CON/2020/37).

[16] The same applies to SDR donations. In 2010, the Central Bank of Austria donated part of its SDRs to the PRGT subsidy account. Even if in principle this kind of contribution should be considered development aid, the ECB assessed its compliance with the monetary financing prohibition. See Opinion of the European Central Bank of 12 March 2010 on Austria's contribution to the Poverty Reduction and Growth Trust of the IMF (CON/2010/22).

[17] See F. MASINI, *Time for a Next Generation Africa*, Centro Studi sul Federalismo, Research Paper, November 2021.

two countries from Central and Eastern Europe), having no less than four-fifths of the total voting power of the members.

Third, Council Regulation (EC) no. 3603/93 will have to be revised to include among the exemptions from the monetary financing prohibition also 'financing by NCBs of obligations falling upon the public sector *vis-à-vis* [the EBRD]'.

4. The way forward

Already in May 2021, at the Paris Summit on Financing African Economies, the French President Emanuel Macron called for the reallocation of SDRs to African countries.[18]

Shortly after, at the end of the same month, more than 30 African and European leaders called for a *New Deal for Africa* to mobilise innovative financial instruments to increase funding for vaccine production and increase investment in health, education and the fight against climate change.[19]

The upcoming Summit on Financing African Economies between the EU and the African Union (AU), to be held in Brussels on 17 and 18 February 2022, will offer an opportunity to discuss how to achieve these goals while strengthening the African regional integration process.

The time is ripe to discuss how to concretely redirect SDRs to Africa and implement the *New Deal for Africa.* A decision will have to be made whether to use SDRs to directly boost the resources of the African Development Bank and/or of the African Development Fund or, alternatively, those of the European Investment Bank and/or the European Bank for Reconstruction and Development.

Both are viable solutions to amplify the impact of SDRs and support the recovery and progress of the African continent towards achieving the 2030 Sustainable Development Goals.

The legal challenges outlined above may seem daunting, but they can be overcome if there is sufficient political will.

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[18] See https://www.elysee.fr/front/pdf/elysee-module-17726-fr.pdf

[19] See European Council, *Press release: A New Deal for Africa*, 31 May 2021, available at https://www.consilium.europa.eu/en/press/press-releases/2021/05/31/a-new-deal-for-africa-op-ed-article-by-president-charles-michel-and-more-than-30-european-and-african-leaders/

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NEXT GENERATION AFRICA: OPPORTUNITIES AND CHALLENGES OF A NEW INSTRUMENT REALLOCATING EUROPEAN SDRS TO THE AFRICAN CONTINENT

1. Introduction

On the eve of the European Union – African Union Summit, it seems more necessary than ever to address the issue of deepening investments in/for the African continent, especially given the vast availability of resources in Europe following the implementation of the '*Next Generation EU*' and, in particular, thanks to the recent International Monetary Fund's (IMF) General Allocation of Special Drawing Rights (SDRs).

This research paper enters into the debate on how to use the resources provided by the IMF through a *General Allocation* of $650bn in SDRs to the 190 countries belonging to the organisation. It is crucial to remember that the use of this instrument depends on country-specific decisions and strategies. In our opinion, this *General Allocation* is a great opportunity for shaping the future of the relationship between the European and African continents. The main idea is to build a sustainable system that could reallocate a fraction of EU Members States' SDRs to the African continent and sustain a '*Next Generation Africa*'. A number of criticisms might be made, but it is important to underline that this will be neither a new expression of neo-colonialism, nor a form of Western paternalism. The purpose is to outline a shared pathway, considering the main challenges that the two continents face in the near future, bearing in mind that African vulnerabilities and strengths could become European ones and vice-versa.

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As shown by a number of authors,[1] technical problems are a major issue when considering the possibilities of an SDR reallocation from Europe to Africa, especially if they require changes in the statute of the IMF, or an 85% majority from the IMF Executive Board. Despite these technical challenges, the main difficulty the '*Next Generation Africa*' project may face is in the political will of the main stakeholders involved: the IMF and its most powerful members, Multilateral Development Banks (MDBs), the European Central Bank (ECB) and, in particular, the EU Member States. The freedom for the last group to invest part of their SDRs in an African sustainable development program, which would not immediately benefit EU countries, but act over a longer period, should not be taken for granted. Political reasons, debt conditions and pandemic uncertainties may act as impediments. Nevertheless, European integration history teaches us that if there is a strong conviction on the part of even a small group of willing states, even the most ambitious projects can take shape.

The definition of a set of instruments to provide the basis for '*Next Generation Africa*' may be born from a first set of willing states as forerunners, subsequent participation in the project will be open to other EU joiners. There is no doubt that the stronger this starting partnership is, the more effective the project will be. In our opinion, it is crucial to identify the most relevant actors involved and, at the same time, start an institutional debate with them about this opportunity. Our aim is not to offer a ready-made policy that must be blindly adopted, but rather to lay the foundations for a constructive meeting that brings together the needs of all parties involved.

Over the last months, a range of ideas for the reallocation of SDRs has been considered, many of them come from leaders of European and international organisations. The recent article authored by Kristalina Georgieva (Managing Director of the IMF) and Félix Tshisekedi (President of the Democratic Republic of the Congo and Chairman of the African Union) underlines that "*to tackle the climate crisis in Africa and put the continent on a new sustainable growth trajectory requires concerted efforts across national governments, the private sector, and the international community*".[2] Considering the measures promoted by the IMF, the reinforcement of the *Poverty Reduction and Growth Trust* and the institution of the *Resilience and Sustainability Trust* seem to be insufficient to address the challenges of the African continent, especially in the context of high uncertainty due to the pandemic, and considering the chronic weaknesses in the continent's development.

A statement that seems even more relevant, in the context of this paper, is that of the President of the French Republic Emmanuel Macron who, after announcing the EU-AU Summit next February, said: "*We need to recreate an economic and financial New Deal with Africa*".[3] If these are the premises on which a consolidation of the Euro-African cooperation is to be built in the next six

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[1] See, for example: (Plant, 2021) and (Andrews, 2021).

[2] (Georgieva & Tshisekedi, 2021).

[3] *"Il faut refonder un New Deal économique et financier avec l'Afrique"* (author's translation).
Emmanuel Macron also stated: *« Nous devons aller au bout de cette solidarité à l'égard des Africains qui consiste simplement à regarder les chiffres qui sont donnés par la Banque mondiale et le FMI : entre 2020 et 2025 il y a 300 milliards d'euros de besoins de financement pour les économies africaines car elles ont les conséquences du Covid-19 et une véritable explosion démographique à embrasser. (…) Nous devons accompagner dans sa transition énergétique et climatique le continent africain. Nous ne pouvons pas laisser les Etats africains en solution. Leurs défis sont encore plus importants que les nôtres*. » (Macron, 2021).

months, then we need more than ever to give concrete form to verbal intentions through the conception of a solid development project for Africa.

The European Union has repeatedly outlined the strategic role of the African Union since the inauguration of Ursula Von der Leyen's presidency of the European Commission. To date, no defined initiatives have been put on the table aimed at a concrete reallocation of European SDRs resources to the African continent. A lot of space is left to the political will of the richest countries, but it is fundamental to channel these resources towards the neediest countries for the purpose of long-term sustainable growth. The future strategic role played by Africa has been mainly understood in terms of security and development, neglecting the relevance of a commercial dimension. The emergence of a strong and modernising pan-African market is a precondition for enhancing sustainable development, reinforcing local institutions and governments. These three elements are essential to ensure security and manage migration flows, which seem to be, at the moment, the main interests of the European Union and its members with regard to Africa.

Given what has been already presented here and in a previous analysis by Masini,[4] an overview seems necessary of the main actors involved in the '*Next Generation Africa*' project, and of the mechanism that will operationalise the reallocation of SDRs' quotas from Europe to Africa; in a second instance, the focus will be placed on the relevance of the '*Next Generation Africa*' project in the international development assistance context.

2. Actors involved: overview

To follow the suggested approach of our research team, we must avoid seeking changes in the Articles of Agreement of the IMF, and have to strengthen a multilateral approach to European cooperation with Africa, bearing in mind the need to maintain strict monitoring on the utilisation of the resources towards agreed priorities, preferably through a supra-national approach.

As already underlined by several studies about the technicalities of the reallocations of SDRs, one of the main issues is the maintenance of the SDR's reserve asset status and, in the case of EU Member States, the apparent obstacle concerning "*the direct financing of multilateral development banks by national central banks through SDR channelling* [that] *is not compatible with the monetary financing prohibition*".[5] As Masini has pointed out,[6] Lagarde's statement refers to Euro area central banks; their activity of channelling SDRs towards MDBs will be not permitted. Nevertheless, it seems possible that a joint, *ad-hoc*, fund, agreement, or institution may perform this task.

For our purposes, the first step is to define which actors could play a decisive role in the realisation of the '*Next Generation Africa*' project. There are three main areas of action in which selected actors operate: (1) in structuring and managing the reallocation mechanism of SDRs from Europe to Africa; (2) in designing and defining the characteristics of the development project

[4] (Masini, 2021).
[5] (Lagarde, 2021).
[6] (Masini, 2021).

funded through the SDR reallocation; and (3) in ensuring monitoring of the utilisation of resources.

Each actor involved in the '*Next Generation Africa*' should play the role it is best designed for, although some of them may operate in more than one area of action. Starting from this perspective we have identified three main categories of institutions: (1) Governmental International Organisations with their operational arms; (2) MDBs and multinational banks with a strong development vocation; (3) Governments and National Central Banks.

2.1. Governmental International Organisations with their operational arms

In the first category of institutions, we consider the IMF to be pivotal in this project because, in the context of the 1st area of action, it probably will be necessary to request the status of SDR *prescribed holder*[7] for at least one Europe-based MDB to channel resources from Europe to Africa.[8] At the same time, it would be useful to obtain the IMF's support and access to their expert competencies, for the 2nd and 3rd areas of action mentioned above. In addition to setting the rules on the use of SDRs, the IMF acquired a great deal of experience over time in managing economic policy, supervising the overall macroeconomic performance of member countries and, in particular, in negotiating conditions on lending and loans under the policy of conditionality and consequently in ensuring their monitoring. This knowledge and expertise constitute a key source of information for large-scale investment management. The IMF already possesses well developed systems of guidelines for the dissemination of standards and for 'good practices' – particularly in complex and fragile contexts – these provide crucial knowledge for a successful '*Next Generation Africa*' project. We decided to consider alternatives to those instruments provided by the IMF. (i.e. the *Poverty Reduction and Growth Trust* and the forthcoming *Resilience and Sustainability Trust*) for two main reasons. On the one hand this negates obstacles deriving from imposed conditionalities and, consequently, it permits the definition of alternative parameters to those in force, which are still closely linked to the discipline of the '*Washington Consensus*' (the effectiveness of which is widely criticised). On the other hand, this allows a specific focus on the African continent to ensure the strengthening of the EU-AU partnership, with a view to responding to specific needs in the African context and, in particular, in that of deepening African continental integration.

The second institution involved in the project and part of the first category is the EU with its own Central Bank, the ECB, that has the ultimately responsible for the allocation/destination of SDRs reserve-assets from euro area Member States, and plays a key role in the process of rechannelling part of the European quotas towards Africa. As the ECB does not permit alternative uses for SDRs, a political change is needed, requiring a common will to modify current rules. The European Commission and the European Council may be able to put pressure on the ECB to make the

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[7] *"A prescribed holder may acquire and use SDRs in exchange for an equivalent amount of a monetary asset, other than gold, in transactions and operations with any other prescribed holder and with any of the IMF's members. However, a prescribed holder may not be allocated SDRs issued by the IMF, nor may it be required by the IMF to receive SDRs in exchange for currency."* (International Monetary Fund, 2021).

[8] These aspects will be discussed in the following paragraph: *2. Multilateral Development Banks and Multinational Banks with a strong development vocation.*

necessary change. Like the IMF, the main area of activity for the ECB will be the 1st; thus, the primary challenge in this context is to obtain ECB recognition that such investment funds do not violate its monetary financing prohibition. The role that will be played by the European Union is strictly related to the political will of its Member States. If the creation of a system of reallocating SDR quotas for the benefit of Africa were to be promoted by a substantial number of willing and strategically relevant states, then the ECB's positions in this regard might also be less assertive and allow a satisfactory solution – for the creation of the rechannelling mechanism – to be found within the existing treaties and, consequently, motivate the IMF to accept the request to make one or more European multilateral banks prescribed holders. The role of the ECB will also be relevant for the 3rd area of action. We consider the role of the EU to be crucial, especially considering its *Comprehensive Strategy with Africa*, which has been unable to take a more defined form, mainly due to the outbreak of the pandemic crisis. The *EU Comprehensive Strategy with Africa* incorporates five proposed partnerships: green transition and energy access; digital transformation; sustainable growth and jobs; peace and governance; and migration and mobility. Most of these topics mirror the economic and social pillars of the joint plan of action presented by the AU domestically through the '*Agenda 2063*', and the related challenges which will form the core of the priorities to be addressed in the '*Next Generation Africa*' development project.

The third institution, also related to the 1st category, is the African Union (AU). The AU is crucial in all three areas of action presented above. In structuring and managing the mechanism for the reallocation of SDRs from Europe to Africa, the AU has to provide information and support in the advocacy phase, especially when dealing with the IMF's constraints and with the ECB's hesitations. If the '*Next Generation Africa*' were to become a co-produced project with a committed involvement from recipients, and shared responsibilities, the legitimacy of the European countries' request for the definition of an *ad-hoc* instrument devoted to the reallocation of SDRs quotas would be reinforced by support from the 54 member states of the AU. The AU's support in this project fits into the strategic plan for the strengthening of EU-AU relations, and may be seen as a deepening in continental integration, especially in view of the recent establishment of the African Continental Free Trade Area (AfCTA)[9]. The '*Next Generation Africa*', the AfCFTA and the Africa Union's '*Agenda 2063*' will complement each other and have the potential to ensure the sustainable development of the African continent. The AU's '*Agenda 2063*' is a fifty-year objective and action plan; the program contains seven aspirations on a range of topics linked to development. The most relevant for our purposes is that which intends to create a prosperous Africa based on durable growth and sustainable development to raise standards of living, and enhance the quality of life of African populations. Financing is needed in regional integration and sustainable development; the '*Agenda 2063*' promotes a financing strategy that includes: domestic resource mobilisation, intermediation of resources into investments, and access to finance. According to studies,[10] the AU has inadequate financial resources to concretely implement most of the '*Agenda 2063*' programs. The '*Next Generation Africa*' would make it

[9] "*The AfCFTA aims to boost intra-African trade by providing a comprehensive and mutually beneficial trade agreement among the member states, covering trade in goods, services, investment, intellectual property rights and competition policy*" (African Continental Free Trade Area, 2021).
[10] For a general overview of these studies see: (Ndizera & Muzee, 2018).

possible to overcome this limitation, on the condition that a cooperative, non-paternalistic approach is guaranteed to ensure African ownership as enshrined by the '*Agenda 2063*' itself.

2.2. Multilateral Development Banks and Multinational Banks with a strong development vocation

Multilateral Development Banks (MDBs) core aim is to raise capital; moreover, they have developed a set of specialised skills in the field of project appraisal, and are involved actively in managing and directing the implementation of the projects financed.

For the purposes of this analysis, a primary role will be played by the *European Investment Bank (EIB)* and *European Bank for Reconstruction and Development (EBRD),* both of which are MDBs. As already shown, the main difficulty is to find a technical solution allowing these MDBs to hold SDRs, and the channelling of these resources to African continent counterparts; but the option of applying for the status of SDR *prescribed holder* could significantly reduce the present technical limits. Leaving aside this technical issue, closely related to the implementation of the reallocation mechanism, the most important role for the implementation of the '*Next Generation Africa*' falls to the MDBs.

Focusing on the EIB, its core priorities in Africa are vital infrastructure and private sector development; the main purpose of the EIB is to deliver investments to implement EU policies and standards in Africa. Right from the outset the EIB has played a key role in African development, and it offers a wide set of supporting activities.[11] Although the EIB has so far never managed a portfolio similar to that which a possible reallocation of European SDRs would generate, there is no doubt about its proven ability to manage medium- to long-term investments on the African continent, precisely in those areas we have selected as fundamental for development. Furthermore, the strengthened partnership with the African Development Bank Group (AfDB)[12] is another element that prompts us to consider the EIB as the ideal actor for the implementation of the '*Next Generation Africa*' project. Of great importance here is the '*AfDB-EIB Indicative Joint Action Plan for 2020-22*' which seems, in some ways, to have already outlined the structure and areas of action on which our '*Next Generation Africa*' would focus. The EIB would be the most appropriate institution for this purpose, especially given the specific competencies required in all three areas of action defined above.

Although its range of action in Africa is limited to Egypt, Tunisia and Morocco, a similar role could be played by the EBRD. The possibility of implementing the '*Next Generation Africa*' on a sub-regional basis, and the use of existing operational and local-based tools, should not be rejected in advance. The EBRD offers a wide range of financial instruments; its principal forms of direct financing offered are loans, equity and guarantees, and it provides business advisory services. The

[11] "*We lower the cost of strategic investment in Africa because of our efficient capital structure, which brings a favourable cost of funding through our bond issuance. We have a comprehensive product offering for the private sector from targeted long-term finance, de-risking operations, capital markets instruments and loans blended with European Commission funds to make our investments more impactful*." (European Investment Bank, 2021).

[12] The AfDB Group is an Africa-based Multilateral Development Bank. As we will see later, the AfDB Group is a key player in this analysis and its relationships with Europe-based MDBs are fundamental.

main sectors in which it is involved are agribusiness, infrastructure, and transport. While in the case of the EIB the activities are seen as a direct '*emanation*' of European Union policies, in the case of the EBRD there would be no such exclusivity since non-European states are members of this MDB, too. On the one hand, this could be a limitation in terms of freedom of action, but on the other hand, it could be an advantage in terms of further mobilisation of resources. As with the EIB, the EBRD has already set out a detailed set of priorities and strategies for Africa, which are largely linked to those defined both in Europe and in Africa to enhance resilience and development in Africa. Another relevant aspect is the recent *Memorandum of Understanding*[13] between the EBRD and the AfDB, that intends to promote and reinforce the partnership between these institutions in the geographic and sectorial areas where both of them operate, to unlock investment opportunities and promote sustainable private-sector development. As with the EIB, the EBRD may be considered a primary player thanks to its potentially crucial role in all three areas of action mentioned above.

The strengthened partnerships of the EIB and EBRD with the AfDB demonstrate the strategic role played by MDBs on the African continent. Thus, with regard to the African MDB on which to focus for the realisation of both the SDR reallocation mechanism, and the implementation of the '*Next Generation Africa*', the profile of the *African Development Bank Group (AfDB)* appears to be the most suitable given what we have already said about its consolidated collaboration with the EIB and EBRD, but also given its strongly regional character and its proximity to the African Union, its continental relevance and its status of *Prescribed Holder*. The AfDB comprises three entities: the *African Development Bank* (ADB), the *African Development Fund* (ADF), and the *Nigeria Trust Fund* (NTF). In this analysis, the focus will be on the first two entities. Given the specific competences of the ADB and the ADF, the former would potentially be able to deal with the management of loans, and the latter with grants coming from the recognised SDR reallocation facility. As they are already prescribed holders, any technical obstacles in the management of SDR resources appear to be less critical than for the European MDBs mentioned above. Even if many criticisms[14] have been levelled at the AfDB, both in terms of the effectiveness of its actions and its organisation, the AfDB enjoys a good reputation among African countries and regional institutions, and this is a decisive factor. Though somewhat dated as an action plan, the '*African Development Bank's Strategy for 2013–2022* remains a key document in appreciating the potential role of the AfDB in the context of a development plan for Africa. It has two main objectives: to achieve growth that is more inclusive, and to ensure that inclusive growth is sustainable, too. Furthermore, in 2015, the AfDB outlined five development priorities for the institution which can be considered as an update of the 2013 strategy. The commonly called '*High5s*' priorities are: Light up and Power Africa; Feed Africa; Industrialise Africa; Integrate Africa; and Improve the Quality of Life for the People of Africa. The AfDB is one of the main catalysts for convening and connecting the right players in the African development context, enhancing regional cooperation and integration, and even guaranteeing public-private partnerships. It presents itself as "*the voice for Africa in the development community*"[15] and has embraced the objective of scaling up its activities by

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[13] (Zgheib, 2021).

[14] See for example: (Humphrey, 2014) & (Birdsall, 2018).

[15] "*As a pan-African development finance institution, the Bank has a unique role as the voice for Africa in the development community. With national and regional leaders, the Bank will further develop its voice for Africa*

leveraging and crowding-in financial resources, and moving from "billions to trillions"[16]; the opportunity presented by the '*Next Generation Africa*' could fit in with these stated goals. As for the two European MDBs discussed above, the AfDB Group has to be considered a prime actor in all three areas of action under discussion. Its contribution to lobbying activities for the implementation of both the SDRs reallocation tool, and the '*Next Generation Africa*' project is fundamental. Being an MDB, its operational and organisational vocation in the African context is an essential aspect for the implementation and monitoring of the investment plan. The AfDB Group will undoubtedly be under scrutiny as an institution that will have to put itself to the test, and exploit its potential to the best of its ability.

The fourth element included in the second category is multinational banks with a strong development vocation. The role of these banks could be in some ways parallel and complementary to the previous project presented above that wants to channel resources through MDBs. The idea is that European States can directly finance multinational banks through additional loans and capital allocations denominated in SDRs. The ideal vehicle for this alternative opportunity might be the African Export-Import Bank,[17] that is already involved in the design of the Pan-African Payment and Settlement System (PAPSS),[18] in collaboration with the AfCFTA Secretariat. The choice of using this specific bank as an instrument for the implementation of the '*Next Generation Africa*' is also due to its strategic geographical location in Egypt, its established expertise in the sector, and finally, the four strategic pillars[19] that guide its work. From our standpoint, embedded in the idea of integration between the actors potentially involved in the implementation of the '*Next Generation Africa*', multinational banks with a strong development vocation respond to the strategic necessity of financing inter-African trade and, in particular, to use SDRs to finance the probably negative balance of the relevant transactions; it could be a repeat of the process that led to the union of payments in Europe. More specifically, European countries first and foremost, (and if wished, African countries as well), could use part of their SDR quotas to strengthen the capital of the African Export-Import Bank (which could acquire the status of '*Third Party Holder*' as provided for in the IMF rules). By doing so, it would be possible to create the conditions to constitute a first nucleus of African countries whose financial transactions resulting from intra-African trade are settled in SDR, without having to have recourse to reserves of convertible currencies (such as the euro, dollar, renminbi, or pound). This would be a process similar to that adopted by European countries post-WWII with the '*Union of Payments*'

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on development issues, sharing its views and experience. It will also confidently present the African voice at multilateral forums on development, financial architecture, commodities, trade and other issues relevant to African economic and development interests." (African Development Bank (AfDB), 2013).

[16] (African Development Bank Group, 2021).

[17] "*Our Vision: To be the Trade Finance Bank for Africa. Mission Statement: To stimulate a consistent expansion, diversification and development of African trade, while operating as a first class, profit-oriented, socially responsible financial institution and a center of excellence in African trade matters*." (African Export-Import Bank, 2021).

[18] It is a "*Financial Market Infrastructure to enable instant, cross-border payments in local currencies between African arkets. By simplifying cross-border transactions and reducing the dependency on hard currencies for these transactions, PAPSS is set to boost intra-African trade significantly and underpin the implementation of the African Continental Free Trade Area (AfCFTA).*" (African Export-Import's Bank, 2021).

[19] "*Promote Intra-African Trade, Facilitate Industrialization and Export Development, Strengthen Trade Finance Leadership and Improve Financial Performance and Soundness.*" (African Export-Import Bank, 2021).

that made it possible to counter the *dollar shortage,* at least for intra-European trade. It should be emphasised that in this process the African Export-Import Bank could be joined by other multinational banks, strengthening the plan and its chances of success. This would be especially likely if African states were to import knowledge and technology from Europe. Even in this case, there are technical difficulties that would have to be resolved both within the IMF and within the ECB. Multinational banks with a strong development vocation, and in particular the African Export-Import Bank, could play a decisive role in designing and managing the characteristics of the '*Next Generation Africa*' project, and in ensuring the monitoring of resource utilisation.

As we have seen, the heart of the action for the implementation of '*Next Generation Africa'* lies in the second category of institutions, in particular through the involvement of MDBs. There is no doubt that the intrinsic characteristics of these institutions make them ideal partners for the implementation of development projects and that, to date, their potential is grossly underexploited. For this very reason, it seems to us more than ever necessary to seize the opportunity represented by the recent and very large allocation of SDRs, to increase the legitimacy of these institutions, and ensure their optimal operability – especially in the context of a vulnerable continent such as Africa. It is evident – given the structures of the institutions presented in the first two categories – that states, their Governments and Central Banks play a major role, both highly political and strategic in nature.

2.3. Governments and National Central Banks

Governments and National Central Banks would primarily participate in structuring and managing the mechanism of SDR reallocations from Europe to Africa; they would ensure the availability of SDR resources according to their financial needs and dispositions with respect to national, international, and notably European Law. Furthermore, European Governments will need to put pressure on relevant supranational institutions through lobbying, declarations of intent, requests for evaluations and proposals for reform that would allow the concrete realisation of an instrument that would channel quotas of SDRs from Europe to Africa, in one of the various ways presented so far. As repeatedly pointed out, the technical obstacles are basically surmountable through a strong and concrete political will.

In respect of the activities of designing and managing the characteristics of the development project funded through the SDR reallocation, and actions aimed at ensuring the monitoring of the utilisation of these resources, these are sectors in which the Central Banks will not operate directly, but in which Governments will have a fundamental role in the phases of negotiation, the definition of objectives, and considering conditionalities; a secondary role could also be played in the field of monitoring. Governments will have to rely on the cooperation structures they already have (Ministries and Development Agencies), as well as acting as intermediaries between the potential national providers of goods and services, that could benefit from the establishment of such a bold development project for the African continent, and that would certainly also benefit a vast number of national actors, both public and private.

European states must recognise the strategic nature of a long-term development project for the African continent; with this awareness and a clear agenda for action, it is highly likely that the technical limits will be overcome. The structure of the international organisations (IMF and EU) to which governments – in this case both European and African – must turn their attention does not guarantee democratic decision-making, but is based on more or less institutionalised systems of veto. This peculiarity calls for strong cooperation between the various members involved in the project, and a strong and unequivocal position to generate change. As we shall see in the next few pages, this change could be radical in many ways.

African sub-regional organisations have been deliberately left out of the analysis, as their contribution was considered somewhat superfluous at an early design stage. There is no doubt that at a later stage, these actors could play a major role in the implementation of '*Next Generation Africa*', given their specific context-related skills and knowledge, the range of existing operational tools at their disposal, and the legitimacy they hold. At a later stage, it will also certainly be necessary to focus on these actors in terms of both opportunities and challenges to ensure the success of the '*Next Generation Africa* project.

3. The relevance of the 'Next Generation Africa' project

'*Next Generation Africa*' will surely be the most ambitious European investment development project, and will become the most relevant instrument implemented within the framework of the '*Comprehensive Strategy with Africa*' presented in March 2020 by the European Commission. As discussed by Masini in his 2nd Scenario,[20] the objective is to raise up to €250 bn through the financial markets for the implementation of the project, thanks to an initial investment in SDRs corresponding to €50bn. The exceptional scale of this project would far exceed all the resources allocated to the entire '*Neighbourhood, Development and International Cooperation Instrument' (NDICI),* and the sum of the development effort of all EU Member States in Africa. While a number of projects and programs already target the African continent within in the framework of the European Union and its related institutions, the aim of the '*Next Generation Africa*' is to provide further financial support to those projects trying to strengthen the role of MDBs, especially the AfDB Group, reducing the bottom-up approach that has been the main form of development policies when addressing southern countries' needs. The main five priorities presented above[21] – energy independence, digital infrastructure, health, green transition, and education – broadly correspond to key issues and fields of cooperation that have been identified on both sides of the Mediterranean.

There is no doubt that there is a need to strengthen what has been presented so far in the partnership between European and African institutions. In particular, it seems necessary to integrate what has already been considered with identified priorities on the African continent at the local level, in terms of groups that have difficult access to the resources necessary for their development, and whose claims suffer from insufficient political representation. In the light of these considerations, it seems essential to ensure that the instruments promoted by the '*Next Generation Africa*' include both large-scale and general projects (infrastructure, communication

[20] (Masini, 2021).
[21] Ibid.

systems, etc.) and small-scale, highly context-related and people-centred projects (microcredit access, professional education, etc.).

The importance of this project can also be seen in a different context from those relating to the economic and social development of the African continent, and the exceptional mobilisation of resources that it would involve. The African Union would have the role of ensuring, as we have seen, support and control at every stage of the project. This acquisition of responsibility would lead to the affirmation of the AU as the partner of reference in the international arena for affairs relating to the continent. Moreover, it would allow the deepening of continental integration, needed to ensure the full realisation of the common market, and also to mitigate the risks related to the political and financial stability of member states, as well as to strengthen the political legitimacy of the AU itself.

The '*Next Generation Africa*' project is intended to contribute to an expansion process of the framework of global partnerships that has arisen in response to the increasing complexity of development assistance architecture, and the emergence of new challenges and actors in the African continent. This ambitious development project will be added to the framework of the *Global Partnership for Effective Development Co-operation*[22]. In fact, the approach that will be promoted through this project reflects the change in the paradigm of international development assistance presented in the Busan Declaration as '*cooperation for effective development*'. The main idea is to reinforce partnerships between donors and recipients of assistance, as well as to consider the need to involve civil society and private businesses in the promotion of African sustainable development.

From our perspective, a great deal of joint work in defining the instruments and objectives to be achieved has already been done within the European Union, the African Union and the MDBs described here. Particularly noteworthy is the document issued by the EIB in which the principles, modalities and instruments that would allow a solid '*cooperation for effective development*' with Africa are defined in detail, and substantially.[23] Even though the ambitions and areas of intervention of the '*Next Generation Africa*' may go beyond those characterising the work of the EIB, these ethical-organisational elements should also find a place in the case of such an audacious project. In the light of this, there is a clear need to use the EIB as a bridgehead for the implementation of the '*Next Generation Africa*' project, both in the light of the existing partnership with the AfDB, which it also proposes to strengthen, and given its consolidated management and monitoring capacities in the field of development in Africa, without neglecting its European-exclusive character that would facilitate the implementation of a strategy in line with EU guidelines. In this regard, it seems appropriate to draw attention to the document '*AfDB-EIB Indicative Joint Action Plan for 2020-22*'. This is fundamental, it both defines the potential relationships between two of the main actors that will be involved in the concrete implementation of the '*Next Generation Africa*', and identifies the current relevance of the debate

[22] The Global Partnership for Effective Development Co-operation (GPEDC) is: "*the primary multi-stakeholder vehicle for driving development effectiveness, to maximize the effectiveness of all forms of co-operation for development for the shared benefits of people, planet, prosperity and peace*" (Global Partnership for Effective Development Co-operation, 2020).
[23] (European Investment Bank, 2021).

on the need to mobilise additional resources for the African sustainable development through strategic actors such as (but not limited to) the AfDB and the EIB.

Through the use of MDBs, it will be possible to ensure that services are adapted to the real needs of the population and economic actors that will benefit from the resources mobilised by the '*Next Generation Africa*'. The services offered can potentially be '*tailor-made*' and differentiated according to contexts, and should allow for a more effective use of funds and a reduction in risks, as well as allowing for a more virtuous allocation of resources.

The proposal presented here for a '*Next Generation Africa*' aims to go beyond what is already present in the scope of development plans and, in particular, aims to offer alternative solutions to those proposed by the IMF and the WB. The most important innovation in this sense is the substantial reduction in the structural reform element in the aspects of conditionality, which tends to strongly characterise the instruments made available by the IMF and the WB. Although the objective of promoting '*good governance*' of the resources made available remains, the intention is to offer funding channels and resources that are also accessible to the most fragile and poorest countries, without indissolubly linking investments and structural reforms, but rather promoting an approach based on project conditionality. This approach would allow for a process of accountability that would be partially disconnected from the political vicissitudes and financial conditions of individual countries (as the responsible actors would range from the public to the private sector on both a local and international scale). This method would also strengthen the role of African regional institutions and other local actors involved: a virtuous process based on trust and the achievement of defined objectives.

It is expected that, in addition to seeing a substantial boost in the economy, and an improvement in living conditions on the African Continent, ideal conditions for maintaining the political and financial stability of individual countries will be created, which are essential elements to guarantee the sustainability of the process of social and economic development on the Continent. From a European perspective, the benefits have the potential to translate into better and more coordinated management of migratory flows, greater border security and access to a market in full development that will certainly have to acquire technologies, knowledge and resources from the Old Continent in order to carve out a primary role on the international stage.

4. Final recommendations

In conclusion, we propose a brief description of how the '*Next Generation Africa*' project might conceivably be shaped. This is only one of the possible forms in which the project of an ambitious investment plan for Africa could come to life, the alternatives are multiple; the following attempt aims at considering aspects related to economics, politics and integration processes at work in Africa and Europe.

The realisation of the '*Next Generation Africa*' would, in our opinion, require an *ad-hoc* fund/institution that could be the expression of the common will of the EU (or a section of its member states) and the AU. This would be a body that would be responsible for the management of the mobilised resources (both in terms of grants and loans), coming from the European countries as a portion of their respective shares of SDRs from the last IMF General Allocation, and that would guarantee the implementation of a '*Next Generation Africa*' project. This instrument would operate directly on the African continent through the MDBs (EIB, EBRD and AfDB Group) – without excluding the possibility of using other instruments and institutions already operating in the context – to implement the '*Next Generation Africa*' and ensure its monitoring. This instrument needs to be based on a co-produced strategy – preferably and primarily encompassing the needs and priorities identified at the African level (ex. Agenda 2063) – but which can also meet the needs highlighted by the EU in its relations with the African continent. The institutionalisation of this *ad-hoc* fund/institution should take the form of a treaty that unequivocally commits the EU, the AU and the main actors identified here to the achievement of well-defined objectives and the implementation of projects. This would create a form of international cooperation that goes beyond the limits of a blind conditionality approach and focuses on a genuine long-term perspective.

Despite the undeniable opportunity that '*Next Generation Africa*' represents, difficulties and obstacles remain in its implementation that should not be underestimated. First and foremost is the question of obtaining the status of '*Prescribed Holder*' by the EIB and EBRD, and maintaining the reserve-assets character of the SDRs resources committed to the project. Many studies have pointed out that bad leadership, corruption, poor infrastructure, unemployment, lack of access to healthcare, and conflicts constitute major obstacles to the realisation of the development process in Africa. Furthermore, there are elements that call for caution, especially with regard to the African actors presented here, since it has been repeatedly established that they were unable to effectively manage their partnerships because of shortages in terms of financial, technical and coordination capacity. Nevertheless, such an ambitious investment programme for development would also entail strengthening the organisational and management capacities of these actors.

It remains a question of political will, if the instruments for implementation do not yet exist, they can always be created.

The set of prerogatives presented here for '*Next Generation Africa*' raises a number of important political questions. It would be interesting to try to predict the reactions of other international actors if the project were somehow embraced in these terms by Africa and Europe; particularly considering what the potential positions and strategies of, for example, the USA and China. Furthermore, another aspect that will have to be taken into account is the potential for criticism from non-target countries, especially in the light of existing forms of partnership put in place by the European Union, in particular those under the Post-Cotonou Agreement between the EU and the ACP. These aspects need to be carefully analysed in the future.

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CONCLUDING REMARKS AND POLICY SUGGESTIONS

The project illustrated here, which stems from the extraordinary opportunity of the recent general allocation of SDRs amounting to $650bn, aims to strengthen both European and African regional integration through a joint development initiative.

It is designed to use SDRs as a fiscal currency, rather than as a reserve asset, thus changing their initial character. As the international economic, monetary, and political frameworks have evolved dramatically since their inception in the 1960s, SDRs should adapt to these changing conditions.

Effort should be aimed at reducing resistance between the following goals:

1. At their request, the IMF should declare the EIB and EBRD as prescribed holders of SDRs.

2. The ECB should allow part of the EU Member States' latest SDR allocation to be pooled for development purposes, overcoming the bias in favour of their strict use as a reserve asset.

3. Political will should emerge from a significant group of EU countries to devote a share of their SDRs to this project.

4. African countries should also show their interest in this initiative.

5. Both European and African countries, possibly through their regional representatives, should agree on a system of conditionality and monitoring of funds.

6. African counterparts, such as the African Development Bank and Fund, should be ready to play a key watchdog role in this initiative.

7. Transnational banks, such as the African Export and Import Bank, should be involved in this initiative to explore the possibility of increasing a private market for SDRs linked to this project.

If these issues appear to be too many and too difficult to achieve, we should bear in mind that the *status quo* and continuing *business as usual* can carry even more dramatic risks.

We invite the Ministry of Foreign Affairs in Italy, that sponsored this study, to take the lead in this initiative, bring it to the attention of other national, European and international institutions and take all the necessary steps to collect and broaden consensus on it.

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