SDRs to help Africa cope with the Covid 19 Pandemic

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African countries need support from international financial institutions on Special Drawing Rights (SDRs) in the range of $500 billion to $650 billion to arrest the devastating impacts of the ongoing covid 19 pandemic.

In a communique by the African Ministers of Finance, Planning and Economic Development in Addis Ababa, the ministers called for more liquidity to be availed through a new allocation of the SDRs and reallocation of unused SDR, and an increase in resources from the international financial institutions to support African and other developing countries fight COVID-19 better.

They also called for an extension of the G20 Debt Service Suspension Initiative (DSSI) to at least the end of 2021, and possibly the end of 2022, and expanding its scope to address the liquidity needs of middle-income countries to pre-empt the larger threat of insolvency, particularly for countries with market access and relatively strong fundamentals. The DSSI has postponed an estimated $5.1 billion in debt service payments by eligible African countries following advocacy by the ECA, the Finance Ministers and others, providing much-needed liquidity to save lives and rebuild livelihoods.

"We are encouraged that our efforts have been complemented by the financial assistance and support of public development banks, the DSSI and the G20 Common Framework for Debt Treatments beyond the DSSI,"

They noted that, based on Africa's current IMF quota share, a new issuance would provide a maximum of XDR 33.3 billion in additional resources to Africa if 650 billion of new SDRs were issued.

"This would barely be adequate to meet the continent's financing needs. To supplement these resources, we further request the G7 to support an on-lending mechanism that channels, on a mutually agreed basis, SDRs to low-income and middle-income countries," they noted.

The IMF's Poverty Reduction and Growth Trust (PRGT) should be considered for this purpose, they opined.

Funding the PRGT with SDRs would facilitate additional financing for urgent country priorities in light of this crisis, including the acquisition of vaccines by low-income countries. The SDRs can also be used to acquire vaccines and increase market re-entry access for eligible countries.

"We are conscious of the fact that new issuances of SDRs are infrequent and often contested events. To this end, we believe that, it is imperative that we seize the moment by leveraging these resources to power catalytic investments in Africa's recovery," the Ministers said.

"The SDRs must be transformative for Africa and help the continent to access the trillions of dollars needed for a green recovery. This is within reach."

The ministers added that market-based instruments, such as the proposed Liquidity and Sustainability Facility (LSF), combined with instruments like the Policy-Based Guarantee of the World Bank Group, could play an important role in this respect by catalysing investments, creating jobs and supporting African countries in building forward better.

They said the private sector must be a key partner in Africa's recovery from COVID-19, adding blending public and private resources would be vital. At least 40 percent of the continent's total debt is from the private sector, compared to a bilateral debt exposure of 27.6 percent.

African countries exhibited resilience in their initial response to the pandemic, they noted, mobilizing approximately $44 billion in domestic resources to fight the pandemic.

The ministers committed to putting together a comprehensive reform package of fiscal policy management and structural policy to make sure the continent grows out of this crisis fast d grow out of it fast.

"On our part, Africa is committed to implementing the necessary reforms needed to promote transparency and accountability in the mobilization and use of domestic and external resources," they said, adding global support was needed to aid Africa's battle against illicit financial flows.

During the two days, the ministers discussed diversification, industrialization, trade, vaccines and the need for Africa to mobilize more domestic resources to help fund its development. Investments in sustainable and technology-enhanced agriculture, renewable energy and transport, digitalization, biodiversity, and human capital development, they agreed, were essential for recovering and building forward better.