Africa Centre for Energy Policy

ANEEJ

Report on the Utilisation of Special Drawing Rights in Nigeria

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Facilitated by
ANEEJ

Acknowledgement

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Thank you all for your unwavering support and collaboration.

Sincerely,

Africa Network for Environment and Economic Justice, ANEEJ

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ACRONYMS

AfDB	Africa Development Bank
BIS	Bank for International Settlements
CBN	Central Bank of Nigeria
CSOs	Civil Society Organization
DMO	Debt Management Office
CSO	Civil Society Organisations
FDC	Financial Derivatives Company
IMF	International Monetary Fund
GDP	Gross Domestic Product
IMF	International Monetary Fund
iNGOs	International Non-Governmental Organizations
KII	Key Informant Interviews
ODI	Oversea Development Institute
PwC	PricewaterhouseCoopers
SDRs	Special Drawing Rights
UK FCDO	The Foreign, Commonwealth & Development Office of the United Kingdom

EXECUTIVE SUMMARY

Whereas the IMF's general agreement on Special Drawing Rights (SDRs) contextualizes why countries received SDR support, how countries have used the SDRs they received over the years is hardly documented. This report examines the utilization of the SDR allocated to Nigeria on August 23, 2021. The report relies on quantitative and qualitative data collected from secondary and primary sources, including oversight activity reports submitted to the National Assembly through their oversight duties of government ministries, departments, and agencies (MDAs).

A review of secondary documents showed that most African countries used the SDR allocation to boost their foreign reserves, support budget deficits, and invest in social investment and finance as well as COVID-19 interventions. While the data points to many possibilities of how the SDR was used, such as financing budget deficits, supporting foreign reserves, and for social investment programmes, interviews with stakeholders show that the SDR was used to finance budget deficits, especially as it concerns the many amendments to the 2022 Appropriation Act. Priority was placed on increased allocation to the health, agriculture, education, water hygiene and sanitation programmes, and humanitarian affairs sectors.

Cross-cultural differences were found amongst West African countries regarding the use of SDR, while East African countries had a close resemblance in the usage. In Ghana, for instance, SDR allocations were used to finance Ghana Cares post-pandemic recovery programme and to support its budget deficit. In Senegal, SDRs were used to strengthen the health system, for domestic vaccine production, and as additional cash transfers to vulnerable households, as well as being allocated to the 2022 Budget. In Niger, the SDR was used to finance its second supplementary budget for 2021 and to support pandemic response and economic recovery efforts. In Tanzania, the SDR was used to enhance foreign reserves and plug its budgetary financing gap. Likewise, Kenya used its SDR to boost reserves and meet budget financing needs through lending to the government through the Central Bank of Kenya.

Review of the secondary materials showed that while there was high expectation that the SDR would be used to enhance the resilience of the Nigerian economy, increase liquidity, and fund sectoral projects including health, education, and youth inclusion projects, this was not entirely the case. This is because a sizeable amount was retained by the CBN to shore up liquidity and defend the naira relative to the basket of foreign currencies.

While the report found that SDR for Nigeria was used to fund the budget deficit associated with the 2022 budget, priority was placed on financing social intervention programmes in agriculture, humanitarian affairs, water hygiene and sanitation, health, and education.

Key Findings, Recommendations and Issues for Advocacy

i. The SDR is a global financial safety net that seeks to make more liquidity available to developing countries. While the IMF offers no clear direction on how it should be used, there is need for countries like Nigeria to engage with the IMF on how to utilize the funds in an inclusive and transparent manner.

ii. SDR utilization in Nigeria suffers from the same curse that the SDR suffers globally: when allocated to countries such as Nigeria, the funds are most often used in sectors that are less in need of them. This is the classic global SDR situation, in which the majority of SDRs are allocated to countries that have little need of them.

iii. The context in which Nigeria and other countries received the SDR allocation in 2021 showed that the IMF laid out the overall context for the fund but did not provide specific details on how the funds should be used. While this is an appropriate step by the IMF, there is a need for a legislative framework on how SDRs should be used when received. CSOs and other stakeholders involved in development and sustainable finance should therefore lead the advocacy to call for reform in how the SDR from the IMF is used in countries such as Nigeria.

iv. The report also showed that most developed countries with higher SDR allocations have no need for them. Yet we are slow in reallocating it to less developed countries like Nigeria, which have a dearth of funds. At the international level, therefore, iNGOs and development partners may collaborate with governments to lead discussions calling for developed countries to donate their SDR allocations to less developed countries such as Nigeria. Options such as channeling SDR through multilateral development banks like the African Development Bank (AfDB) to the target countries may also be considered.

v. Whereas domestic borrowing was projected to account for 48% of total deficit financing, by the third quarter of 2022, domestic borrowing would account for 85% of the total source of deficit financing. A sizeable portion of domestic borrowing accrued from the CBN. While this source of financing had its consequences for the nation's financial system stability, price stability, and exchange rate stability, it is vital to ensure that the Debt Management Act as well as the CBN Act are amended to ensure that domestic borrowings from the CBN bank are approved by the DMO. Reversing any amendment to the CBN Act that was done under President Muhammadu Buhari with regards to raising the borrowing limits from ways and means financing will also be vital.

vi. Section 8 of the CBN Act also provides that the CBN governor brief the National Assembly from time to time with regards to its policies and activities; the National Assembly did not call on the CBN to provide such a briefing in 2021 when the SDR was received. Civil society organizations should therefore strengthen their citizen accountability framework for holding the legislature to account.

vii. While the SDR is allocated to countries during times of global economic challenges such as the 2008 financial crisis and the 2020 global COVID-19 pandemic, the gender and youth dimensions of how the funds should be used are often ignored. Women and youth bear the brunt of economic downturns1 and the COVID-19 pandemic2. CSOs and the government should therefore engage in ensuring that SDR allocations are utilized in an inclusive manner.

viii. In light of the above, it is important to develop a framework for tracking the utilization of SDR funds from allocation to release and utilization. Stakeholder engagement to determine the area of priority would also be vital. It is apparent from the utilization of SDR funds allocated to Nigeria in 2021 that these processes were lacking.

Rev David Ugolor

ANEEJ Executive Director and Project Lead

[1] https://www.wvi.org/stories/child-sponsorship/1000Girls/why-women-and-girls-always-bear-brunt-crisis
[2] https://www.unwomen.org/en/news/stories/2020/9/feature-covid-19-economic-impacts-on-women

Section One: Background

1.1 Introduction

Special Drawing Rights (SDRs) are a component of external assets or reserve assets in the balance of payment account that are readily available to and controlled by a country's monetary authority. SDRs belong to the class of other international reserve assets that comprise foreign currencies, other assets denominated in foreign currencies, gold reserves, and IMF reserve positions. According to the CBN3, these reserves may be used for direct financing of international payments imbalances or for indirect regulation of the magnitude of such imbalances via intervention in foreign exchange markets in order to affect the exchange rate of the country's currency.

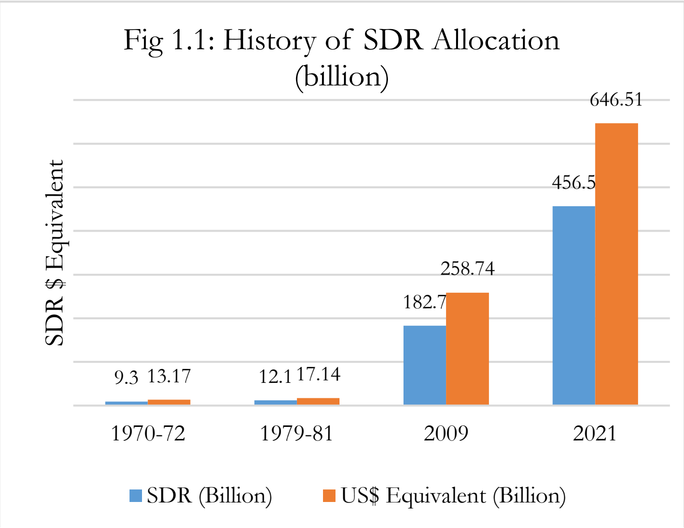
Section 24(g) of the CBN Act, 2007, provides that the CBN shall at all times maintain a reserve of external assets consisting of allocations of Special Drawing Rights made to Nigeria by the International Monetary Fund. Jeanne & Rancière (2006) noted that for a small open economy that is vulnerable to sudden stops in capital flows, reserves allow the country to smooth domestic absorption in response to shocks. SDR, in the larger context of reserves, serves as a country's insurance against the risk of a balance of payment crisis, as observed after the 1997–98 Southeast Asian crisis (IMF, 2000).

While reserve assets in the balance of payment account are readily available to and controlled by the Central Bank of Nigeria, the situation is different for other countries' monetary authorities. In Japan, the Ministry of Finance and the Bank of Japan decided, according to the recommendation of the International Monetary Fund (IMF), to record allocations of Special Drawing Rights (SDRs) in the Balance of Payments (BOP). Other countries, such as Indonesia, operated a reserve management policy that supported the diversification of their economies. This has not been the case in Nigeria, as most of its reserve management strategy revolves around strengthening the value of the naira. The finding from ODI (2016) suggests that countries can use foreign reserves to broaden their economic base. However, the primary role of SDR, as informed by the IMF, is that SDR allocation in times of economic crisis helps to insure against shocks. This was the case with emerging and developing country reserves following the 2008 financial crisis (BIS, 2016).

In August 2021, the International Monetary Fund (IMF), approved a general allocation of special drawing rights (SDRs) equivalent to US$650 billion (about SDR 456 billion) for Nigeria. SDRs are the IMF's unit of account and are basically the fund's reserve assets held by the member countries. The value of SDR is pegged to a basket of currencies as follows: USD at 41.73 percent, EUR at 30.93 percent, GBP at 10.92 percent, Yen at 8.33 percent, and Yuan at 8.09 percent. Nigeria's allocation from the SDR, which took effect on August 23, 2021, is put at $3.3 billion and gives

[3] https://www.cbn.gov.ng/intops/reservemgmt.asp

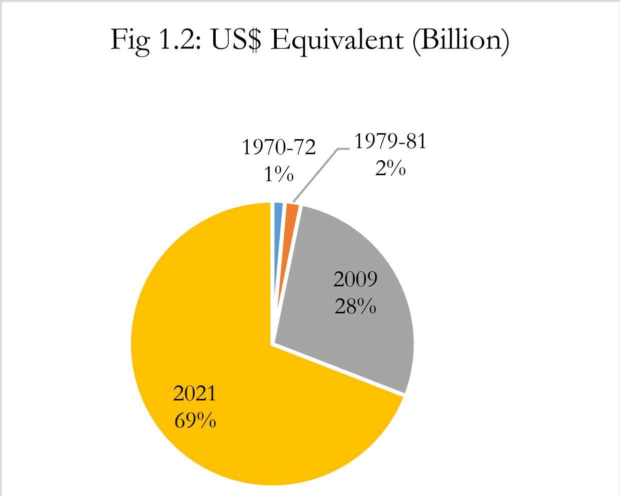
a boost to Nigeria's reserves. The fund gives the Central Bank of Nigeria (CBN) more buffers to support the naira and boost the nation's balance of payments. As noted in some reports, the SDR, from a Balance of payments (BOP) position, provides a boost to Central Banks' gross reserves, and it is also scored as an increase in investment liability under the capital account. Funds from SDRs increase a country's foreign reserve without increasing its debt burden.



Source: IMF

From 1970 to date, a total of SDR 660.7 billion (i.e., US$935.7 billion) has been allocated. Each allocation was a response to major global shocks such as the oil supply glut of the early and late 1970s, the 2008 global financial crisis, and the 2020 COVID-19 crisis. The highest allocation so far has been the sum of SDR456.5 billion in 2021, which accounts for 69% of the total allocation from 1970 to 2021. The allocations are either general or special. The general allocation falls into the category described above, which is usually to help stabilize vulnerable countries, minimize spillovers, and enhance the stability of the international monetary system. The special allocations are accommodated under the Fourth Amendment special allocation. This could be a one-time allocation, such as the SDR 21.5 billion that took effect on September 9, 2009, to members that had never received an allocation after they joined the IMF in 1981. In addition, new members of the Fund receive an SDR allocation upon their participation in the SDR Department.

The SDR allocation in August 2021 was the highest in history, accounting for 69% of all SDRs issued since the 1970s. Yet, the allocation to Nigeria has remained low, with limited evidence of developed countries willing to offer support to needy countries like Nigeria. With an expanding global context for increased vulnerability and weak macroeconomic fundamentals in Nigeria, channeling SDR funds to sectors, projects, and programmes, would help to enhance Nigeria's resilience and the attainment of inclusive growth.



Source: IMF

According to the IMF4, SDRs are used to supplement benefiting countries reserve assets to help meet a long-term global need; to boost buffers and bolster international economic resilience; and to help stabilize vulnerable countries by mitigating risks of economic and social fragility, minimizing spillovers, and enhancing the stability of the international monetary system. While reports5 also show that utilization of SDR can differ from country to country, the use of SDR in 2009 by most countries was for the following reasons: to boost their foreign reserves; to pay down obligations to the IMF, and as fiscal stimulus. Of the SDR US$646.51 billion allocated in August 2021, US$3.5 billion was allocated to Nigeria.

1.2 Objective

The objective of this report is to research the utilization of the US$ 3.35 billion SDR allocated to Nigeria.

[4] https://www.imf.org/en/About/FAQ/special-drawing-right#Q2.%20What%20would%20a%20general%20SDR%20allocation%20achieve?
[5] https://businessday.ng/business-economy/article/explainer-what-imfs-special-drawing-rights-allocation-means-for-nigeria/

Section Two: Contextual Framework for SDRs Utilization

2.1 Conceptual Context

Special Drawing Rights (SDRs) are international reserve assets created by the IMF to supplement the official reserves of member countries. In addition to enhancing foreign exchange reserves, SDR allocations help member countries reduce their reliance on more expensive debt for reserve building[6]. The resonating use of SDR, therefore, is that it is used to boost the external reserves of countries and to help IMF member countries withstand shocks in times of global economic and financial crisis (as in 2009) or the COVID-19 pandemic shock (in 2020 and onward).

Initially designed to be a fixed asset to be held in foreign exchange reserves under the Bretton Woods system of fixed exchange rates, the SDR was reconstituted as the unit of account for the IMF[7]. The general observation from reviewing various materials on the IMF website[8] and other materials[9] is that SDRs are allocated to IMF member countries in proportion to their relative share in the IMF. Though not a medium of exchange in the form of banknotes and coins, countries can exchange their SDRs for hard currencies with other IMF members. While SDRs can be used by countries receiving such support to settle their financial obligations to the IMF, countries that do not need SDR support could use it to support concessional financing for low-income countries.

The IMF considers the criteria it uses in selecting SDR basket currencies and the initial currency weights used in determining the amounts (number of units) of each currency in the SDR basket. While the currency amounts remain fixed over a five-year SDR valuation period, the weights of the currencies in the basket fluctuate with exchange rates among the basket currencies. This implies that the value of the SDR is determined daily based on market exchange rates.

2.2. Legal Context for SDR and Use of SDR Funds in Selected Countries

The Articles of Agreement of the International Monetary Fund were adopted at the United Nations Monetary and Financial Conference (Bretton Woods, New Hampshire) on July 22, 1944. Since their adoption in 1944, the Articles of Agreement have been amended seven times, with the

[6] https://www.imf.org/en/About/FAQ/special-drawing-right#Q4.%20Will%20an%20SDR%20allocation%20give%20countries%20with%20poor%20governance%20money%20to%20waste?
[7] https://www.imf.org/external/pubs/ft/imfhb/eng/handbook.pdf
[8] https://www.imf.org/en/Topics/special-drawing-right/seven-things-you-need-to-know-about-sdr-allocations
[9] https://www.imf.org/-/media/Images/IMF/Topics/SDR/sdrs-explainer-updated-2-part-01.ashx?h=3330&w=3063&la=en

latest amendment adopted on December 15, 2010 (effective January 26, 2016). The IMF reviews the SDR basket every five years, or earlier if warranted, to ensure that it reflects the relative importance of currencies in the world's trading and financial systems. In the review concluded in 2015, the IMF's Executive Board decided that the Chinese renminbi (RMB) met the criteria for inclusion in the SDR basket. In October 2016, the Chinese RMB joined the SDR basket, and the three-month yield for China Treasury bonds was added to the basket used to set interest rates on SDRs.

The Articles are complemented by the By-laws of the Fund adopted by the Board of Governors, which themselves are supplemented by the Rules and Regulations adopted by the Executive Board. The Articles of Agreement lay out various rules of operation, including those regarding the Special Drawing Rights. Precisely, Article XV of the Articles of Agreement provides that Special Drawing Rights shall be allocated to meet the need, as and when it arises, for a supplement to existing reserve assets, to members in accordance with the provisions of Article XVIII that are participants in the Special Drawing Rights Department. In addition, the Fund shall allocate special drawing rights to members that are participants in the Special Drawing Rights Department in accordance with the provisions of Schedule M.

The overarching principles for the allocation of SDR according to Article XVIII of the articles of agreement are that the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such a manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world. Likewise, Section 4 of Schedule M of the articles of general agreement provides that the Fund shall not allocate special drawing rights to those participants that have notified the Fund in writing prior to the date of the allocation of their desire not to receive the allocation. Created by the IMF in 1969 to supplement its member countries' official reserves, a total of SDR 660.7 billion (equivalent to about US$943 billion) was allocated in August 2021 to address the long-term global need for reserves and help countries cope with the impact of the COVID-19 pandemic.

Like Nigeria, other African countries also received SDR allocations from the IMF in August 2021. Analysis of the data from the ONE Campaign as of June 20th, 2023, shows that most African countries used their SDR allocation to boost their foreign reserves, support budget deficits, and invest in social investment and finance COVID-19 interventions. Nigeria was identified as a country that used its SDR allocation to finance budget deficits. Kenya, on the other hand, was documented as using its SDR to boost reserves and meet budget financing needs through lending to the government through the Central Bank of Kenya.

In Rwanda, it was used to boost social protection, address COVID-19-related health needs, repair damaged infrastructure caused by the recent volcanic eruption near its DRC border, and shore up reserves. Tanzania also used its SDR to enhance its foreign reserves and plug its budgetary financing gap. Whereas Algeria, Ethiopia, and Morocco kept the SDRs they received as part of their foreign reserves, Tunisia transferred nearly all of its new SDRs from its central bank to the state and used 26% of the new allocation to reduce its budget deficit.

Other countries used their SDRs to address specific sectorial issues. For instance, Madagascar used its new SDRs to respond to the COVID-19 health crisis and support economic recovery efforts. Additionally, the allocation was used to fund infrastructure projects, including a road rehabilitation project and the energy sector. For Chad, it was about addressing urgent social needs, including food insecurity, and clearing domestic and external arrears.

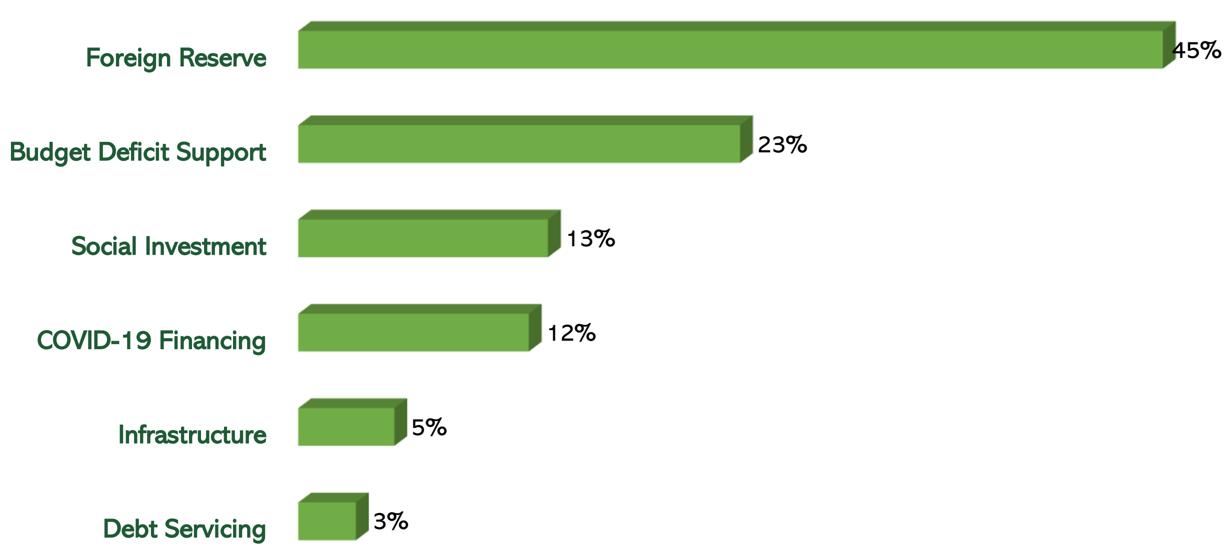
Table 2.1: SDR Allocation of US$650 by Developed and Developing Countries

Economies	Size (US$)	Share (%)
Developed Countries	420	65%
Developing Countries	230	35%
Total	650	100%

Source: ECA-ECLAC, 2022

Ghana used its SDR allocation to finance its Ghana Cares (Obaatanpa) post-pandemic recovery program and used another portion to support its budget deficit. In Senegal, its SDRs were used to strengthen the health system, for domestic vaccine production, and as additional cash transfers to vulnerable households, as well as allocated to the 2022 Budget. In Niger, the SDR was used to finance its second supplementary budget for 2021 and to support pandemic response and economic recovery efforts. The stated usage for Nigeria is that it was used to supplement the 2022 budget. South Africa used its SDR to boost foreign reserves and service its debt.

Fig 2.1: Proportion of SDR and Planned Utilization in African Countries by Proportion (%) as at June 2023

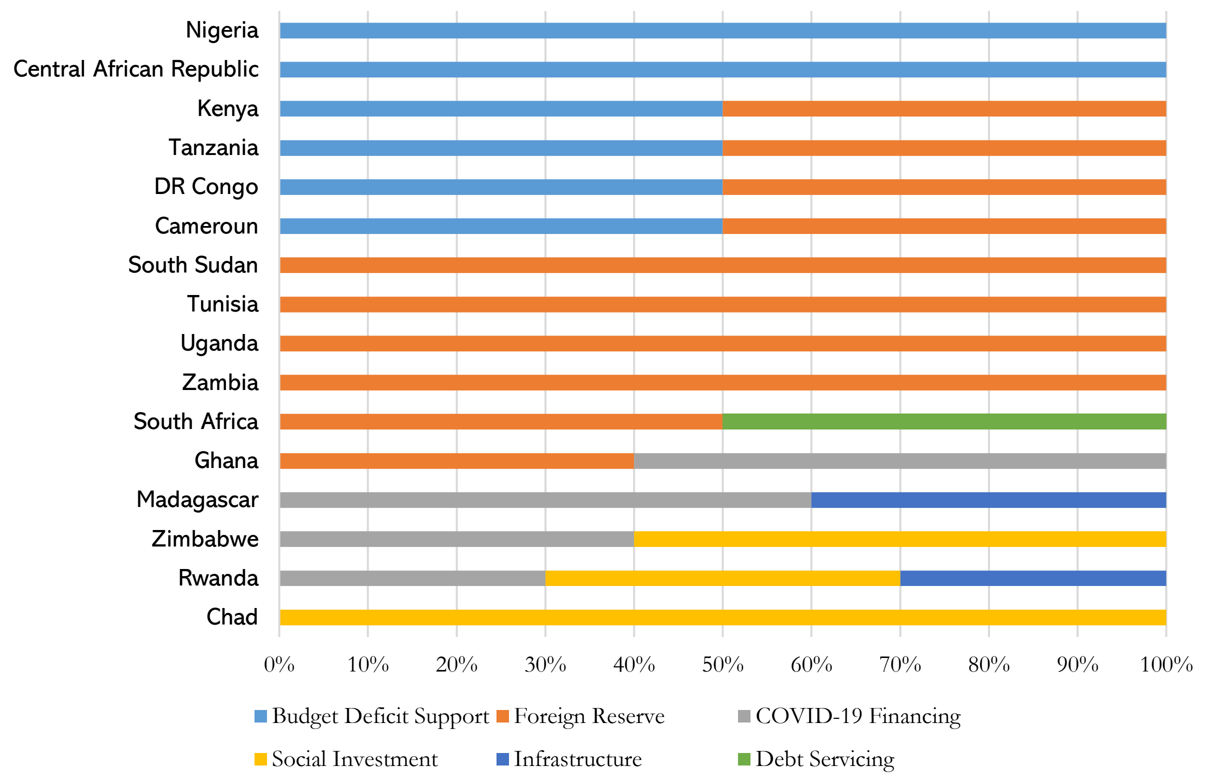


Source: ONE Campaign

Table 2.2: Utilization of August 2021 SDR in African Countries		
1	Nigeria	Supplement budget deficit
2	Ghana	Finance Ghana Cares (Obaatanpa) post-pandemic recovery program. About a third or $300 million will support the budget.
3	South Africa	Service maturing debt obligations and to boost its reserves.
4	Zambia	Support the 2022 budget.
5	Uganda	Finance the FY21/22 budget deficit in lieu of more expensive foreign commercial borrowing. It will be used on education, health and water and sanitation projects, including financing the reopening of schools.
6	Tunisia	Transferred nearly all of its new SDRs from its Central Bank to the state and used 26% of the new allocation to reduce its budget deficit.
7	South Sudan	Shore up foreign reserves and to support economic reforms.
8	Chad	Address urgent social needs, including food insecurity, and to clear domestic and external arrears.
9	Cameroun	Finance its 2022 budget, in lieu of domestic borrowing, and invest in the health sector and save the remainder to rebuild fiscal buffers and help bolster international reserves.
10	DR Congo	Boost its international reserves and scale up public investment through budgetary support for economic recovery in the short and medium term.
11	Tanzania	Enhance foreign reserves and plug its budgetary financing gap.
12	Rwanda	Boost social protection, address COVID-19 related health needs, and repair damaged infrastructure caused by the recent volcanic eruption near its DRC border as well as shore up reserves.
13	Kenya	To boost reserves and meet budget financing needs through lending to the government through the Central Bank of Kenya.
14	Zimbabwe	Support projects in the social sectors (health, education) and vulnerable groups, productive sector value-chains, infrastructure investments as well as procure COVID-19 vaccine and testing equipment. Other uses are road construction, cash guarantees for banks and smallholder farmers irrigation schemes.
15	Madagascar	Respond to the COVID-19 health crisis and to support economic recovery efforts. Additionally, these resources will fund infrastructure projects, including road rehabilitation project and energy sector.
16	Central African Republic	Finance its budget as well as repay domestic arrears and start repaying the bridge financing it contracted with commercial banks.

Source: ONE Campaign

Fig 2.2: Utilization of SDR by Selected Africa Countries as June 2023



Source: ONE Campaign

The dominant opinion from the secondary qualitative data drawn from documented media reports showed that the SDR is to be used to boost liquidity and improve the CBN's reserve positions.

Table 2.3: Use of SDRs according to Dominant Narrative Deduced from Qualitative Data

Stakeholders	Dominant Narrative deduced through qualitative data
Central Bank of Nigeria	To boost liquidity and improve foreign reserve position.
FDC	To boost liquidity of the country through extern reserves.
PwC	The SDR provides an opportunity to invest in unlocking dead assets such as Ajaokuta steel, moribund refineries and to avoid growth crisis.
IMF	To boost liquidity, improve foreign reserve position and use to finance imports.

World Bank	To boost liquidity, improve foreign reserve position and use to finance imports.
African Development Bank Group	It is counterproductive to channel SDRs to African countries directly. Rather, it should be through a MDB like the AfDB. SDR is a reserve asset. Thus, channeling it to sectors makes it to loss its reserve asset value. Therefore, because the SDR is monetary policy financing tool, the IMF should focus on allocating the SDR (Special Drawing Rights) while it is allocated to the AfDB to finance sectoral projects and programmes in the continent for Supporting Development Revitalization (SDR).
Stears Business	There are many ways in which SDR can be used, but government have only used a portion of the fund for interest on loan payment and for supplementing government projects and programmes in the budget.
UK FCDO	Used for financing green infrastructure, climate fund and financing climate change mitigation and adaption in targeted ways.

Source: Qualitative Data/Key Informant Interview

Section Three: Methodology

3.1 Analytical Framework

The report relies on secondary and primary data collected from ONE Campaign, the National Bureau of Statistics, the Budget Office of the Federation, and the Africa Centre for Disease Control (CDC). Secondary data was also collected from documented media interviews of stakeholders drawn from the Legislature, government and regulatory agencies, the private sector, Development partners, international corporations, and academia. The stakeholders identified for the key informant data collection are:

- Central Bank of Nigeria (CBN);
- Ministry of Finance;
- Budget Office of the Federation;
- International Monetary Fund (IMF);
- National Assembly;
- African Development Bank;
- Civil Society Organizations (CSOs) such as BudgIT, Centre for Social Justice, and Action Aid Nigeria;
- World Bank;
- The Foreign, Commonwealth & Development Office is a department of the Government of the United Kingdom (UK FCDO);
- Private Sector financial firms such as STEARS Business, Financial Derivatives Company (FDC) and PricewaterhouseCoopers (PwC); and
- Academia

Secondary data was also collected on SDR utilization from organizations such as ONE Campaign, Africa CDC, the National Bureau of Statistics (NBS), the IMF, and the AfDB, as well as recorded interviews with key stakeholders in mainstream media. Cross-country analyses of SDR utilization are also examined using African countries.

Section Four: Data Analysis and Findings

4.1 Analysis of Qualitative Data

Analysis of the data from key informant interviews showed that while there was high expectation that the SDR would be used to enhance the resilience of the Nigerian economy, increase liquidity, and fund sectoral projects including health, education, and youth inclusion projects, this was not entirely the case. Rather, the SDR was domiciled with the CBN and constituted part of the funds used by the CBN to defend the naira relative to the basket of foreign currencies. The AfDB president opined that channeling SDR to Africa through the AfDB as a Multilateral Development Bank (MDB) would be most effective. However, except in the EU, monetary policy financing is prohibited in Africa.

Table 4.1: Organization Spread of Key Informants Accessed through Primary or Secondary Sources

S/N	Organizational Representation	Frequency	Proportion
1	Legislature Oversight Set ups*	5	22%
2	Government/ Regulatory*	5	22%
3	Private Sector Firms**	4	17%
4	Development/ African Corporations**	2	9%
5	Development/ International Corporations**	4	17%
6	CSOs*	2	9%
7	Academia*	1	4%
Total		23	100%

Source: Interviews & Focus Discussions from secondary

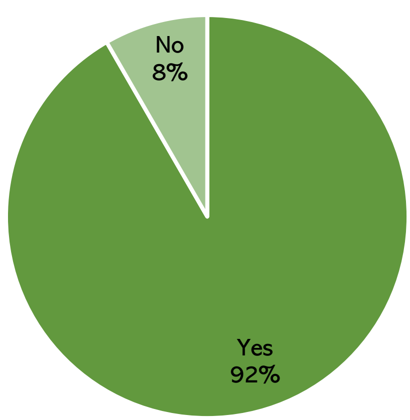
Note: * are Interviewed via Primary Sources in 2023; ** have TV/documented interview or discussions on the subject in 2021 or 2022

Interviews with the key informant showed that the SDR was used to finance budget deficits. From the above propositions, the generalization arrived at is that the August 2021 SDR allocation for Nigeria was used primarily to boost liquidity, fund sectoral projects in the economy through the many interventions of the CBN, and supplement government deficit budgets in 2022. Perhaps this explains why there have been many amendments to the 2022 budget of the Federal Government.

Table 4.2: Use of SDRs according to Dominant Narrative Deduced from Qualitative Data	
Stakeholders	Dominant Narrative deduced through qualitative data
Federal Ministry of Finance	Not utilized for anything, and remains with the CBN
Action Aid Nigeria	Used to finance Health Education and projects that reduce poverty.
BudgIT	Used to finance the 2022 supplementary budget
National Assembly Committee Clerks	Interaction with MDAs through oversights hearings shows that SDR forms the bulk of funds used to finance Multilateral and bilateral loan projects in the 2022 budget especially in the Heath, Education and water sanitation and hygiene sectors.
Academia	The SDR was used to fund many of the COVID-19 intervention projects used to compensate manufacturers, small businesses, etc. This was the primary reason for the SDR and was used.

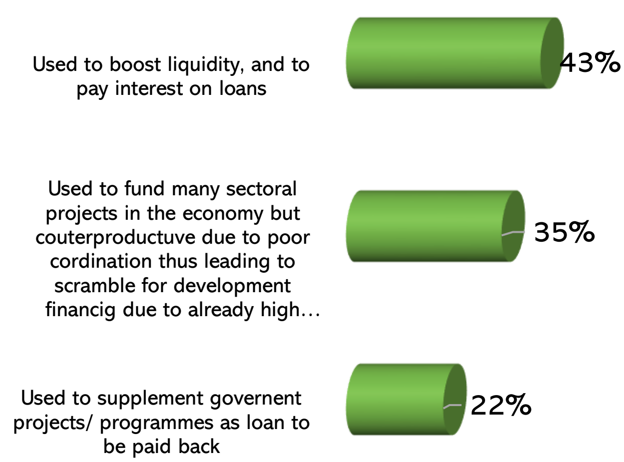
Source: Qualitative Data/Key Informant Interview

Fig 4.1: Used for Financing Budget Deficit



Source: Field Qualitative data

Fig 4.2: Other uses of SDR Allocated to Nigeria in August 2021



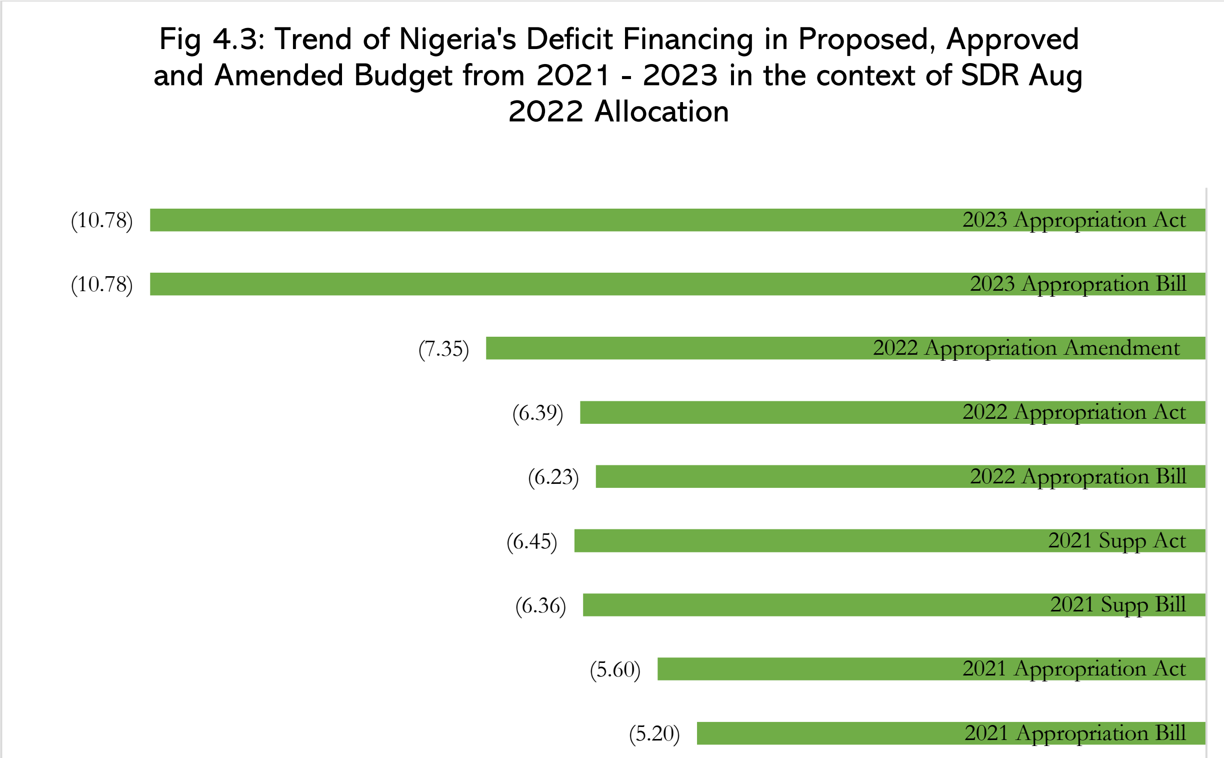
The timeline analysis of the qualitative data shows that after the SDR allocation, Nigeria secured a loan from the Eurobond, which was used to implement projects in the 2021 budget, and the SDR was kept by the CBN to boost liquidity. From 2021 to 2022, CBN also embarked on drawdowns to defend the value of the naira. The 2022 Appropriation Act of the Federal Government of Nigeria had also been amended three times to increase the deficit gap by raising the spending limit and extending the implementation dates twice. The amendment of the 2022 budget implementation date to December 2023 also shows that the SDR might be channeled to funding the deficit.

4.2 Time Line Analysis of Expectations with SDR Utilization in Nigeria

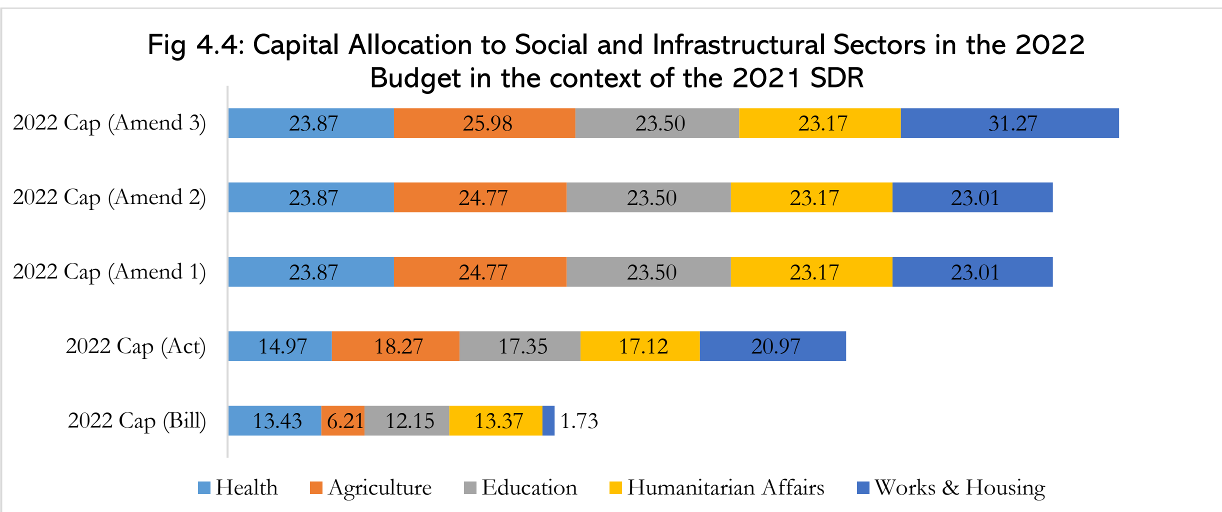
Aug 2021: Nigeria gets SDR Allocation	• SDR Allocated to Nigeria worth $3.35 billion. • Stakeholder expectation is that it would lead to increase funding for Health, Education Youth Inclusion, revitalization of Ajaokuta Steel and Moridund refineries • Eurobind of $6.5 billion
Aug 2022: CBN Draw down to defend the value of the naira continues	• Eurobond used to implement projects in the 2021 budget. • SDR kept with the CBN and used as draw down by the CBN to defend the naira • Expectation that tax-to-GDP will increase. • Borrowing by the FG and the FX draw to defend naira continues
Aug 2022/2023: deficit situation worsens, revenue crisis continues	• Increased intervention by the CBN in social intervention programmes in a manner that conflicts or duplicates MDAs activities. • Amidst expectation that SDR will be used to address inequities and development challenges, poverty worsened, living cost soared.
2022 to May 28th 2023: FG borrows from CBN through ways & means financing	• Implementation of the 2022 budget delayed due to poor revenue thus, leading NASS to extend 2022 budget implementation to December 2023 • NASS amends the CBN act to increase the total CBN advances to the FG from 5% to a maximum of 15%. • Russian-Ukraine war worsens global outlook and liquidity. • AfDB advocates SDR as a monetary policy financing tool as ineffective when channeled to countries.
May 29th 2023 to July July 2023	• NASS amends 2022 budget to provide N500 billion to cushion effect of the end to fuel subsidy regime. • CBN unifies exchange rates, naira exchange rate to the US moves to over ₦780/$1. • Despite dampened prospects for global growth due to riisng inflation an inteest rates as well as geo-political tensions, use of SDR by Nigeria shows it was domiciled with the CBN and have not been effectively utilized.

Source: Compiled from News Paper Sources

Data from the Budget Office of the Federation from 2021 to 2023 was assessed to identify specific patterns of usage. The analysis shows that the budget deficit gap of the Federal Government increased from N5.2 trillion in the 2021 Appropriation Bill to N10.78 trillion in the 2022 (amended) budget. Thus, associating the need to use the SDR to finance government projects with the appropriation Acts.



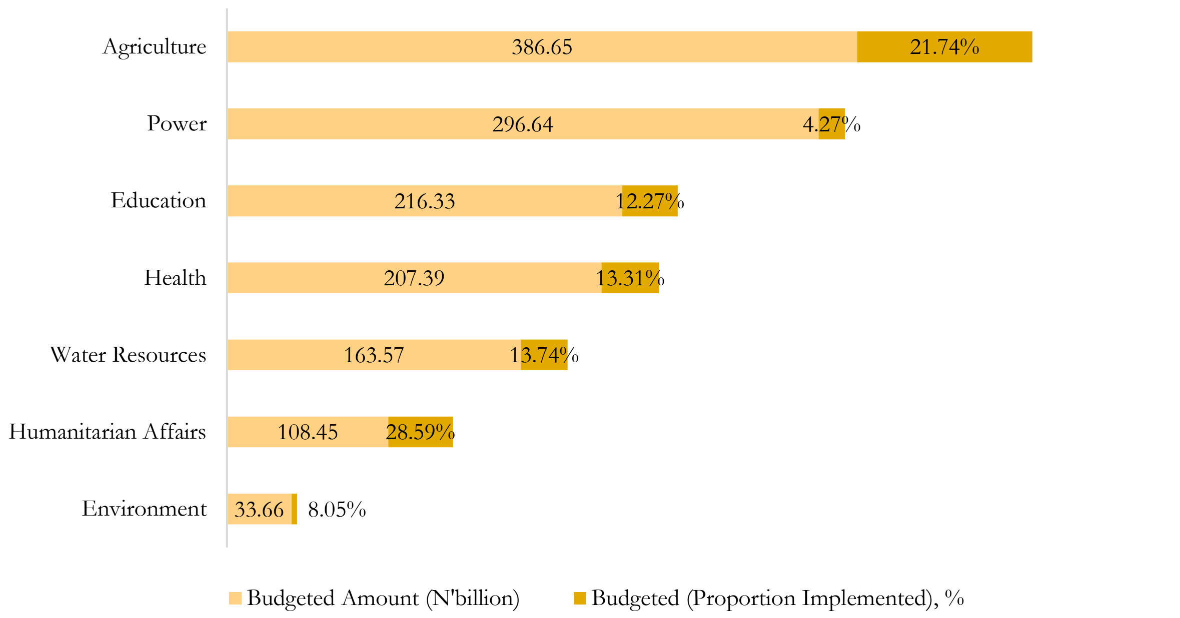
Source: Budget office of the Federation



Source: Budget office of the Federation | Authors Compilation

The US$3.35 billion equivalent of the SDR received by Nigeria in August 2021 translates to N773.25 billion. Evidence from the Budget Office of the Federation and the Office of the Accountant General of the Federation shows that of the N4.096 trillion for capital projects in the 20222 budget, only 22.14% have been implemented as of September 2023. Likewise, while the government projected that the budget deficit would be N4.65 trillion as of the third quarter of 2022, the actual budget deficit as of September 2022 was N5.99 trillion, which exceeded the pro rata amount by 28.2%.

Fig 4.5: 2022 Budget Implementation by key social sectors in Nigeria



The allocation to capital projects in the key social sectors in the 2022 budget of the Federal Government amounted to N1.21 trillion. As of September 2022, the portion implemented was N207.06 billion and accounted for 17% of the budgeted sum. In summary, evidence points to the direction in which the SDR allocated to Nigeria in 2021 was used to finance the 2022 budget deficit. Priority was given to the use of the funds for financing projects in the education, health, and power sectors, as well as for water, sanitation, and hygiene.

In conclusion, SDR utilization in Nigeria suffers from the same curse that the SDR suffers globally: when funds are allocated to countries such as Nigeria, they are most often used in sectors that are less in need of them. This is the classic global SDR scenario, in which the vast majority of SDRs are allocated to countries with little need for them. The SDR is a global financial safety net designed to provide more liquidity to developing countries. While the IMF provides no clear guidance on how the funds should be used, countries such as Nigeria must engage with the IMF on how to use the funds in an inclusive and transparent manner.

Section Five: Summary and Conclusion

The dominant finding from the report shows that the SDR was used to finance the budget deficit in the 2022 fiscal year. This differs sharply from the expectation when the funds were allocated to Nigeria in August 2021. The channeling of the SDR funds into projects in sectors such as power, health, agriculture, education, and water resources is expected to address poverty and enhance the livelihoods of vulnerable groups.

Whereas the SDR were targeted at sectorial interventions that are domiciled in Ministries, departments, and Agencies, the funds were not appropriated by the National Assembly. Rather, it served as part of the funds used for financing the budget deficit through domestic borrowing from the Central Bank of Nigeria. Amending the CBN Act, 2007, to ensure that funds it provided for sectoral interventions are channeled through the MDAs and are laid before the National Assembly to be appropriated.

The context in which Nigeria and other countries received the SDR allocation in 2021 showed that the IMF laid out the overall context for the fund but did not provide specific details on how the funds should be used. While this is an appropriate step by the IMF, there is a need for a legislative framework on how SDRs should be used when received. CSOs and other stakeholders involved in development and sustainable finance should therefore lead the advocacy to call for reform in how the SDR from the IMF is used in countries such as Nigeria.

The report also showed that most developed countries with higher SDR allocations have no need for them. Yet we are slow in reallocating it to less developed countries like Nigeria, which have a dearth of funds. At the international level, therefore, iNGOs and development partners may collaborate with governments to lead discussions calling for developed countries to donate their SDR allocations to less developed countries such as Nigeria. Options such as channeling SDR through multilateral development banks like the African Development Bank (AfDB) to the target countries may also be considered.

Whereas domestic borrowing was projected to account for 48% of total deficit financing, by the third quarter of 2022, domestic borrowing would account for 85% of the total source of deficit financing. A sizeable portion of domestic borrowing accrued from the CBN. While this source of financing had its consequences for the nation's financial system stability, price stability, and exchange rate stability, it is vital to ensure that the Debt

Management Act as well as the CBN Act are amended to ensure that domestic borrowings from the CBN bank are approved by the DMO. Reversing any amendment to the CBN Act that was done under President Muhammadu Buhari with regards to raising the borrowing limits from ways and means financing will also be vital.

Section 8 of the CBN Act also provides that the CBN governor brief the National Assembly from time to time with regards to its policies and activities; the National Assembly did not call on the CBN to provide such a briefing in 2021 when the SDR was received. Civil society organizations should therefore strengthen their citizen accountability framework for holding the legislature to account.

While the SDR is allocated to countries during times of global economic challenges such as the 2008 financial crisis and the 2020 global COVID-19 pandemic, the gender and youth dimensions of how the funds should be used are often ignored. Women and youth bear the brunt of economic downturns10 and the COVID-19 pandemic11. CSOs and the government should therefore engage in ensuring that SDR allocations are utilized in an inclusive manner.

In light of the above, it is important to develop a framework for tracking the utilization of SDR funds from allocation to release and utilization. Stakeholder engagement to determine the area of priority would also be vital. It is apparent from the utilization of SDR funds allocated to Nigeria in 2021 that these processes were lacking.

[10] https://www.wvi.org/stories/child-sponsorship/1000Girls/why-women-and-girls-always-bear-brunt-crisis
[11] https://www.unwomen.org/en/news/stories/2020/9/feature-covid-19-economic-impacts-on-women

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