We Meet Again

My Brothers and Sisters,

We Meet Again.

Across the annals of history;

whenever the beacons have been lit;

we have always answered each other's call,
to do battle with common enemy;
side by side.

We met a hundred years ago, in Northern Africa, at the start of the long war for political independence from the yolk of Empire.

We met later in protracted battles for economic independence,

We met in Southern Africa to vanquish the last vestiges of minority rule.

Ours is an ancient bond;
of blood and soil;
steeped in history;
forged in struggle.

And we meet again this morning on the battlefield of Covid.

<u>Our health statistics are relatively good, but our economies are devastated</u>.

Our governments' relative success in treating the global pandemic's health side has served to hide the true economic devastation of Covid from the world.

Three things have driven that devastation.

First, our colonial past has left us both highly dependent on trade, travel, and foreign direct investment, and so our two regions have been two of the hardest hit.

Second, the world's few reserve currencies were able to deploy six trillion dollars of quantitative easing, allowing interest rates to remain near zero while they engaged in massive fiscal stimulus to offset the implosion of the private economy.

Our countries could not do that.

So, while the advanced economies spent 8% of GDP to boost their economies, developing countries could only spend 1% of GDP.

Third, public and private financing flows have either disappeared or been too little; too late.

<u>The inadequacy of the DSSI</u>

The centre piece of the international community's response to COVID is the Debt Service Suspension Initiative.

While the advanced economies have added $11 trillion of new debt, the relief that the 72 low-income countries eligible for relief under the Debt Service Suspension Initiative will be less than $11 billion, 1,000 times smaller.

80% of countries eligible for DSSI will receive relief worth less than 1% of their GDP.

60% less than 0.5%.

The DSSI is welcome.

But to spend much time debating whether we should extend it by a few months is to engage in a massive distraction from the battle in front.

And it will not save us from what is coming next, my brothers and sisters.

The ingredients are now in place for a debilitating emerging market debt crisis, the kind that plunged Latin America into a lost decade when these ingredients were last in pace.

Mainly because of lost revenues, debt as a percent of GDP in over half of our countries has jumped by 10 to 15% of GDP; and from high, to the edge of sustainability.

The credit rating agencies are jittery. They have already put several African countries on credit watch *for participation in the DSSI*.

Over the past decade, the amount of Government or government-guaranteed debt in Africa to private creditors has grown from negligible to 43%.

This debt is primarily in US dollars and is set off US interest rates.

In Latin America in the 1980s, there had also been a rapid rise in US dollar-denominated debt held by private creditors. What triggered the crisis on August 12, 1982, was a strengthening US dollar amid a fiscal stimulus and softening though still high-interest rates.

The health crisis will turn into a debt crisis. That is the problem the world is facing; the DSSI does not solve it, it requires a greater, more systemic effort; one that goes beyond the poorest countries to those shut out from markets, one that goes beyond Government debt, and beyond China.

I seek your support for a recycling of $500bn of SDRs that better matches the problems we face.

<u>Additional, fast-disbursing resources</u>

Firstly, to scale up the resource transferred needed, we call upon rich countries to pledge half of their new and unused, Special Drawing Rights to recapitalise development banks like the ADB, the IDB, and the World Bank.

They must use this capital to leverage more lending to those heavily impacted by COVID. The current resources available to the regional development banks is not fit for the purpose of an economy-stopping pandemic.

But it is not just the level of lending that matters, but speed.

Our needs are immediate. And the development banks have been well-meaning but slow, with lending tied up in efforts to draw up conditionality and with the staff blaming their Boards. I have experienced this myself.

We are in the middle of a pandemic, we should not need to ask, but we need genuinely fast-disbursing budget support.

The development banks and their Boards must commit to the timing of their disbursements.

<u>Debt reduction is a vital corollary of additional resources.</u>

But more lending on its own is problematic given high levels of debt.

The new lending by the regional development banks must as much as possible involve partnerships and funding with the private sector and off public sector balance sheets.

But it is also essential that the corollary of any plan for new resources is a plan for debt reduction that does not scare the bondholders.

I want to propose that rich countries pledge the other half of their additional and unused SDRs to Developing countries if they use the new and unused SDRs to buy back their debts denominated in the currencies that make up the SDR.

This will yield three benefits. First, there would potentially be a significant debt reduction that will likely forestall a drop in credit ratings. Recycled, the new SDR allocation is formidable. The total external debt of African countries held by private creditors in 2019 was just 40% of the new allocation.

Second, if developing countries use their SDRs to offer to buy-back their debt at or just below par, this offer by itself, without any resources being spent, would increase the liquidity in our debt. Investors would know at any time there is a buyer of their bonds. As Vere Songwe has so well articulated, illiquidity is a significant cause of our high debt cost as, unlike in advanced countries, there are no ready buyers of our small debt issues. A vicious cycle ensues, where high debt servicing costs undermine debt sustainability.

Third, all of the countries whose currencies are in the SDR are currently engaged in substantial quantitative easing: the US, China, the Euro-area, Japan, and the UK, to a combined $6trn in 2020 alone. Swapping around $60bn of the new SDR allocation for US dollars to buy back a US dollar-denominated bond held by US investors has much economic equivalence with quantitative easing programs that are as large as $6trn. If there were any concerns about wider effects, and I do not see why there would be, but most of these concerns could be addressed through a modest tweaking of existing QE programs.

This is not the place for detailed blueprints. It is the place to ask for your support for scaling up the response to COVID, and for more comprehensive, faster, support that reaches those countries most impacted by COVID and most susceptible to an emerging debt crisis that would reach middle-income countries and private creditors as well as low income countries.

A vaccine clearing house

We are in another vital battle together, the battle of vaccinating all of our population. We tell the world that vaccinating part of the people or part of the world will not work and will provide fertile ground for vaccine-resistant variances. In times of war, vital markets subject to speculation, hoarding, and price gouging are rationed and not left to market forces. Market power is at play here. Some large countries have purchased five times or more vaccines that they need using complex, opaque option arrangements that make it hard for vaccine producers to plan and sell further production. So much for debt transparency. Small buyers do not even get an audience.

Some long-term solutions have been suggested that are worth serious consideration. I understand the moral demand that IP constraints should be lifted. One step we can take also is to reach a clearing arrangement for excess orders of vaccines. We should require written "clearing" agreements from those who have ordered more than they need, that once those vaccinated exceed the herd immunity threshold, that they retain some surplus amount and ask the producers to produce and deliver the excess at cost to developing countries. These excess vaccines should be over and above the amounts agreed to under COVAX. There must be early intervention. The doctrine of necessity is also in play.

Before Covid, Africa was on the March. If we can get back to the journey, the 21st century will be the Africa century. Africa rising will impact not just the continent, its people, all those of African origin, but the world. Covid has stopped us in our tracks. My brothers and sisters, I know the recent journey has been relentless and exhausting. But we have reached a critical point in the twin battles of finance and vaccines. We need a more comprehensive response to the deepest crisis of the last one hundred years. We cannot leave vaccinating the world to unchecked market forces. We need a global approach to vaccination. These are not nice to haves, they are imperatives. There is no turning back. We must reform the line, redouble our effort, and press forward.