Weekly Edition Vol: 371 29th March - 2nd April 2021

NEW SDRS VITAL IN STEMMING ECONOMIC IMPACT OF COVID 19 ON AFRICAN ECONOMIES

1. INTRODUCTION

UDN's Julius Kapwepwe speaking at a media briefing on the IMF Special Drawing Rights during a panel discussion at Fairway Hotel in Kampala, organized by SEATINI-UG on the 25th March 2021.

Uganda has taken significant steps to counter the health, social, financial, and economic impacts of the pandemic since recording her first cases of COVID-19 in March 2020. At the same time, most African Economies, including Uganda have not fared well when it comes to the economic impacts of the pandemic. Indeed, recovering from the reductions in trade, stalled economic activity, capital flight and depletion in reserves will require a lot more than those disadvantaged economies can afford. This leaves them with International Monetary Fund (IMF) Special Drawing Rights (SDRs) as a sustainable option for addressing the challenges of financing recovery and procurement of Covid-19 vaccines to save African lives. *(SDR is an international reserve asset created by the IMF to supplement the official reserves of its member countries.)*

2. RENEWED URGENCY FOR SPECIAL DRAWING RIGHTS

The United Nations Conference on Trade and Development (UNCTAD) estimates that Africa will require USD 200 billion to address the financial and socioeconomic impacts of the global pandemic. In the past year, several world leaders, humanitarian groups, CSOs including UDN and other experts have voiced support for the issuance of 3 trillion of SDRs currency or equivalent US$3 trillion as part of the existing debt relief measures to recover from the pandemic. However, SDRs are distributed in proportion to IMF members' quotas (around 60% to global North and 40% to emerging markets and developing economies, of which 3% is for Low Income Countries).

3. SDR ALLOCATION CAN LIMIT BORROWING.

Uganda's debt repayment has remained a key constraint to comfortable Fiscal space and liquidity positions. This is because debt repayment comes from Domestic Revenues and as such it is linked to the country's Domestic Revenue Mobilization (DRM) capacities.

Between January and December 2019, Uganda paid $42.8 million (including $ 4,488 i.e. nearly 5 million USD interest payment) as external debt servicing alone. The said Jan-Dec. 2019 period translated into approx. UGX 160 billion off an estimated UGX 19 trillion domestic revenues against a UGX 40 trillion total National budget for fiscal period 2019/20. Uganda's debt pattern is a recurring spiral because as we pay, she simultaneously acquires new debts - including the COVID-19 loans (beyond Grants and Supplementary budgets). As part of the response to this fiscal dilemma, SDR issuance would create fiscal space for investments in health spending as current initiatives are still falling short of effectively providing sustainable solutions.

4. UDN RECOMMENDATIONS

1) UDN implores IMF to issue a new allocation of 3 trillion of SDR currency or its equivalent US$3 trillion to developing countries as a fast way of providing low-cost emergency assistance to developing countries to help them address the post COVID economic shocks.
2) Of the new IMF SDR allocation, the larger proportion should be allocated to low income countries to help them recover from the economic crisis without recourse to borrowing.
3) African countries/economies should use the new SDR allocations to ease fiscal constraints and invest in protecting the citizens against the economic contraction as well as support increased health spending for covid-19 Vaccines, protective equipment, and, strengthen healthcare systems.
4) Should IMF extend the proposed SDRs to African LICs as a fiscal dilemma reprieve measure, they should in turn have the decorum to invest it in priority areas, notably protecting citizens against the economic contraction and increased health spending for covid-19 Vaccines, protective equipment and healthcare systems strengthening.

UDN appreciates support by: UDN Membership; DCA; Save the Children in Uganda; OSIEA, Inspectorate of Government; IBP, and Trocaire .

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