UNCTAD Trade and Development Board Intergovernmental Group of Experts on Financing for Development

# Mobilizing sustainable development finance beyond COVID-19

## Keynote Address – Dr. Vera Songwe

UN Undersecretary General and Executive Secretary UNECA

**Focus: Financial and Institutional changes needed in Africa for structural transformation**

Your Excellences,

Distinguished Ladies & Gentlemen,

It is a please to be addressing the United Nations Conference on Trade and Development's (UNCTAD) Fifth Session of the Intergovernmental Expert Group on Financing for Development (IGE FfD).

This session comes at a critical time for Africa and other developing economies.

The economic and social consequences of the Pandemic have left African economies vulnerable to global shocks and we are already seeing the worrying signs of the compounded ripple effects of the Ukraine conflict and the wide-spread sanctions imposed on Russia throughout the continent.

**The pandemic led to the worst economic recession for the continent in half a century.**

The unfolding crisis in Ukraine could not have come at a worse time for Africa and threatens the fragile fabric of the continent's recovery from the pandemic.

- Real GDP contracted by 3% in 2020. The modest recovery in 2021 was expected to reach 3.9% growth in 2022. (ECA projections)
- Public financing needs surged as governments mitigated the socioeconomic impact of the pandemic. Average Debt-to-GDP ratio increased by 10 to 15 percentage points by 2021 from about 60% in 2019. (ECA projections)
- Higher commodity prices and supply constraints are expected to widen Africa's overall fiscal and current account deficits, with current account deficits expected to reach 1.9 percentage points in 2022 due to the Ukrainian crisis.
- The crisis has increased the risk of depreciation of exchange rates as well as increase borrowing costs in several African countries
- The crisis has also caused increased volatility in emerging stock markets in Africa

- The pandemic reversed hard-won gains in poverty reduction in Africa, pushing 47 million into extreme poverty, increasing new poor by 55 million and adding 46 million people to those at risk of hunger and undernourishment.
- The recovery has been hindered by higher inflation and tighter global financial conditions. Rising interest rates increase borrowing costs in international capital markets and raise the risk of capital reversals.
  Illicit financial flows exacerbate these challenges by depriving governments from the necessary resources for building back better and invest in sustainable development

**The Ukraine crisis further compounds the situation, exacerbating economic and social vulnerabilities.**

The impact of the Ukraine conflict will weigh heavily on macro stability and poverty in Africa. The crisis is expected to hit the continent through the following channels:

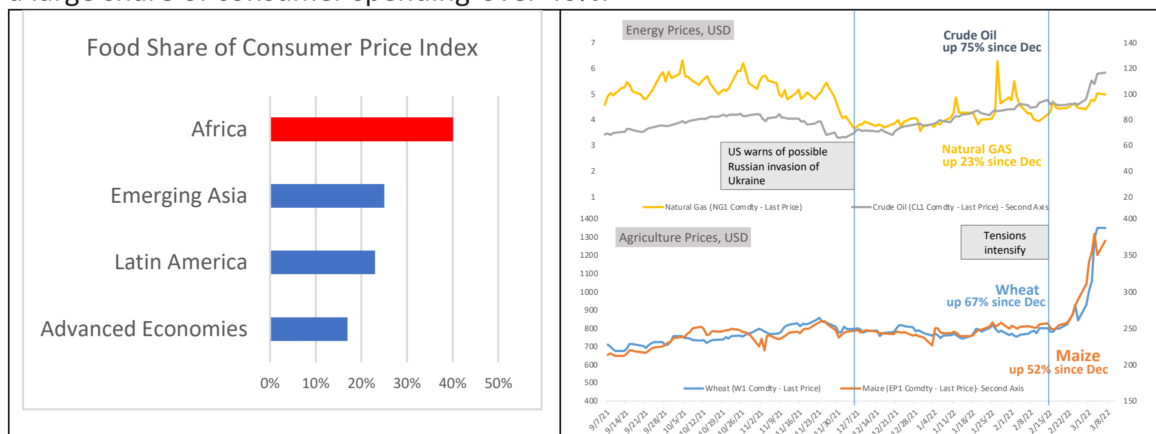
**I. Price effects could be devastating through the two fundamental commodity markets fuel and food**

The conflict led to an Oil price surge to its highest since 2008 and fertilizer prices also soared. Food prices have reached a 14-year highs with wheat reaching a record of 12,94 US dollars per bushel in the second week of March.

Ukraine and Russia are the main global wheat exporters (global market share is close to 30%); sunflower oil (approx. 70%) and maize (close to 18%).

Global food prices were already at record highs before the war in Ukraine, up 23% since last year. Now, the war and sanctions on Russia are adding to those pressures, with food prices at new highs in recent weeks.

This price shock is likely to spread around the world, fueling broader inflationary pressures and taking the heaviest toll on regions such as Africa, where food accounts for a large share of consumer spending-over 40%.




Source: ECA, based on ILO data and Bloomberg for commodity graph

## II. Trade as a first-round effect: Direct exposure to Ukraine and Russia is relatively limited but is high on specific goods, often first necessity

The Ukraine crisis is a continental risk even though it appears to be concentrated in a few products & countries given their contribution to Africa's GDP and population.

Africa is overexposed to trade with R&U for agricultural products. Wheat, Maize, Sunflower oil (& Barley) are important exports from R&U to Africa.

Of all wheat imports from R&U in 2020 to Africa, Egypt represented a 43% share. Further, Egypt imports 84% of its global wheat and 27% of its maize from R&U.
Other, highly vulnerable countries are Morocco which imports 30% of its wheat from the region.

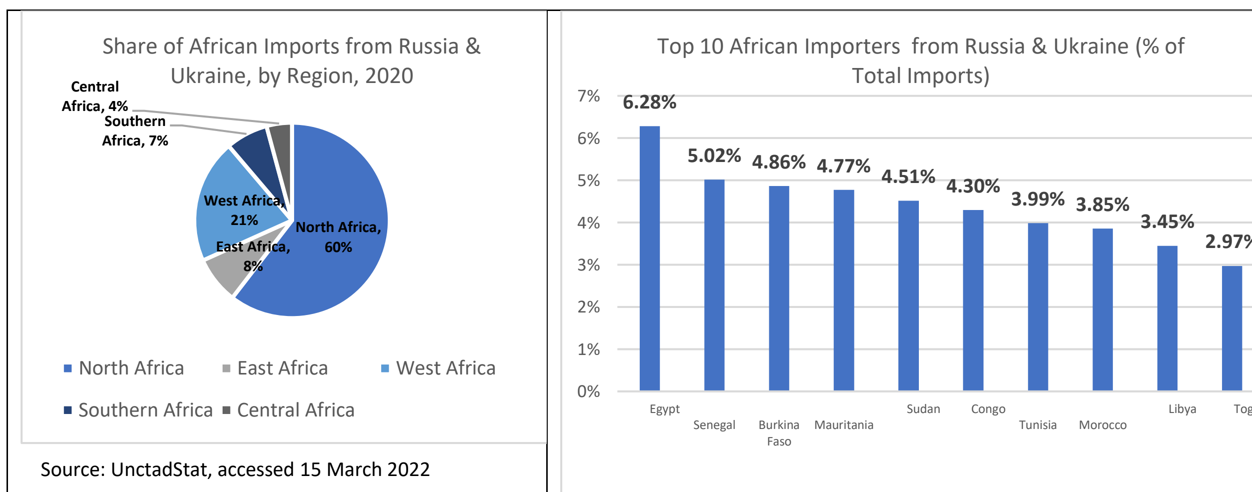
Somalia imported 85% of its wheat from Ukraine in 2020 and is at risk of supply disruptions from an extended crisis.

Over half of all Maize imports for Libya and Tunisia come from Ukraine. Nearly all wheat imported from Benin comes from Russia leaving it overly exposed to global sanctions and supply disruptions.

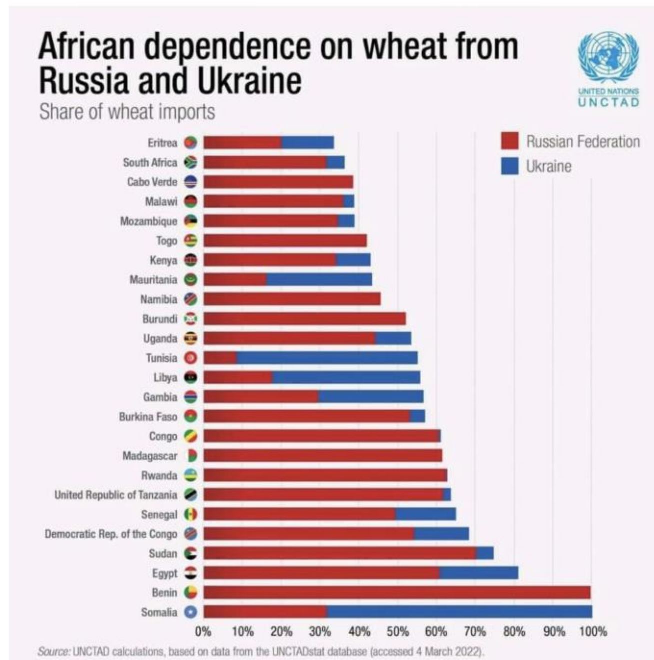
Besides agricultural products petroleum, iron & steel and fertilizers are other top imports

Regarding the impact of tourism, the crisis is likely to be limited to countries like Egypt and Tunisia. Across the continent the share of R&U in African tourist markets is mostly less than 1%

- In Tunisia R&U comprise a 20% share
- In Egypt, R&U take up a 10% share of its total tourist market
- In other countries like Seychelles & Mauritius the share of R&U is only 3.14% and 0.8%, respectively



Source: UnctadStat, accessed 15 March 2022




**III. The Capital Markets channel further threatens debt sustainability amid capital flight and rising borrowing costs.**

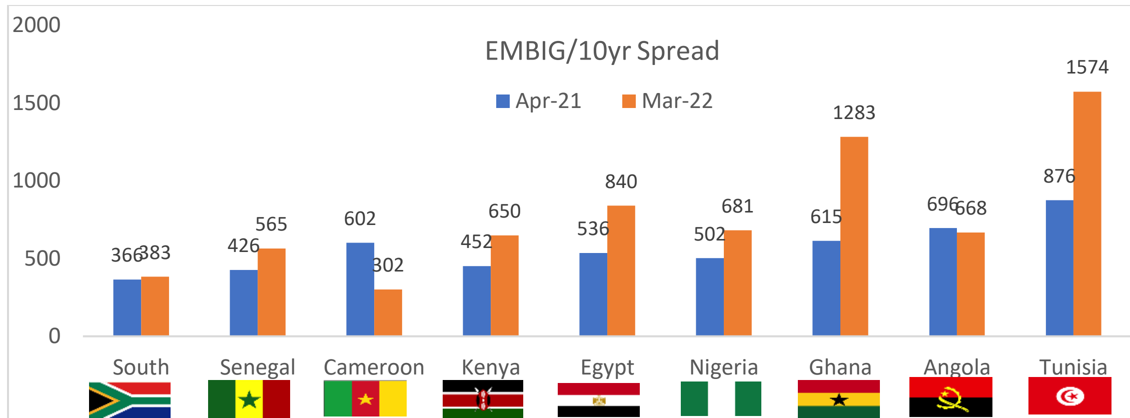
Pandemic-related uncertainty led to massive capital flight and countries' debt burdens grew heavier.

Over $40 billion in debt repayments were due in 2021, and debt-servicing costs were expected to exceed 7% of Africa's GDP in 2021 and 2022 **(ECA)**.

The current conflict is inflicting further tremors in financial markets, causing an outflow of capital amid investor risk aversion and falling stock prices, and higher risk premiums in bond markets leading to spikes in sovereign yields.

Ghana is shut out of the market as is Tunisia and the recent Nigeria green-backed issuance, which was priced at the exuberant 8.375% demonstrates markets are open for some but at very onerous rates so much so that even South Africa is challenged.

That would already create acute stress for a number of African economies struggling with high debt levels.



Source: JP Morgan and Bloomberg

African countries were already suffering persistent credit rating downgrades as they tried to respond to the COVID-19 crisis effectively and address macroeconomic and fiscal challenges.

2020 brought an avalanche of credit rating downgrades - 56% of African crisis were downgraded by at least 1 credit rating agency (Source: Afreximbank).

These have: i) stifled the flow of financial resources to the continent; ii) overinflated the cost of existing debt; iii) prevented governments from pursuing debt restructuring even as part of multilateral programs for fear of further downgrading.

The Ukraine crisis will likely lead to more downgrades as possible contagion spreads across emerging markets.

**African Governments Need to Strengthen Macroprudential Policies**

African Governments will need to move quickly to contain economic risks, by building foreign exchange reserves, improving financial risk monitoring, and strengthening macroprudential policies.

Policymakers need to strike a balance between funding social programs and curtailing rising inflation.

Oil exporting countries have an advantage and should start to replenish fiscal policy buffers depleted by COVID-19 as well as strengthen the social safety nets needed to protect their most vulnerable citizens.

Eliminating inefficient expenditures and mobilizing domestic financial resources should be a top priority for governments across Africa in navigating their way out of the crisis.

Policy makers should also prioritize fiscal transparency and policy oriented anti-corruption and anti-money laundering solutions to immediate problems related to COVID-19 expenditures. The focus should be on generating resources to help States overcome the socio-economic hardship imposed by the Pandemic in a transparent manner.

There are lessons to be learned from the Covid pandemic. African countries showed resilience and resourcefulness in the face of the pandemic.

For example, unable to acquire vaccines, or to finance the effective distribution of vaccine doses, African countries have pursued creative solutions to the challenges they face in vaccinating their citizens.

As a result of this effort, the Africa Vaccine Acquisition Task Team, formed in November 2020, secured up to 400 million doses of the single-shot Johnson & Johnson vaccine, with support from the African Export-Import Bank. Nonetheless, in most African countries, widespread vaccination is not expected to be achieved until early 2023, if at all.

**One crucial aspect of the recovery planning is the efforts to ease African countries' debt burdens and free up fiscal space for investment which can only happen with outside help.**

The conflict has underscored that the need to Africa's prospects for economic renewal continue to be undermined by unsustainable debt-servicing costs, which can be tackled only with outside help.

For starters, African countries urgently need more liquidity and a more robust debt restructuring framework to respond to the crisis and finance recovery efforts. Specific asks for the international community include:

- Prioritize the on-lending of SDRs to support economic recovery in vulnerable countries; the $60 billion already pledged by a number of economies could be allocated as part of a rapid response program. Work to raise additional 40bn to reached the promised 100bn during Paris Forum in May 2021;
- Add more African MDBs to the list of SDR-prescribed holders
- Work to make G20 Debt Framework effective and extend the Debt Service Suspension Initiative for two years with a proposal to reschedule the deferred interest payments over five years;
- Support of liquidity enhancing initiatives like the Liquidity and Sustainability Facility(LSF) ; and accelerate the launch of the Resilience and Sustainability Trust (RST)
- Work on rating agency reform;

**As the current crises have proven, there is a need for a new financial architecture adapted to African vulnerabilities that can offer possibilities for countries on the continent to navigate short-term liquidity constraints while financing long-term development needs.**

The IMF plays an important role in providing emergency financing and provided the additional allocation of $650bn in SDRs.

Yet, its instruments are broad and general, and access is seen by countries as costly and stigmatizing, as proven by the few countries who dared to seek debt assistance under the G20 Common framework for debt treatment beyond DSSI.

As an example, the Government of Ethiopia was immediately downgraded by all 3 rating agencies following the official announcement that it will seek debt assistance.

Even as countries continue to battle COVID-19 and face the threats of the Ukraine crisis, it is crucial not to overlook the longer-term challenge of transforming economies to become more resilient to shocks and achieve sustainable and inclusive growth.

Africa's developmental needs have been growing and outstrip the resources available through concessionary public financing. Access to capital markets at affordable rates is thus indispensable if the continent is achieve the 2030 Agenda for Sustainable Development.

Event before the Ukraine crisis, the IMF estimated that **$450 billion** were required to respond to the pandemic and restore low-income countries to their pre-pandemic growth trajectory.

Africa's development financing needs are daunting.

- The infrastructure (energy, transport and communication) financing gap is estimated at around **$130-$170 billion** annually.
- An estimated **$18–$30 billion** a year will be needed over the next two decades **for climate action** and climate change adaptation, with nearly $1 trillion worth of investments and projects ready to be financed[1].
- Africa's estimated annual financing gap on **health is $66 billion** and, about $39 billion a year (UNESCO) is needed over 2015–2030 to achieve SDG 4 on inclusive education in Africa.

However, the current financial architecture is ill-equipped to deliver the amount of resources required to recover from the pandemic and face the headwinds from the Ukraine crisis let alone achieve the SDGs and address the continent's financing gap.

The time has come to develop bold and radical financing frameworks that push the boundaries of conventional wisdom and practices.
Central to this is to expedite the efforts to address illicit financial flows and retain and tax resources that could contribute towards reducing income inequality, strengthening governance and human rights and the implementation of the 2030 Agenda for Sustainable Development.

---

[1] https://www.uneca.org/sites/default/files/fullpublicationfiles/ERA_2020_mobile_20201213.pdf

The global efforts to enhance financial integrity and tax agenda have made significant progress including through the recent OECD'S two-pillar solution to addressing the tax challenges arising from the digitalisation of the economy. However, the current international tax rules and architecture still need more collective efforts to improve inclusiveness, transparency and effective monitoring in order to respond to the specific needs of African countries .

There is also a need of a new set of instruments adapted to African vulnerabilities that can offer possibilities for countries on the continent to navigate short-term liquidity constraints while avoiding drawing upon their own reserves.

Economic and political leaders across the continent have been advocating for the idea in international fora.

**One such instrument is the previously mentioned Liquidity and Sustainability Facility (LSF).**

The LSF supports the creation of a vibrant repo facility for African sovereign bonds. The LSF seeks to enhance the liquidity of African sovereign bonds by enabling these securities to be used as collateral to access affordable short-term loans.

By offering preferred repo rates on green bonds, the LSF can channel capital into green investments such as climate resilient infrastructure and renewable energy with proven high rates of return.

In South Africa, for example, green projects are projected by UNECA to create 250% more jobs compared with equivalent funding for fossil fuel-based alternatives.

The continent is in a race against time to build resilient food systems and address the climate crisis.

UNECA and African leaders' have called for 50% of climate finance to be for adaptation and are working to improve the rate of African green and blue bond issuance and the implementation of a carbon pricing framework aligned with the goals of the Paris Agreement.

Furthermore, Africa is working to make the African Continental Free Trade Area a functioning regional trade bloc that will lessen dependence on extra-regional exports, especially goods of first necessity such as food, medicine and fuel.

The establishment of a single market with a total GDP of $2.5 trillion should increase intra-African trade by 34% ($133 billion).

Africa's innovative and bold roadmap to sustainable development has the bearings to support economic diversification, industrialization, and job creation, thus reducing African countries' reliance on commodity exports and making the continent more resilient in the face of external shocks and global crises.

Access to capital markets will be indispensable if the continent is to deliver on this promising agenda.

Thank you