Jesuit Centre for Theological Reflection

JCTR

Promoting Faith and Justice

Policy Brief:

SDRs (Special Drawing Rights)

Not a Sustainable way of Supporting Zambia's National Budget

By RAWLINGS JERRY MAZUBA KALUBI, PhD (Economics)

JANUARY 2023

EXECUTIVE SUMMARY

In August 2021, the International Monetary Fund (IMF) allocated by far the largest allocation to date of Special Drawing Rights (SDRs) amounting to SDR 456.5 billion (equivalent to about US$650 billion). The purpose of this allocation was to address the long-term global need for reserves, build confidence, foster the resilience and stability of the global economy and help countries cope with the impact of the COVID-19 pandemic. At the time of this allocation, most countries in Africa were facing serious economic challenges which were exacerbated by the effects of the Covid-19 Pandemic. External financing to help the African continent recover was not available because most of the countries in Europe, North America and even China itself were trying to solve economic woes of their own which the pandemic had inflicted on their respective economies. Therefore, the IMF allocation of the 2021 SDRs provided much needed financing for African countries which had no other alternative ways to finance their way out of the Covid-19 Pandemic.

The study showed that SDRs funded the Constituency Development Fund (CDF)'s Youth & Women Empowerment Funds in the Ministry of Local Government and Rural Development as well as the Ministry of Health (Grants to the hospitals, and Drugs, Medical Supplies, Equipment & Covid-19 Vaccines), Ministry of Community Development and Social Services (Food Security Pack and Social Cash Transfer), and the deficit gap in the Public Service Pensions Fund (PSPF).

The study also showed that SDRs are not a sustainable way of financing the social sector programmes which the Zambian government financed through its allocated SDRs. The Zambian Government should instead look for other sustainable ways of financing its Social Cash Transfer programme. The number of beneficiaries should not increase due to the promise of more aid from its cooperating partners who help fund the programme. The same could be said about the youth and women empowerment funds, grants to all the hospitals in the country, the Food Security Pack (FSP), PSPF's financing gap and drugs, medical supplies, equipment and Covid-19 vaccines. All these are great social programmes which the government needs to have sustainable sources of financing in order to enhance them and to keep them running.

Since every government has the right to decide how, when and where to spend its SDRs, the JENA and JCTR researchers commend the Zambian Government on how it has utilised SDRs thus far and this level of transparency from the government should continue if we are to advocate for more SDRs allocation towards Africa.

INTRODUCTION

The International Monetary Fund (IMF) has been allocating SDRs to its member countries since 1972, when it first allocated SDR 9.3 billion in yearly installments in 1970–72. Another SDR 12.1 billion was allocated in yearly installments in 1979–81. During the financial crisis of 2009, SDR 161.2 billion was allocated on August 28, 2009. In the same year of 2009, a special one-time allocation of SDR 21.5 billion took effect on 9 September 2009 to correct the fact that members joining the IMF after 1981 had never received an allocation (the Fourth Amendment special allocation) (IMF, 2022). The latest allocation of SDRs by the IMF was in August 2021, when it allocated by far the largest allocation to date of Special Drawing Rights (SDRs) amounting to SDR 456.5 billion (equivalent to about US$650 billion).

The Zambian Government received SDR 937.6 which was approximately US $1.3 billion (Zambian Business Times, 2021). It decided to use its SDRs to boost its foreign exchange reserves and it also used some SDRs to support its 2022 budget to fund social sector expenditure.

SCOPE AND METHODOLOGY

The scope of this study was to assess the allocation and use of SDRS in Zambia between January and May 2022. The methods which were employed to carry out the study are document review, key informant interviews, thematic analysis of narratives from key informants and graphical analysis.

RESULTS AND CONCLUSIONS

DESCRIPTION	RESULTS	CONCLUSION
Public Service Pensions Fund (PSPF)	SDRs funded 100% of the 2022 PSPF budget allocation, funds were used to dismantle outstanding lump sum and monthly pension benefits resulting in the reduction of the average waiting period from three years to less than a year.	Pensioners do not have to wait for years before they get their pension. This has significantly reduced the number of pensioners on the Separatees Payroll.
	Public workers and Local government workers do not have an Occupational Pension Scheme. The Public Service Pensions Fund Board is proposing to introduce a new scheme (Occupational Pension Scheme) for public service workers (excluding defense and all Security wings) who joined the civil service after the establishment of NAPSA.	If not addressed, the non-incorporation of public service workers in an Occupational Pension Scheme, in this case PSPF, is likely to lead to inadequate pension after retirement and this may lead to high levels of destitution and poverty among pensioners in Zambia.
	PSPF is currently facing a misalignment of contributions and benefits. In its latest actuarial report (2020), the contribution rate is supposed to be 38.6%, however, PSPF only gets 14.5% resulting in a shortfall of 24.1%. PSPF's current	PSPF could reduce its deficit if it were allowed to provide an Occupational Pension Scheme for the newly employed public workers. This would allow PSPF to collect contributions from public workers that are

	actuarial deficit is K50.4 billion and its funding level is 3%, representing the assets that PSPF has to meet its liabilities.	contributing to NAPSA and use them to make payments to pensioners and make investments. This is very critical to the efficient operation of PSPF. SDRs are not a sustainable way of financing PSPF.
Grants to Hospitals (MOH)	SDRs funded grants to all the hospitals to finance their operations.	Funds were disbursed to all the public hospitals in the ten provinces.
Drugs, Medical Supplies, Equipment and Covid-19 Vaccines	SDRs contributed to the significant increase in the 2022 drugs budget (K3.4 billion) relative to the 2021 drugs budget (K1.4 billion).	The increased drugs budget, though not enough, helped to pay for the much needed drugs in the country.
	There was a significant shortage of drugs in the country.	The COVID-19 Pandemic contributed to the shortage of drugs in Zambia as it disrupted global supply chains and ZAMMSA was equally affected.
	The procurement of medicines and medical supplies is no longer a function of the Ministry of Health. This function is now the sole responsibility of the Zambia Medicines and Medical Supplies Agency (ZAMMSA).	ZAMMSA will become more efficient and effective and this will also help it respond to changes in its store room in a timely manner. This has also led to the commercialization of the institution.
Youth and Women empowerment funds	SDRs funded this component of the Constituency Development Fund (CDF). Grants were issued while loans are yet to be issued.	Cheap financing was made available to youths and women in all the constituencies.
	SDRs provided funds for skills development among the youths across the country.	Youths are being equipped with skills to help them become self-employed.
Social Cash Transfer (SCT)	SDRs helped fund the Social Cash Transfer Programme which increased the number of its beneficiaries to 973, 323 (as at July 2022) from 880, 539 beneficiaries in August 2021.	More beneficiaries were added but the funding mechanism is unsustainable.
Food Security Pack (FSP)	SDRs funded the FSP programme and funds were disbursed to all the districts in the country	The programme enhances food security at the household and community level and with good coordination in the government, it can also help provide valuable information to the Disaster Management and Mitigation Unit (DMMU) in times of droughts and floods.

RECOMMENDATIONS

1. The government should allow the PSPF Board's proposal to introduce an Occupational Pension Scheme for public service workers (excluding defense and all Security wings) who joined the civil service after the establishment of NAPSA. The proposed scheme is aimed at enhancing the Income Replacement Ratio (IRR) of civil servants by an additional 20% IRR from the 40% currently provided by NAPSA, so that a total of 60% IRR is provided. This could help reduce poverty levels among retirees. This could also help reduce PSPF's deficit and allow it to collect contributions from its new clients and use them to make payments to pensioners and make investments.
2. The government should also settle its debt with PSPF to help the institution operate more efficiently.
3. Amend Article 189 of the constitution which keeps pensioners on the government's payroll (Separatees Payroll), so that the pensioners on the Separatees Payroll would only qualify for their PSPF monthly pension after they are paid their lump sum pension.
4. The commercialization of ZAMMSA should be enhanced to help it become a viable business and its timely funding is also necessary to ensure that it procures enough drugs, medical supplies, equipment and Covid-19 vaccines to be distributed around the country. This could help mitigate the shortage of drugs across the country and enhance ZAMMSA's performance.
5. Enhance advertisement of Youth and Women Empowerment Funds in all the constituencies of Zambia so that more young men and women could benefit from the skills development programme. This programme has the potential of reducing youth unemployment in the country. The government should also expedite the selection of financial institutions that will be in charge of disbursing loans under the Youth and Women Empowerment Funds.
6. The government should consider making SCT payments via mobile money to cut administration costs and to allocate more resources towards the beneficiaries. SDRs are not a sustainable way of financing the SCT payments. The Zambian Government should instead look for other sustainable ways of financing its Social Cash Transfer programme. The number of beneficiaries should not increase due to the promise of more aid from its cooperating partners who help fund the programme.
7. There is a need to enhance coordination between the Department of Community Development in the Ministry of Community Development and Social Services and the Disaster Management and Mitigation Unit (DMMU) in times of disasters such as droughts and floods.
8. Resource mobilization:
    a. Since SDRs are not a sustainable way of supporting the national budget, the government should find means and ways of enhancing local resource mobilization through taxes. Challenges such as the growing informal cash economy; low taxpayer compliance; taxation of international transactions; poor traceability of taxpayers; smuggling; inadequate funding of Zambia Revenue Authority (ZRA) should be resolved in order to enhance tax collection in the country.
    b. There is a need for the government to lobby for more SDRs to be allocated to Zambia since it has proven how transparent and accountable it has been with its current allocation. SDRs were the only source of financing available to poor countries like Zambia during the economic challenges of 2020 and 2021, which were the result of the severe effects of Covid-19. The current SDRs allocation is not enough and more SDRs should be allocated to help Zambia which is also facing a debt crisis to recover post Covid-19.

REFERENCES

1. Alessandrini P., Presbitero A., 2012. Low-Income Countries and an SDR-based International Monetary System. Open Economies Review. 23. 129-150. 10.1007/s11079-011-9232-2. https://www.researchgate.net/publication/226651884_Low-Income_Countries_and_an_SDR-based_International_Monetary_System
2. Caldentey E., Armah B., 2022. Special Drawing Rights (SDRs) and the COVID-19 crisis. https://www.researchgate.net/publication/360141004_Special_Drawing_Rights_SDRs_and_the_COVID-19_crisis
3. Harvard Business Review, 2020. Global Supply Chains in a Post-Pandemic World. https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world
4. Hawkins P., Prates D., 2021. Global Financial Safety Nets, SDRs and Sustainable Development Finance: Can the options on the table deliver needed fiscal space? https://www.researchgate.net/publication/353687942_Global_Financial_Safety_Nets_SDRs_and_Sustainable_Development_Finance_Can_the_options_on_the_table_deliver_needed_fiscal_space
5. IMF, 2021. IMF Governors Approve a Historic US$650 Billion SDR Allocation of Special Drawing Rights. https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights
6. IMF Policy Paper, 2021. Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations. 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
7. IMF, 2022. Special Drawing Rights (SDR). https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR
8. Zambian Business Times, 2021. $1.3 billion SDR to boost Zambia's reserves – IMF. https://zambianbusinesstimes.com/sdr-can-be-exchanged-for-hard-currency-imf/

© JESUIT CENTRE FOR THEOLOGICAL REFLECTION

3813 Martin Mwamba Road, Olympia Park

P.O Box 37774, 10101 Lusaka, Zambia

Email: com.digitalengagement@jctr.org.zm

www.jctr.org.zm

Tel: +260 211 290410 | Fax: +260 211 290759

WITH SUPPORT FROM

JESUITS
JUSTICE AND ECOLOGY NETWORK AFRICA

Jesuit Centre for Theological Reflection (JCTR)

JCTR Repository **https://repository.jctr.org.zm**

Reports Advocacy on Socio-Economic Development

2023-02-28

Special Drawing Rights: Not a Sustainable Way of Supporting Zambia's National Budget

Jesuit Centre for Theological Reflection

Jesuit Centre for Theological Reflection

https://hdl.handle.net/20.500.14274/1731

Downloaded from JCTR Repository, Jesuit Centre for Theological Reflection (JCTR)