

SPECIAL DRAWING RIGHTS

The Bank of Mozambique is discretionally managing the USD 310 million allocated by the IMF in the context of COVID-19

- This is about 310 million dollars (USD) that the country received in the fourth general allocation of Special Drawing Rights from the IMF in August 2021, whose management is not reported in the different reports of the Ministry of Economy and Finance (MEF) because it has been managed in a discretionary and non-transparent way by the Bank of Mozambique (BM). The BM assumed ownership of the funds and exempted itself from accountability, not issuing any statement acknowledging receipt of funds or plans or updates on their use in mitigating the impacts of the COVID-19 pandemic.



Following the outbreak of the COVID-19 pandemic and the registration of the first cases in Mozambique in mid-March 2020, the Government prepared a plan valued at USD 700 million to mitigate the potential direct and indirect impacts of the pandemic and those arising from the restriction measures adopted for its containment. Since then, the Government, through the Ministry of Economy and Finance (MEF), has regularly reported the financial and physical execution of funds mobilized from cooperation partners for the implementation of the plan.

In all, eight (08) reports have been released to date, the last one referring to the period between March 2020 and December 2021. The latest information available on the management of funds indicates that the Government of Mozambique has mobilized with its cooperation USD 930 million, 33% above the USD 700 million that had been initially planned to lessen the impact on different sectors¹(Health, Social Assistance, Small and Medium Enterprises, Impact on State Revenue, and others). Meanwhile, there are funds that the country has received from the International Monetary Fund (IMF) in the form of 217.8 million Special Drawing Rights (SDRs)²– equivalent to 310 million dollars³, whose management is not reported in the different MEF reports because the amount has been managed in a discretionary and non-transparent manner by the Bank of Mozambique.

Mozambique received the resources in August 2021 under the fourth general allocation of Special Drawing Rights (SDR) from the IMF. In total, the IMF made a historic allocation of USD 650 billion to all IMF members who are part of the Special Drawing Rights Department (currently all 190 members), in proportion to their existing shares in the Fund, that Mozambique received the equivalent of USD 310 million. With the decision, the Fund believed that the resources would help countries to face the con-

text of unprecedented crisis, providing necessary liquidity for economies to adjust their policies without creating distortions and providing fiscal space to adequately respond to the impacts of the crisis, and finance the purchase of vaccines.⁴

A year and three months later, Mozambicans know little about the destination of the USD 310 million that the country received. In fact, due to the “secrecy” that prevails in relation to the use of Special Drawing Rights, most Mozambicans do not even know that these resources were allocated to the country. The Bank of Mozambique assumed exclusive ownership of the funds and exempted itself from accountability, not issuing any statement acknowledging receipt of funds or plans or updates on their use in mitigating the impacts of the COVID-19 pandemic.

Fundamentally, Mozambicans were not only denied the possibility to decide on the application of the said resources but also did not have the opportunity to monitor the impact of Special Drawing Rights allocations due to the absence of official information at the national level on the matter. Indeed, apart from the quarterly information on External Statistics which only shows movements in the Special Drawing Rights account, little information is disclosed on the subject.

Information provided by the IMF itself indicates that of the 217.8 million Special Drawing Rights that were allocated to the country in August 2021, making a total of 221.8 million when added to the four million Special Drawing Rights that Mozambique already held, only 10 million in Special Drawing Rights were used until July 2022. In addition to the fact that it is impossible to assess the extent to which these resources are being used in accordance with the initial idea of the Fund to alleviate the impacts of the pandemic, it is not known what purpose was given to the 10 million Rights Loot Specials that have been used.

¹ <https://www.mef.gov.mz/index.php/publicacoes/covid-19/1641-relatorio-de-monitoria-da-execucao-financeira-e-fisica-dos-fundos-alocados-em-resposta-a-covid-19-crisis-in-mocambique-marco-de-2020-a-december-de-2021/file>

² SDRs are complementary foreign exchange reserve assets defined and maintained by the IMF. SDRs are units of account in the Fund and not a currency per se. Injection by the IMF allows countries to stabilize their currencies and reinforce their reserves or finance a series of fiscal policies without incurring an increase in indebtedness.

³ The SDR reference exchange rate on July 1, 2021 (date of presentation by the President of the Fund of the report on the Executive Committee's discussions on the Proposed General Allocation of Special Drawing Rights) was 0.702283 SDR per USD .

⁴ <https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/07/12/Proposal-For-a-General-Allocation-of-Special-Drawing-Rights-461907>

Special Drawing Rights belong to Mozambicans, not the Bank of Mozambique

There is a misconception that Special Drawing Rights are the exclusive property of the Bank of Mozambique and should only be used (exchanged) exceptionally for the balance of payments purposes. However, the simple fact that this important instrument integrates the list of assets that make up the international reserves⁵ does not prevent it from being used for fiscal purposes, with priority expenditures such as health and vaccination or other investment needs, especially when it comes to an atypical context of a crisis⁶.

What's more, nowhere in the IMF Agreement is it written that Special Drawing Rights must be administered exclusively by central banks. In fact, articles XV and XVII of the said international treaty expressly define "member countries" as beneficiary entities of the Special Drawing Rights⁷. In this sense, Mozambique or Mozambicans are the true beneficiaries of Special Drawing Rights, and their management in terms of application must necessarily be a sovereign decision and not a central bank decision. Incidentally, as recognized by the IMF itself in a note⁸ accompanying the 2021 general allocation, members enjoy a large degree of freedom in how they manage the Special Drawing Rights allocated to them, including the extent to which central banks are involved in managing them and whether the state budget can use directly to support the financing of expenses.

Since joining the IMF membership in September 1984, Mozambique has received a total of 326.6 million in Special Drawing Rights⁹ (first in 2009 and most recently in 2021). At all times, including the allocation made in August last year, the resources were treated as the property of the Bank of Mozambique and held as international reserves, eliminating the opportunity to use the equivalent amount of the Special Drawing Rights to strengthen public

services (health, education and social protection) and respond to the pressures that arose as a result of delays in the disbursement of funds by the other partners within the scope of the commitments made with the Government.

The fact is that a certain opacity still prevails in the management of Special Drawing Rights in the country. This situation is particularly evident considering that, in some countries, there are specific legislations that require the Executive to go to the parliament to obtain approval for the allocation of Special Drawing Rights in specific sectors and, thus, make their application responsible and in favor of the citizens' interests. Likewise, many countries channel resources directly to the budget, which also undergoes approval by parliament as the representative body of citizens.

The main conclusion is that there is no obstacle for the Special Drawing Rights to be applied for purposes other than serving as exclusive assets of the Bank of Mozambique¹⁰. In practice, and as was evident with the emergence of several successful cases worldwide, Special Drawing Rights can also be used for budgetary purposes or even to reduce the country's public debt with the IMF. For example, in the current context of the pandemic, since the implementation of the US\$ 650 billion allocation, 39 countries had already registered US\$37.3 billion in Special Drawing Rights in government budgets or had used them for tax purposes (if the purchase of vaccines) until the beginning of the current year, saving lives and promoting social recovery in the face of the worst economic and health crisis in the last 100 years¹¹. Therefore, at the national level, it is also necessary to break the secrecy and authoritarianism that currently characterizes the management of Special Drawing Rights and align it with the country's priorities.

⁵ Under the terms of Law No. 01/92 of January 3, which defines the nature, objectives and functions of the Bank of Mozambique as the Central Bank of the Republic of Mozambique, the country's foreign exchange reserves are part of the Special Drawing Rights along with gold, silver, foreign currency and other assets denominated in foreign currency.

⁶ <https://www.latinadd.org/wp-content/uploads/2021/08/Handbook-for-the-use-of-SDRs-for-Fiscal-Purposes.pdf>

⁷ <https://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf>

⁸ <https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319>

⁹ <https://www.imf.org/-/media/Files/Data/IMF-Finance/Quarterly-Financial-Statements/2022/073122.ashx>

¹⁰ https://repository.cepal.org/bitstream/handle/11362/47856/1/S2200199_en.pdf


¹¹ <https://cepr.net/eighty-countries-have-already-used-their-special-drawing-rights-but-more-are-needed/n>



EDITORIAL INFORMATION

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