Response of international financial institutions and development partners to the impact of Coronavirus on Africa

by Shakira Mustapha[1]

1. Introduction

The social and economic impact of the COVID-19 pandemic on countries in Africa is unprecedented in nature and scale. Many African countries — particularly those with already high debt burdens – are likely to face sharp increases in their fiscal and current account deficits, constraining their ability to effectively respond to the COVID-19 crisis and manage its wider economic impacts. In recognition of these challenges, various international institutions and development partners have committed to provide financial assistance and support. **The objective of this note is to briefly describe the key features of existing initiatives (with relevant online links) that seek to help beneficiary countries access emergency financing or free up fiscal space to respond to the crisis through debt relief or renegotiation.**

- **Provision of new financing:** IMF's emergency financing facilities; World Bank's Covid-19 Strategic Preparedness and Response Program; AFDB's Covid-19 Rapid Response Facility
- **Debt relief or renegotiation:** IMF's Catastrophe Containment and Relief Trust; G20/Paris Club Debt Service Suspension Initiative; and potential options for renegotiating loans with China.

2. IMF's emergency financing facilities (RCF and RFF)

Given its stabilization mandate, the IMF is playing an important role in helping member countries mitigate the economic effects of coronavirus, particularly through its emergency financing facilities. The primary advantage of these facilities is that it allows the IMF to quickly provide financial assistance to member countries without the need for a full-fledged program. This can be done via Rapid Financing Instrument (RFI), available to all members, and the Rapid Credit Facility (RCF), which is the concessional facility available only to PRGT-eligible members. The key features of the RCF are as follows:

i. **Purpose:** To provide rapid financing to countries currently facing urgent balance of payments need that if not addressed would result in immediate and severe economic disruption. For many countries, the COVID-19 pandemic is already impacting their economies severely, hence a strong case can be made in this regard.
ii. **Access is determined on a case-by-case basis though there are access limits**- Level of access depends on the country's balance of payments need, the strength of its macroeconomic policies, capacity to repay the Fund, the amount of outstanding Fund credit, and the member's record of past use of Fund credit. In addition, it considers the size and likely persistence of the shock. In response to members' large and urgent Covid-19-related financing needs, access limits under the exogenous shock window of the RCF have been temporarily increased.

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iii. **Conditionality is limited but there are ex-ante policy commitments-** Although RCF is provided without *ex post* program-based conditionality or review, the RCF disbursements is based on a number of ex ante policy undertakings.

iv. **Lending is concessional**- Financing under the RCF is concessional, with a zero-interest rate, a grace period of 5½ years, and a final maturity of 10 years. In contrast, RFF financing is subject to a lending rate and should be repaid within 3¼ to 5 years.

v. **Scope for repeat use when certain conditions are met**- While RCF financing takes the form of a one-off disbursement, repeat use is possible under certain circumstances. However, no more than two disbursements may be made in any twelve-month period.

vi. **COVID-related emergency financing have been approved for 29 African countries as of May 11, 2020**: Burkina Faso, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Congo, D.R., Côte d'Ivoire, Djibouti, Egypt, Ethiopia, Gabon, Gambia, Ghana, Kenya, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Togo[2], Tunisia and Uganda.

Key links

- IMF. 2017. 2017 Handbook of IMF Facilities for Low-Income Countries. https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/12/01/pp110717-2017-handbook-of-imf-facilities-for-lics
- IMF. 2020. Factsheet: Rapid Credit Facility (RCF). https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility
- IMF. 2020. Factsheet: Rapid Financing Instrument (RFI). https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument
- IMF. 2020. Streamlining Procedures for Board Consideration of The Fund's Emergency Financing During Exceptional Circumstances Involving A Pandemic. https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/04/09/Streamlining-Procedures-for-Board-Consideration-of-The-Funds-Emergency-Financing-During-49322
- IMF. 2020. Enhancing the Emergency Financing Toolkit—Responding to the COVID-19 Pandemic. https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/04/09/Enhancing-the-Emergency-Financing-Toolkit-Responding-To-The-COVID-19-Pandemic-49320
- IMF. 2020. Emergency Financing and Debt Relief. https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

3. World Bank's Covid-19 Strategic Preparedness and Response Program (SPRP)

i. **Purpose:** The objective of the COVID-19 (Coronavirus) Preparedness and Response Program is to assist IBRD and IDA-eligible countries in their efforts to prevent, detect and respond to the threat posed by COVID-19 and strengthen national systems for public health preparedness. It uses a Multiphase Programmatic Approach, which structures a long, large, or complex engagement as a set of smaller linked operations or phases, under one Program.

As of May 8th, 2020, 24 African countries have accessed funding from this program: (Benin, Burkina Faso, Burundi, Cabo Verde, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of Congo, Eswatini, Ethiopia, Ghana, Kenya, Liberia, Mali, Malawi, Mauritania,

[2] Augmentation of funding from the Extended Credit Facility (ECF) arrangement.

Niger, Republic of Congo, Rwanda, São Tomé and Principe, Senegal, Sierra Leone, Gambia and Togo.)

ii. **Six program components:** Component 1 focuses on immediate, emergency containment and mitigation activities to respond to COVID-19 outbreaks and resurgent waves; Components 2 and 3 of the Program aim to further strengthen the capacity of countries to deal with the re-emergence and emergence of COVID-19 and other pathogens of animal origin; Component 4 supports community engagement and risk communication; Component 5 supports implementation management and monitoring and evaluation; and Component 6 is the contingency emergency response (CERC) (Component 6) which allows recipients to request the Bank to re-allocate project funds to support additional emergency response.

iii. **Disbursement:** Most of the funds under each of the country projects has been allocated for supporting priority containment and mitigation activities. The intention is to disburse the largest share of this operation within the next 12 to 18 months.

iv. **Scope for repeat use:** Depending on needs and the availability of resources, the Program may provide for a second project in a given country.

v. **Other types of World Bank Support:** The World Bank is also working to redeploy resources in existing World Bank financed projects, including through restructuring and use of projects' emergency components as well as contingent financing instruments designed for catastrophes, including pandemics. Four African countries have received other forms of finance/redeploying of existing projects (Benin, Malawi, Rwanda and South Africa).

Key links

- World Bank. 2020. Project Appraisal document on a Covid-19 Strategic Preparedness and Response Program and Proposed 25 Projects under Phase 1 using the Multiphase Programmatic Approach http://documents.worldbank.org/curated/en/993371585947965984/pdf/World-COVID-19-Strategic-Preparedness-and-Response-Project.pdf
- Project Appraisal Documents for Covid-19 projects: http://documents.worldbank.org/curated/en/docsearch/projects/P173789
- World Bank Group's Operational Response to COVID-19 (coronavirus) – Projects List. https://www.worldbank.org/en/about/what-we-do/brief/world-bank-group-operational-response-covid-19-coronavirus-projects-list

4. AFDB's Covid-19 Rapid Response Facility (CRF)

i. **Purpose:** The COVID-19 Rapid Response Facility (CRF) is the African Development Bank Group's main channel for responding to the crisis by providing rapid emergency financing to protect its regional member countries (RMCs) and their private sector enterprises from the economic and social impact of the COVID-19. UA 6.4 billion of the resources allocated to the CRF will be used to support sovereign operations and UA 1 billion for non-sovereign operations.

ii. **Modality for sovereign operations:** Although the Bank intends to use its full range of instruments to support RMCs, the priority is to provide fast-track budget support (Crisis Response Budget Support) to enable clients to fund timely preventive action and emergency response measures. Budget support can be in the form of a loan and/or grant and for the poorest countries, the choice of instrument will be as agreed in the ADF 15 Deputies Report and ADF Guidelines. Budget support operations will also be designed in line with the provision for Crisis Response Budget Support as made in the 2012 Bank Group Policy on

Program-Based Operations. To a lesser extent, the CRF will also fund sovereign investment operations.

iii. **Criteria for allocating resources:** The following criteria will be used to guide decision-making and prioritise requests for budget support: (i) severity of the impact on the economy and fiscal stress; (ii) severity of the impact of COVID-19 on government capacity to provide needed services and maintain infrastructure; (iii) degree to which denying assistance would threaten to reverse gains and undermine degree of resilience achieved in recent years; and (iv) threat of a sovereign ratings downgrade.

iv. **Implementation:** Separate grant/loan resolutions and agreements will be prepared for each country. The disbursement conditions will be specified for each individual country and may vary.

Key links:

- AfDB. 2020. The African Development Bank Group's Covid-19 Rapid Response Facility (CRF). https://www.afdb.org/en/documents/african-development-bank-groups-covid-19-rapid-response-facility-crf
- AfDB. 2012. African Development Bank Group Policy on Program-Based Operations. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Bank%20Group%20Policy%20on%20Program-Based%20Operations%20-%20LOTB%20Approved.pdf

5. IMF's Catastrophe Containment and Relief Trust (CCRT)

i. **Purpose:** Provide grants for debt relief for the poorest countries hit by catastrophic natural disasters or public health disasters. The relief on debt service payments owed to the IMF frees up additional resources to meet exceptional balance of payments needs created by the disaster and for containment and recovery.

ii. **Eligibility criteria:** Poverty Reduction and Growth Trust (PRGT)- eligible countries and whose per capita income is below the International Development Association's (IDA) operational cut-off (currently US$1,175) or, for small states with a population of less than 1.5 million, per capita income below twice the IDA cut-off (currently US$2,350).

iii. **Structure:** The CCRT has two windows: (i) a Catastrophe Containment window, to provide assistance in containing a public health disaster; and (ii) a Post-Catastrophe Relief window, to provide exceptional assistance in the wake of a catastrophic natural disaster. The windows have different purposes, qualification criteria, and assistance terms.

iv. **CCRT and Coronavirus:** The initial relief for 25 eligible countries (19 were African) was approved for 6 months from April 14 through October 13, 2020. This includes Benin, Burkina Faso, Central African Republic, Chad, Comoros, Congo, D.R., Gambia, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, São Tomé and Príncipe, Sierra Leone, and Togo.

v. **Fundraising is ongoing** to provide additional debt service relief for a full two years to the poorest member countries.

Key links

- IMF. 2020. Factsheet: Catastrophe Containment and Relief Trust. https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/49/Catastrophe-Containment-and-Relief-Trust
- IMF. 2020. Catastrophe Containment and Relief Trust—Approval of Grant Assistance for Debt Service Relief. https://www.imf.org/en/Publications/Policy-

Papers/Issues/2020/04/16/Catastrophe-Containment-And-Relief-Trust-Approval-Of-Grant-Assistance-For-Debt-Service-Relief-49330

6. G20/Paris Club Debt Service Suspension Initiative (DSSI) for the poorest countries

All official bilateral creditors, Paris Club and non-Paris Club, have agreed to support a coordinated time-bound suspension of debt service payments (principal repayments and interest payments) for the poorest countries that request forbearance. The decision on whether to seek a standstill on debt service payments will be at the discretion of each sovereign debtor. The key features for this initiative based on the common term sheet agreed to by Paris Club members and the G20 are outlined below.

i. **Purpose:** To reallocate government resources from debt service payments to increasing social, health or economic spending in response to the COVID-19 crisis.

ii. **Eligibility criteria:**
- country is classified as an IDA-country as defined by the World Bank or a least developed country as defined by the United Nations[3];
- country is current on any debt service to the IMF and the World Bank;
- country makes a formal request for debt service suspension from creditors, and
- country is benefiting from, or has made a request for IMF financing including emergency facilities (RFI/RCF)

iii. **Scope of creditors:** This initiative applies to debt with all official bilateral creditors. However, private creditors, working through the Institute of International Finance (IIF), have also publicly expressed their willingness to participate in the initiative on comparable terms. The private sector is currently working on terms of reference for an effective voluntary private sector participation

iv. **Duration of the suspension:** The 8-month suspension will start on May 1st, 2020 and last until end-2020. However, creditors will consider a possible extension during 2020.

v. **Modality of debt suspension:**
- The suspension of payments will not involve reducing the principal amount of the debt (haircut) or reducing the interest rate on the debt (i.e. NPV-neutral);
- The repayment period will be 3 years, with a one-year grace period (4 years total).
- Treatment will be achieved either through rescheduling or refinancing

vi. **Template letter is available online**- A template letter for submitting a formal request for the Debt Service Suspension Initiative is available online.

Key links
- Paris Club. Term Sheet and template letter for Debt Suspension Initiative for the Poorest Countries. http://www.clubdeparis.org/en/communications/press-release/debt-suspension-initiative-for-the-poorest-countries-addendum-15-04
- IIF. 2020. IIF Letter To IMF, World Bank and Paris Club on a Potential Approach to Voluntary Private Sector Participation in the DSSI. https://www.iif.com/Publications/ID/3885/IIF-Letter-To-IMF-World-Bank-and-Paris-Club-On-a-Potential-Approach-to-Voluntary-Private-Sector-Participation-in-the-DSSI

[3] Ineligible African countries are Algeria, Angola, Egypt, Libya, Morocco, South Africa, and Tunisia.

Other proposals for a debt standstill:

- *Bolton, P, L Buchheit, P-O Gourinchas, M Gulati, C-T Hsieh, U Panizza and B Weder di Mauro (2020), "Born Out of Necessity: A Debt Standstill for COVID-19", CEPR Policy Insight no 103. https://cepr.org/active/publications/policy_insights/viewpi.php?pino=103*
- *Doyle, P. 2020. COVID-19 Debt Relief and the Global Poorest. NIESR Policy Paper 017. https://www.niesr.ac.uk/publications/covid-19-debt-relief-and-global-poorest*

7. Potential options for renegotiation loans with China

The Government China is a major development partner for African countries and for some, the biggest official creditor. This means that any effort to provide meaningful debt relief to the most vulnerable countries in the wake of COVID-19 must encompass the debts owed to China. The Government of China is one of the official bilateral creditors that agreed to participate in the above-mentioned debt service suspension initiative (DSSI) for the poorest countries (Yan, 2020). To date, there has been no indication of any debt relief initiatives for lower-middle income country borrowers, where the substantial majority of Chinese lending has occurred. There is also great deal of uncertainty regarding what the renegotiation process and debt relief more broadly with China may potentially look like. To provide some clarity, we summarize what China's approach may involve based on announcements from Chinese government officials and expert opinions captured in recent media and academic reports:

i. **Bilateral negotiations on a loan by loan basis-** Negotiations between countries and China to restructure loans are likely to be undertaken on a bilateral basis. It will involve loan-by-loan scrutiny rather than offering blanket assistance for all "Belt and Road Initiative" (BRI) projects worldwide.

ii. **Outright debt forgiveness is unlikely-** Although the Government of China has forgiven zero-interest loans in the past, the preferred method of debt relief for concessional loans and commercial loans include extending loan terms and repayment deadlines, explicit refinancing, or debt/equity swaps.

iii. **China is unlikely to forgive debt unilaterally-** Given that lending by multilateral institutions and the private sector account for a substantial portion of the public debt stock in several African countries, China is unlikely to forgive debt without other lenders offering similar forgiveness.

iv. **The type of debt relief provided is likely to vary across Chinese institutions-** Debt forgiveness is most likely for zero-interest loans, which are issued as a component of China's foreign aid through the Ministry of Commerce, while China's commercial banks like Bank of China and Industrial and Commercial Bank of China are unlikely to forgive commercial loans due to the need to meet financial targets. China Development Bank and China Export-Import Bank may reduce interest rates or principle payments by moderate amounts depending on the diplomatic relationship between the country and China.

v. **Asset seizures in lieu of debt payments are rare occurrences relative to other methods of debt relief[4]-** However, there are concerns that the Government of China may use loan renegotiations to advance foreign and domestic policy objectives. This is more difficult to track given they are usually unspoken or indirect outcomes of renegotiations.

[4] Based on a study of 40 cases of China's external debt renegotiations across 24 countries. Sri Lanka granted a 99-year concession to China on the Hambantota Port, and agreed to China Merchant Port Holdings acquiring 70 percent of the port's operating company.

Key links

- Andrea Shalal. 2020. China open to talks with poor countries on debt challenges: Chinese official. *Reuters.* https://www.reuters.com/article/us-health-coronavirus-china-debt/china-willing-to-work-bilaterally-with-low-income-countries-on-debt-challenges-chinese-official-idUSKBN21P344
- Deborah Brautigam. 2020. Chinese Debt Relief: Fact and Fiction. The Diplomat. https://thediplomat.com/2020/04/chinese-debt-relief-fact-and-fiction/
- Development Reimagined & Oxford China Africa Consultancy. 2019. China debt cancellation. https://developmentreimagined.com/wp-content/uploads/2019/04/final-doc-china-debt-cancellation-dr-final.pdf
- James Kynge and Sun Yu. 2020. China faces wave of calls for debt relief on 'Belt and Road' projects. Financial Times. https://www.ft.com/content/5a3192be-27c6-4fe7-87e7-78d4158bd39b
- Joe Bavier, Cheng Leng, Andrea Shalal. 2020. China in the driver's seat amid calls for Africa debt relief. Reuters. https://www.reuters.com/article/us-health-coronavirus-africa-china-analy/china-in-the-drivers-seat-amid-calls-for-africa-debt-relief-idUSKCN21V0CS
- Rhodium Group. 2019. New Data on the "Debt Trap" Question. https://rhg.com/research/new-data-on-the-debt-trap-question/
- Rhodium Group. 2020. Booster or Brake? COVID and the Belt and Road Initiative. https://rhg.com/research_category/note/
- Shen Yan. 2020. China supports the moratorium on debt payments to the poorest countries and will make due contributions-Minister of Finance. Reuters. https://cn.reuters.com/article/china-mof-poor-country-debt-0416-idCNKCS21Y18Y
- Yun Sun. 2020. China and Africa's debt: Yes to relief, no to blanket forgiveness. Brooking https://www.brookings.edu/blog/africa-in-focus/2020/04/20/china-and-africas-debt-yes-to-relief-no-to-blanket-forgiveness/