

Background Note for *Mobilizing with Africa* High-Level Virtual Event

2020 Spring Meetings

April 17, 2020

The coronavirus disease (COVID-19) outbreak is set to exact a heavy human and economic toll on Africa. Countries across the region are facing tremendous pressure to provide life-saving healthcare services, social protection and economic support for those most impacted. But with economies having been slumped into a historic recession fiscal and export revenues have declined sharply and countries' access to capital markets has been sharply curtailed. The fight against this pandemic is a global public good, the eradication efforts have to start early and leave no country behind. Significant and decisive international financial support is needed to help countries overcome the crisis and help prevent turning back the clock on development progress achieved to date.

AFRICA IS FACING AN UNPRECEDENTED CRISIS

The continent is grappling with multiple severe shocks: disruption in production and domestic demand from strong containment and mitigation measures adopted to limit the spread of COVID-19, plummeting external demand, tighter global financial conditions, and sharp declines in commodity prices. While there is significant uncertainty, the continent's economy is projected to contract by at least 1¼ percent this year—the worst-reading on record, a downward revision of almost 5½ percentage points from pre-COVID-19 growth projection. Unlike in previous crises, no country is being spared this time. With the informal sector accounting for the lion's share of employment and many jobs being hand-to-mouth, the continent is set to experience its first increase in extreme poverty in two decades affecting vulnerable groups, particularly women, the most given their high dependence on the informal economy.

The health and human costs of the crisis are projected to be daunting. The pressures placed on the already fragile healthcare systems are likely to be severe and long-lasting. For example, preliminary and conservative estimates show that the additional health costs to prepare, respond, and treat COVID-19 patients would be about US\$36 billion if 10 percent of population in Africa are affected. The widespread lack of basic sanitation services and a large share of population living with pre-existing conditions risk a wider and more lethal propagation of COVID-19. Continent-wide, the ability to contain the virus depends on the strength of the region's public health systems including the number of ICU beds, availability of healthcare professionals and respiratory materials but also health surveillance capacity to test and do contact tracing.

Without fast and adequate international support, the COVID-19 shock threatens to derail a generation of progress. Prior to this shock, most countries were on a sustained growth trajectory and development outcomes improving steadily. By upending livelihoods, and damaging business and government balance sheets, the crisis threatens to reverse the region's development gains and damage growth prospects for years to come.

COUNTRIES ARE MAKING EXTRAORDINARY EFFORTS UNDER EXTRAORDINARY PRESSURES

The continent has moved quickly and decisively to respond to the crisis. Containment measures have consisted of suspension of international flights, closures of borders, schools and universities, and putting in place curfews or restrictions on social gathering and non-essential businesses. In parallel, the governments are trying to rapidly strengthen and expand their capacity to detect, quarantine and treat COVID-19 patients. The set of economic interventions, on top of the preventive and mitigating health measures, ranges from postponement of tax and social security payments, guarantees, corporate and household debt reprofiling, easing of financing conditions for SMEs to safeguard employment, and cash transfers to needy households. To make room for social assistance and urgent health spending, countries have put on hold or reprioritized capital spending.

The economic crisis has seriously affected fiscal revenues at a time when external private funding has also dried up. The sharp downward revision in growth in 2020 is having a major impact on revenues and is expected to double the fiscal deficit relative to both 2019 outturn and the pre-COVID-19 fiscal deficit projection for 2020. The continent's frontier and emerging market countries have seen capital outflows larger than peers elsewhere forcing them to erode foreign exchange reserves and limit capacity to import essentials. Sovereign spreads have reached all-time highs in many countries, shutting access to international financial markets.

The continent has large external and fiscal financing needs. Even assuming a relatively quick recovery in activity and countries' adoption of an economic support package similar in size to that adopted by developing and emerging market peers elsewhere (1½ percentage points of GDP), the region faces a fiscal financing need of at least some US\$114 billion in 2020. There is a high degree of uncertainty regarding the evolution, duration, and scale of the COVID-19 epidemic. A larger and/or more prolonged health shock would have repercussions on the duration of containment policies which in turn would make economic recovery slower and less robust, with much higher financing need.

INTERNATIONAL FINANCIAL INSTITUTIONS HAVE STEPPED IN WITH EMERGENCY SUPPORT

In response to large and urgent fiscal financing needs, the IFIs are providing emergency and fast-track concessional financial support.

- The IMF has temporarily increased access limits to its two emergency facilities, the Rapid Credit Facility (RCF), an interest-free lending instrument available to low-income members, and the Rapid Financing Instrument (RFI), available to all Fund members. Members are now able to access up to 100 percent of quota annually. As of April 10, 44 African countries have formally requested assistance from these facilities. Under these facilities, the IMF can provide financial assistance of close to US\$19 billion. The Board recently approved enhancements to the Catastrophe Containment and Relief Trust (CCRT) to provide grants for upcoming debt service to the Fund for the 29 poorest PRGT-eligible countries, of which 23 are in the continent. The goal is to provide relief for debt service falling due to the IMF initially for six months and up to two years if financing is secured.
- The World Bank plans to provide emergency and budget support of US\$28 billion to alleviate the health, social and economic impact of Covid-19 in the next fifteen months, of which US\$18.2 billion in 2020. This includes fast-disbursing emergency health projects for close to US\$1.3 billion to 33 countries under the World Bank COVID-19 Fast-Track Facility (FTF). To address the economic impact of shutdowns, in particular on the informal sector and the poor, financing will be committed to strengthen and expand social protection programs as well as to support agriculture and food security. To address fiscal needs, and working closely with the IMF and other partners, the World Bank will be providing support through development policy lending. In addition, support to the private sector is being made available by

International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). The IFC has announced \$8 billion COVID-19 related financing package (part of FTF) to support private companies and their employees hurt by the economic downturn. MIGA has redirected its program to launch a \$6.5 billion fast-track facility to tackle both the health response to the pandemic and the economic recovery in its aftermath.

- The G20 has stepped up with an initiative on a time-bound suspension of debt service payments for the poorest countries. Responding to the joint call by the World Bank President Malpass and IMF Managing Director Georgieva, the G20 has agreed to suspend debt service payments from IDA countries that request forbearance to all official bilateral creditors through end-2020. This will help with their immediate liquidity needs and could temporarily provide space for almost an additional ½ percent of GDP. The G-20 has also called on private creditors to work through the Institute of International Finance (IIF) to participate in the debt initiative on terms comparable to those proposed by bilateral creditors in line with IIF's earlier call.
- Other international institutions are also planning to provide budget and emergency support to the public sector. For example, the African Development Bank has pledged US\$8.1 billion for COVID-related budget support financing, with almost a third of this fund intended for fragile countries. The European Union has committed \$5bn to help countries in Africa strengthen healthcare systems and tackle the impact of COVID-19 and also aid their long-term economic recovery.

WAY FORWARD

Taking into account available support from international financial institutions and other creditors and the G-20 debt relief, Africa will still face a **significant fiscal financing gap** of over US\$40 billion in 2020 which is expected to remain elevated next year. Regional leaders have made urgent calls for **debt relief** and additional financial support from the international community. In late March, African Ministers of Finance requested a coordinated and prolonged debt relief program for all of Africa from official bilateral, multilateral and private creditors to provide fiscal space needed to address the crisis, with debt write-offs to be considered for fragile African nations. The region also asked global leaders to commit \$100 billion through IFIs, in addition to financing plans already announced, to counter the expected declines in revenue and meet surging health and social costs.

The case for G20 debt relief initiative to be mirrored by the private sector for eligible countries is very strong. While these countries owe close to \$6 billion in interest and amortization to official bilateral creditors in 2020, a further US\$16 billion is due to private creditors alone in 2020, with the latter projected to take up more than 10 percent of fiscal revenue.

This debt relief is all the more important as access to international capital markets are severely curtailed at the moment, reducing the scope for rolling over maturing liabilities. Absent debt relief, countries are likely to be constrained in their ability to fight the crisis and may be forced to undertake painful domestic demand compression, with possibly further depletion of foreign-exchange reserves, which could translate liquidity shortfalls into a solvency crisis. Contingent on a more severe growth and revenue downturn, a broader group of countries may require debt relief and existing agreements extended.

New **additional financing** would also be needed to close the residual financing gap and support the recovery. Given that every developing country in the world is likely to be affected, international financial institutions would have to provide the lion's share of this financing. For instance, the IMF has launched fundraising to significantly beef up its PRGT resources - including through contributors' SDR holdings- to provide additional concessional financing to its low-income countries in the recovery phase. The launch of IDA19 in July 2020 would offer the possibility to frontload financing to IDA countries. Multilateral development banks such as the World Bank, the

African Development, the European Investment Bank and the European Bank for Reconstruction and Development could continue to raise funds to scale up financing to Africa.

Sound policies and efficient use of resources are critical to succeed in fighting the pandemic and tackle its socio-economic fallout. In this regard, freed-up or newly mobilized resources should be directed to addressing the economic and health impact of the COVID-19 shock in the most transparent and efficient manner. Policies should be adequately calibrated and would benefit from experience-sharing across the continent (e.g., benefitting from the policy tracker established by the IMF) and capacity development from development partners. These policies should include supporting vulnerable households with targeted cash transfers, providing fiscal and liquidity support especially to firms affected by the crisis to prevent insolvency while reducing costs to doing business for all firms, and refraining from taking short-term measures than can bring long-term damage to the financial sector. Reforms are also needed to avert a looming food crisis in the region, including minimizing disruptions in critical intra-African food supply chains and keeping logistics open, activating early warning systems for food shortages and associated emergency food provisioning systems. Finally, the IMF-WB debt relief initiative is an opportunity for IDA countries to strengthen debt management, and should be accompanied by stepped-up efforts to enhance debt transparency and enhance debt portfolios composition, including for external borrowing to be primarily based on concessional terms.

Once the COVID-19 crisis abates, Africa will need to resume policy reforms that are necessary to accelerate economic growth, restore macroeconomic stability and ensure medium-term debt sustainability. For many countries, reducing macroeconomic imbalances aggravated by the COVID-19 crisis as well as further progress with deep and comprehensive structural reforms will be critical to support a sustained recovery from this unprecedented shock. Many countries faced with increased debt burdens and low external buffers will need to resume growth-friendly and pro-poor fiscal adjustment, with a strong emphasis on domestic revenue mobilization. Reforms such as reduction of non-tariff barriers, improvement in the investment climate, and leveraging existing e-government platforms, which now hold back government effectiveness and efficiency of markets, have the potential of sowing the seeds of a resilient and job-rich recovery. The role of the international community will continue to be as important as it is now to support countries' efforts to bring their economies back on the path of faster growth and improved development outcomes to achieve the SDGs. In this regard, attention should be devoted to mobilizing private investment, especially foreign direct investment possibly with a re-energized G20 Compact with Africa, and improving access to regional and international markets, through speedy implementation of the AfCFTA and enhanced trade agreements with the rest of the world.