Opinion: Spend what it takes to fight COVID-19 in poor countries, too

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Masood Ahmed

March 25, 2020

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It is now only a question of when, not if, the COVID-19 pandemic will exact its human and economic toll on the poor and developing countries of South Asia, Africa, and Latin America in the way it is already ravaging East Asia, Europe, and North America. And when it does, they too will need to respond with exceptional heath and financial measures in the face of this unprecedented global challenge.

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The fundamental reality, however, is

that the governments of most low-income and lower-middle-income countries — already beleaguered with weak health systems and economic constraints — can neither borrow the money they need to mount an effective fiscal response from commercial markets nor have their central banks print more local money without risking a run on their currency and a collapse of confidence.

The adequacy of their response will be determined by the extent to which international financial institutions — particularly the International Monetary Fund, the World Bank, and their rich country shareholders — recognize that exceptional times require exceptional action.

Supporting the poorest countries is essential because this crisis cannot be defeated for any of us until it is defeated for all. International action, therefore, needs to be guided by three central realities:

• The immediate priority will be to ensure that LMIC governments have the hard currency they need for the scaled-up health response, essential imports, and cash transfers to those unable to work, supplemented by other mechanisms for families these cannot reach. We do not yet know exactly how much all of this will cost, but we can make reasonable provisions based on the 2008 financial crisis and on the actions now being taken in rich countries. These estimates point to a fiscal need of about $150 billion to $200 billion in the near 75 countries that are eligible for the World Bank's International Development Association, its concessional lending window, or IDA-blend funding.

• The crisis response will raise some difficult policy questions. It will add to debt when debt sustainability is already a concern in many poor countries. It will call into question certain public economic policies and how they are managed. There will be a time to deal with these issues — now is not the time. When the house is on fire, it is not useful to hold back the firefighters until we can sort out how the cost of the water damage will be shared between co-insurers.

• A long-term strength of the IFIs has been their impeccable credit rating, achieved through a conservative approach to financial management. However, now is when they need to demonstrate that they are also capable of taking risks. The fear of raised eyebrows in rating agencies should be cast aside in favor of proactive outreach and bold action.

The initial announcements by the heads of the IMF, the World Bank, and some regional development banks demonstrate a willingness to substantially expand their support to member countries. However, without additional measures, this will not be adequate for the challenges that most epidemiologists believe lie ahead. Building on these announcements, the G-20 should ask — and support — the IFIs to respond to the needs of low-income countries through the following package:

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• The concessional windows of the multilateral banks have $140 billion in financing capacity to devote to the crisis response in IDA and IDA-blend countries. IDA and the African Development Fund should, therefore, commit to front-load their recent replenishment packages of $82 billion and $7.6 billion, respectively. In addition, IDA should supplement its recent replenishment by another $50 billion by going to the market and issuing debt against its equity to lend on market and concessional terms to eligible borrowers.

• A comparable package of $30 billion from the IMF for balance of payments support to this group of countries. To achieve this, the IMF will need to maximize the use of its concessional window and greatly expand access of the poorest countries to its regular lending facilities, which charge a fraction of what poor countries pay for commercial borrowing.

• Alongside the surge of new lending from the IFIs, there should be a moratorium on debt payments to other creditors for the next 18 months. The G-20 should commit to action by its own official lending institutions and ask commercial creditors to roll over any payments due to them.

• A proposal to double the allocation of IMF Special Drawing Rights — the reserve currency that the IMF can create for its members. For poor countries, an allocation of additional SDRs is the closest they can come to non-debt-creating acquisition of hard currency. An additional $10 billion to $15 billion would be available in the case of an overall doubling.

Even with these measures, dealing with the impact of the COVID-19 pandemic will be an unprecedented challenge for poor countries. Hospitals and tertiary care facilities and personnel will be overwhelmed, unemployment benefits and cash transfers will struggle to reach those working in informal economies, and social distancing and lockdowns will be nearly impossible in homes and neighborhoods that are often crowded and communal by design. We cannot minimize these challenges, but we can reduce the human and economic toll by ensuring that timely, adequate finance does not become the binding constraint.

Many fiscal and financial redlines have already been breached in the rich world in the face of this exceptional crisis. Let’s make sure that our actions in support of the poorest countries follow suit and do not become the last stand of self-defeating orthodoxy.

Masood Ahmed

Masood Ahmed is president of the Center for Global Development and previously spent two decades driving economic development policy initiatives relating to debt, aid effectiveness, trade, and global economic prospects at the World Bank.