Mobilizing External Financing for Africa's Crisis Recovery

Daouda Sembene

Abstract

The COVID-19 pandemic has taken a significant toll on African economies. On the continent, countries continue to face significant financing needs to protect lives and livelihood and bolster prospects for a stronger and more resilient economic recovery. To help meet these needs, the international community must promptly work to implement a new general allocation of IMF SDRs supplemented by a multilateral reallocation initiative. It must also work collaboratively to significantly scale up IFI financing that would be made available to eligible borrowers based on the strength of their reform and policy agenda. In particular, the IMF should play a critical role, notably by sustaining the high levels of financial assistance provided at the onset of the crisis. Similarly, the World Bank should live up to expectations by boosting IDA and IBRD lending to countries on the continent. MDBs should commit to make enhanced use of guarantees and other risk management instruments to help African countries lower borrowing and project implementation costs. Continued provision of debt relief will prove critical, including the extension of the DSSI at least through end 2021. Effective implementation of the G20 Common Framework will also greatly benefit African debt-distressed countries, should it materialize into timely debt restructurings.

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Executive summary

The time to go big on supporting Africa's pandemic crisis recovery is now. More immediately, the first priority of the international community must be to promptly provide additional liquidity to countries on the continent by building on the growing consensus on the need for a general allocation of SDRs and reallocation of excess SDRs. To this end, both new allocations and unused SDRs need to be urgently put to good use in efforts to help Africa's lowest income countries bolster economic recovery, whilst contributing to global health security objectives. While boosting the pool of IMF concessional resources remains imperative and urgently needed, other avenues for reallocating excess SDRs through a complementary on-lending arrangement within or outside the IMF could be considered as well subject to appropriate safeguards. But as any SDR reallocations should, in principle, be voluntary, successful implementation of such an arrangement will be contingent not only on the transparency of its governance framework, but also on the strength of political commitment from global leaders.

The global community must also aim to work collaboratively to significantly scale up IFI financing which is likely to be among the key sources of external financing for Africa given market volatility and domestic fiscal pressures facing bilateral partners. Among multilaterals the IMF should play a critical role, notably by at least sustaining record levels of concessional commitments achieved at the onset of the crisis and boosting access to GRA funding for frontier markets with strong debt indicators. Similarly, the World Bank should live up to expectations by at least doubling IDA lending to low-income countries and quadrupling IBRD exposure to other countries on the continent over the duration of the crisis. At the same time, increased access to IFI financing should be linked to reform efforts by eligible borrowers to sustain strong policy performance and safeguard or restore debt sustainability.

Critically, the World Bank and other MDBs should commit to make greater and enhanced use of guarantees and other risk management instruments to help African countries lower borrowing and project implementation costs. They should also make their credit enhancement capabilities readily available to countries at risk of debt distress or in debt distress to incentivize creditors to participate in debt restructurings.

Continued provision of debt relief will prove critical, including the extension of the DSSI at least through end 2021. Effective implementation of the G20 Common Framework will also greatly benefit African debt-distressed countries, should it materialize into timely debt restructurings, including debt write-offs where needed to restore debt sustainability. To make progress on this front, all parties involved will need to demonstrate flexibility, including the G20, official and private creditors as well as African countries seeking debt treatment under the Framework. In parallel, the success of the Common Framework will require taking steps to secure private creditor participation in debt restructurings, while preserving the rights of concerned LICs acting in good faith to benefit from IMF financing. In collaboration with the authorities, the IMF should also play an active role in coordinating debt treatments by official and private creditors.

1. Introduction

The COVID-19 pandemic has taken a significant toll on African economies. Economic activity in Africa is estimated to have experienced its worst contraction on record in 2020, thereby pushing tens of million more people into extreme poverty. In the face of limited domestic resources and borrowing space, many countries on the continent have been constrained in their ability to implement expansionary macroeconomic policies to contain the crisis, particularly in Sub-Saharan Africa.

Despite the significant support for COVID-19 response provided by their bilateral and multilateral partners, African countries continue to face significant financing needs to protect lives and livelihood and bolster prospects for a stronger and more resilient economic recovery.

Against this background, senior African government officials have repeatedly called on the international community to help them mobilize significant additional external financing, including through debt relief. More recently, African finance ministers made a plea for a $500 billion general allocation of IMF special drawing rights (SDRs), following their previous calls for global leaders to commit additional financing through international financial institutions (IFIs).[1]

The mixed outcome of recent global initiatives for COVID-19 relief, including the Debt Service Suspense Initiative (DSSI) suggests that more innovative and coordinated support from the development community will be needed to ensure rapid and resilient recovery of African economies. [2] As part of these efforts all available options for boosting financing flows to the continent should be explored, including new allocations and reallocation of SDRs, enhanced access to credit from multilaterals, mobilization of private capital flows, and provision of debt relief, as necessary.

This paper reviews these options and assesses the extent to which each would benefit African countries, taking into account the variety of circumstances they face. In particular, it aims to inform ongoing efforts by the global community to shape international support for crisis recovery in Africa. Its main goal is to provide African countries and their bilateral and multilateral partners, including the G7, the G20, MDBs and IFIs with practical guidance for the formulation and implementation of effective external financing packages tailored to the needs of the continent. This reflects the understanding that such packages will require collaborative and concerted efforts from domestic and external stakeholders in order to be effective.

A key innovation of the paper is that it provides a comprehensive picture of how potential financing solutions could be deployed, where there would be remaining gaps, and what role

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[1] https://www.uneca.org/stories/african-ministers-meet-imf-eca-immediate-economic-response-covid-19

[2] While debt relief under the DSSI has provided much needed liquidity for COVID-19 response in Africa, the lack of participation of private creditors has significantly limited its impact.

each stakeholder could play, notably African governments, the G7, the G20, the IMF, the World Bank and other IFIs.

The paper is structured as follows. The second section reviews available options for mobilizing external financing for Africa, while assessing selected issues that are potentially raised by each of them. In the third section, policy recommendations are formulated. Section 4 concludes with an indicative financing package for the continent.

2. Review of external financing options

Given current market volatility and domestic fiscal pressures facing bilateral partners, the paper focuses primarily on multilateral financing sources, including new allocations and reallocations of SDRs, an expansion of IFI lending programs and the provision of debt relief. At the same time, it underscores the need for stronger mobilization of private finance and explores the role multilaterals could play in this regard.

2.1. Allocations and reallocations of IMF SDRs

The case for a new SDR allocation amid the Covid-19 crisis has been pervasively made, including in recent CGD work.[3] This paper focuses on the extent to which an SDR allocation would contribute the post-pandemic recovery of all African economies in case of a general SDR issuance equivalent to $500 billion.[4]

SDR allocations to Africa

A general SDR allocation has the potential to provide rapidly additional liquidity to African economies, thereby enhancing prospects for crisis mitigation and recovery. Under a $500 billion issuance of SDRs, Africa is poised to receive about $25.6 billion in additional external financing. But this amount would be unevenly distributed across countries, regions, and income groupings on the continent, as illustrated in Table 1:

- The top seven African recipients will claim over half of the amount, namely South Africa, Nigeria, Egypt, Algeria, Libya, DRC, and Zambia.

- Sub-Saharan Africa will secure about $18 billion, with South Africa and Nigeria alone claiming about a third of this allocation.

[3] For more information, see Andrews (Feb. 2021), Plant (May 2020), and Collins and Truman (April 2020)
[4] This figure is in line with the recent call by African Finance Ministers and would not require Congressional approval. As noted by Collin and Truman (2020), the US Treasury secretary could support an SDR allocation of up to $649 billion without the need to secure prior congressional approval.

- The 23 African LICs will collectively receive about $5 billion which is about as much as South Africa and Nigeria will receive, slightly less than the allocations of the three upper middle-income countries and about a third of the allocations of the 23 lower middle-income countries (LMICs) on the continent.

Table 1. Africa—IMF quota shares and SDR allocations by region, income and lending category

	Number of countries	Quota (in % of total)	500 bn SDR Allocations (in $US billion)
Africa	**54**	**5.1**	**25.6**
South Africa and Nigeria	2	1.2	5.8
Top 7 recipients[1]	7	2.8	13.8
By Region			
North Africa	6	1.5	7.6
Sub-Saharan Africa (SSA)	48	3.6	18.1
SSA excl. Nigeria and South Africa	46	2.5	12.3
By Income[2]			
Low-income countries (LICs)	23	1.0	5.1
Lower-middle income countries (LMICs)	23	2.9	14.7
Upper-middle-income countries (UMICs)	6	1.1	5.7
High-income countries (HICs)	2	0.0	0.2
By IMF Lending Category			
PRGT	39	2.1	10.6
Non-PRGT	15	3.0	15.0
By World Bank Lending Category			
IDA	34	1.8	8.8
Blend	6	0.9	4.4
IBRD	14	2.5	12.4

Source: IMF and author's calculations.

1. These seven African countries are poised to receive each $1 billion or more in SDRs and include South Africa, Nigeria, Egypt, Algeria, Libya, DRC, and Zambia.

2. Following the World Bank methodology, LICs are defined as those with a GNI per capita of $1,035 or less in 2019; LMICs are those with a GNI per capita between $1,036 and $4,045; UMICs are those with a GNI per capita between $4,046 and $12,535; and HICs are those with a GNI per capita of $12,536 or more.

While African LICs would receive only 1 percent of initial SDR allocations, the proceeds could significantly boost their reserve coverage. Such an allocation would also help these countries secure additional liquidity that would compare favorably with the amount of credit secured from the IMF in the midst of the current crisis.

But an IMF allocation of $500 billion in SDRs would provide Africa's lowest income countries with additional liquidity equivalent to less than 5 percent of their external financing gap through 2023, as projected by the IMF as of October 2020. [5] More generally, the cumulative share of all African LICs and LMICs eligible for access to the IMF and World Bank's concessional windows would cover at most about 7 percent of their gap. Yet the prospects for mobilizing bilateral assistance and private capital flows to close this gap remain hopelessly dim amid weak market confidence.

A multilateral SDR reallocation initiative for LICs

Against this background, growing calls for a global SDR reallocation initiative spearheaded by the G7 or G20 have been made to help optimize the benefits of an SDR issue for LICs through a so-called reallocation. In particular, a multilateral initiative of SDR reallocation that takes the form of donations or loans would go a long way toward helping fund ongoing crisis mitigation and recovery efforts in Africa's lowest income countries and their peers, thereby contributing to the achievement of global health security priorities.

Yet, successful implementation of this multilateral effort would require strong political commitment from major IMF shareholders, particularly the United States and other members of the G7 and/or the G20 which would claim the largest share of SDR allocations. By reallocating only 5 percent of its new SDRs, the United States could singlehandedly help raise as much as it pledged last week for COVAX vaccinations program.

With a cumulative quota share of 43 percent and 68 percent respectively at the IMF, G7 and G20 member countries would secure about $217 billion and $340 billion respectively under a $500 billion SDR allocation (Table 2). As a result, an envelope ranging between $10 billion to $32 billion could be mobilized from the G7 alone, should its members agree to donate or lend between 5 to 15 percent of their new SDRs. If China consents to participate in such a reallocation scheme, the final envelope could potentially reach about 37 billion. By implementing a similar scheme G20 members have the potential to raise at least $17 billion and up to $50 billion to help Africa's lowest income countries and their peers play their role in achieving global goals.

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[5] https://www.imf.org/en/News/Articles/2020/10/09/sp100920-opening-remarks-at-mobilizing-with-africa-ii-high-level-virtual

Table 2. G7 and G20—IMF quotas and SDR allocations

Member	Quota (in % of total)	500 bn SDR Allocations (in $US billion)	SDR reallocation (donation or lending in $US billion)		
			5%	10%	15%
United States	17.4	87.2	4.4	8.7	13.1
Japan	6.5	32.4	1.6	3.2	4.9
Germany	5.6	28.0	1.4	2.8	4.2
France	4.2	21.2	1.1	2.1	3.2
United Kingdom	4.2	21.2	1.1	2.1	3.2
Italy	3.2	15.9	0.8	1.6	2.4
Canada	2.3	11.6	0.6	1.2	1.7
Total G7	**43.5**	**217.5**	**10.9**	**21.7**	**32.6**
China	6.4	32.1	1.6	3.2	4.8
Total G7 plus China	**49.9**	**249.5**	**12.5**	**25.0**	**37.4**
Total G20	**68.1**	**340.6**	**17.0**	**34.1**	**51.1**

Source: IMF and author's calculations.

Selected options for SDR reallocation

A new SDR allocation is unlikely to raise major technical issues given the IMF's accumulated experience. Three general SDR allocations have already been implemented, with the latest taking place in 2009 a few months following its endorsement by the G20. As previously noted, an SDR allocation could therefore be quickly implemented once politically backed by major IMF shareholders. However, experience with SDR reallocations is more limited, thus auguring potential yet manageable implementation challenges. Such reallocations can be implemented through SDR donations and/or lending that benefit recipient countries either directly or indirectly.

Under the IMF Articles of Agreement, SDRs can be transferable between IMF members for certain types of transactions. Any country can therefore opt for direct lending or donations of SDRs if motivated by the intention to provide bilateral support to specific developing countries. But as noted by Andrews (2021*a*), direct lending may entail inherent costs, trigger credit risks to the lenders, and increase debt vulnerabilities for the borrower. Similarly, donation of SDRs may be untenable from the perspective of donors unless a mechanism is agreed through which recipient countries fully or partially bear interest charges on the donated amount.

In the current crisis context, there are calls for G20 countries with "excess" SDRs to implement a multilateral SDR reallocation initiative taking the form of donation or lending. The additional liquidity raised under such an initiative could be on-lent through the IMF concessional window (PRGT) which currently needs to be significantly replenished. [6] However, in light of the severity and the peculiar nature of the current crisis, different on-lending arrangements might also be needed within and/or outside the IMF.

On-lending via the IMF PRGT

Some G7 and G20 members have recently signaled their interest in exploring the use of excess SDRs to support recovery efforts in LICs. Building on past experience, SDR on-lending via the PRGT could be a very practical way to move in this direction. Indeed, this is a practice that some countries with comfortable holdings of IMF virtual currency have already adopted over the past years.[7] It is a costless transaction from the perspective of lenders, as they earn the SDR interest rate on their contribution to the PRGT, which offsets the SDR interest that is payable when their SDR holdings fall relative to their allocation by the amount of the loan. [8] [9]

However, there are a number of issues that need to be addressed to allow for an efficient and impactful SDR reallocation in the form of loans to the PRGT. First, any large-scale lending to this trust would require additional subsidy resources to help the Trust retain its self-sustainability. As noted by Plant and Andrews (2021*b*) and Andrews (2021*b*), IMF's gold has constituted a reliable source of funding for concessional lending activities of the institution and debt relief under the Heavily Indebted Poor Countries initiative (HIPC). With IMF gold's market value estimated at over SDR 118 billion—or about US$170 billion—at end 2020, ample scope exists for selling part of it to support a boost to the PRGT lending capacity. Nevertheless, the uncertainty surrounding the outcome of IMF gold sales could be an important risk to the ability of the Trust to remain self-sustained over the medium-term.

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[6] SDRs has limited use as it can only be used in approved transactions with holders of SDRs prescribed by the Fund. However, the increase in reserve assets occasioned by an SDR allocation can free up liquidity in foreign currency for beneficiary countries.

[7] The IMF's contribution originates from the IMF's Reserve Account (RA) which is a self-sustained Trust that contains resources that can be used to repay lenders in the event of delayed payments by PRGT borrowers and cover the administrative costs of the PRGT. If necessary, the IMF is authorized to use investment income from this account to subsidize its concessional lending. A large portion of available subsidy resources were generated by windfall profits from the 2010 gold sales.

[8] As noted by Andrews (2021*a*), each IMF member country earns the SDR interest rate on its holdings of SDRs and pays the SDR interest rate on its cumulative allocation. As a result, countries that use their SDRs will pay interest at the SDR interest rate on the difference between their cumulative allocation and remaining holdings of SDRs. Conversely, countries with SDRs in excess of their cumulative allocation will earn interest.

[9] As noted by Andrews (2021*a*), SDR loans have typically amounted to only about a quarter to a third of the contributing countries' existing SDR allocations, with only a handful of countries providing SDR resources to the PRGT.

Second, a more immediate challenge would be to ensure that eligible borrowing countries enjoy adequate access to the increased resources that would be made available to the PRGT either through SDR lending or donations. As access to IMF concessional resources is primarily quota-based rather than needs-based, there is a non-negligible risk that demand for concessional resources would be constrained by existing access limits. To mitigate this risk, the IMF took steps to temporarily raise its annual access limits at the onset of the pandemic,[10] just as it did during the global financial crisis. However, further increases in access limits would be warranted given the sizable and protracted financing needs and the larger stock of outstanding IMF credit triggered by the current crisis. Yet, strong safeguards which include stringent access limits and the conditionality applied to IMF concessional lending are typically implemented by the IMF to give additional assurances to PRGT lenders.

Overall, PRGT lenders would therefore face a tradeoff between enjoying the comforting attributes associated with PRGT lending and providing LICs in debt distress or at high risk of debt distress with adequate levels of IMF concessional resources needed to recover from the crisis. While steps could be taken to amend the PRGT, securing the prior approval of all contributors to the Trust could prove challenging, especially at a time when the IMF Board has recently called for additional safeguards for cases involving large access relative to a country's quota in the IMF.[11]

On-lending via another IMF-managed fund

The Articles of Agreement of the IMF provide enough flexibility for members to be able to place part of their SDR holdings in a new fund although the underpinnings of this unprecedented operation remain complex.[12] From this perspective, an IMF-managed fund other than the PRGT could be utilized to mobilize additional SDR resources in support of recovery efforts in selected recipient countries. Such an on-lending arrangement could be considered if non-PRGT-eligible countries are intended to benefit from the SDR reallocation initiative. For instance, the fund could be deemed useful in the current context to provide timely assistance to most vulnerable LICs and MICs for crisis response and recovery purposes, while helping address global priorities such as climate change and global health security. However, the specific objectives and attributes of the fund would need to be consistent with the purposes of the IMF as prescribed by the IMF' Articles of Agreement. Access to the fund's resources would also be required to abide by the IMF principle of uniformity of treatment across members.

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[10] In July 2020, the IMF Board approved, on a temporary basis through April 6, 2021, increases in the normal annual access limits under the PRGT from 100 percent to 150 percent of quota. Exceptional annual access limit under the PRGT was also raised to 183.33 percent of quota during the same period.
[11] https://www.imf.org/en/News/Articles/2020/07/21/pr20267-imf-executive-board-approves-temporary-increase-annual-access-limits-financial-support
[12] See Andrews (2021*a*).

In addition, the fund would need to be designed so as to be a useful complement to—and not a substitute for—the PRGT, but with a number of distinct features. First, the large financing gap facing many African countries coupled with their relatively small IMF quota provides a strong case for access to the fund's resources to be more needs-based than quota-based. This implies that adequate safeguards would be needed in relation to loan programs supported by the fund.

Second, eligibility criteria would need to be defined in relation to the objectives to be set for the fund, taking into account the need for consistency with the IMF's core mandate. If this fund is set up for the purpose of promoting global health security and climate change adaptation and mitigation, it would make sense to extend eligibility to most vulnerable EMDCs. Yet it might then prove challenging to pass the consistency test in such a case and reach consensus over specific eligibility criteria. By contrast, limiting access to the fund to a targeted set of resource-constrained countries such as fragile states, LICs and LMICs could be a more efficient and less capital-intensive proposition. Similar income-based eligibility applies to the PRGT.

Third, if the fund is set up as a trust fund within the IMF, disbursements under established practices would require borrowers to demonstrate a need for IMF's balance of payments assistance. While this requirement is not necessarily of legal nature and is unlikely to be a binding constraint in the current crisis context facing most developing countries, it could limit not only the flexibility necessary to accommodate different types of borrowers with varying external positions, but also the ability of the fund to respond to financing needs outside the core areas of IMF competence.

On-lending via a special purpose fund outside the IMF

Setting up a new fund outside the IMF and making it a prescribed holder of SDRs is theoretically conceivable. But this is likely to raise major legal and governance issues, thus facing significant headwinds from inside and outside the IMF. Beyond the technical implementation issues, securing the broad political consensus that is required to set up such a fund would be challenging.

In this context, an alternative could be to task an official entity among current prescribed holders of SDRs with helping raise and on-lend SDR resources for eligible beneficiaries.[13] For instance, the G7 or G20 members could, in principle, decide to on-lend a portion of their SDR holdings to IDA in a bid to support its replenishment and crisis response. Key

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[13] As noted by Andrews (2021*a*), only prescribed official entities can hold SDRs. As of end-2020, there were 15 such entities, including African Development Bank, African Development Fund, Arab Monetary Fund, Asian Development Bank, Bank for International Settlements, Bank of Central African States, Central Bank of West African States, Eastern Caribbean Central Bank, European Central Bank, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Latin American Reserve Fund, and Nordic Investment Bank.

among the benefits of such a scheme is the increased flexibility it provides in terms of assigning the purpose of the fund.

However, in addition to the need for consistency with the IMF's mission, a key issue is how adequate reform incentives could still be secured and debt sustainability concerns addressed in the absence of conditionality associated with IMF lending. As suggested by Andrews (2021*a*), donating SDRs instead of lending them would be an effective way to address these concerns. Donated SDRs could indeed be used by recipient countries in a flexible manner without worsening the risk of debt distress facing them. But sustainability of the fund would require that access to its resources be conditional on sound macroeconomic and debt policies, irrespective of whether or not it is funded by SDR donations or loans. To what extent any current prescribed holder of SDRs could help meet this requirement is an open question that could fuel additional concerns about the desirability of this approach.

2.2. Expansion of multilateral financing and mobilization of private finance

Multilateral financing

Since the onset of the pandemic crisis, a number of multilaterals have taken significant steps to help member countries respond to the COVID-19 pandemic. In particular, the IMF has provided about 40 African countries with emergency funding totaling about $25 billion in support of their COVID-19 response.[14] Of this amount, about 25 percent were borrowed from the concessional window, while two-third were allocated to 35 Sub-Saharan African countries.

The World Bank committed to frontload over 40 percent of IDA replenishment program in the first year ending in June 2021, generating a need for early IDA replenishment to support additional concessional lending in coming years. According to data available on the World Bank's website, overall IBRD commitments totaled about $28 billion in FY20, with Africa securing only $4.5 billion.[15] Of this amount almost 90 percent were secured by three IBRD-eligible countries, namely Egypt, Angola, and Morocco, with the rest allocated to five other countries, including one blend country.

[14] https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker
[15] Of this amount gross disbursements amounted to only $3 billion. See https://financesapp.worldbank.org/summaries/ibrd-ida/#ibrd-net/

Table 3. Africa—FY20 IBRD Commitments

Country	IBRD commitments (US$ million)	World Bank lending category
Angola	1380	IBRD
Egypt, Arab Republic of	1450	IBRD
Eswatini	71	IBRD
Gabon	9	IBRD
Kenya	250	BLEND
Morocco	1110	IBRD
Seychelles	15	IBRD
Tunisia	195	IBRD
TOTAL	**4480**	

Source: The World Bank.

Mobilization of private finance by DFIs

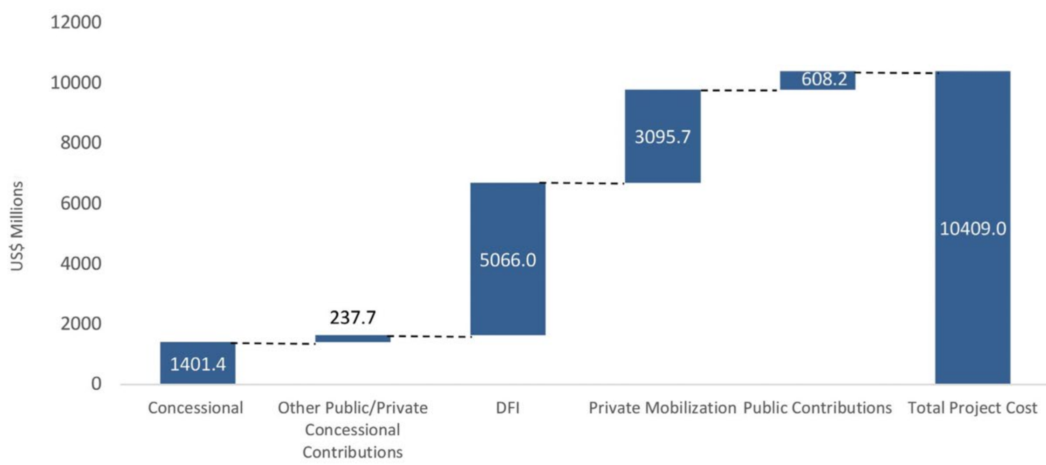
As the world acknowledged in 2015 the need to move from billions to trillions of dollars of financing to achieve SDGs, it became clear that MDBs and DFIs would have to play a critical role in blending public and private finance to significantly scale up financing for development. These expectations rose when in July 2017, the G20 finance ministers approved a set of principles that provides MDBs with a framework for increasing private investment to support countries' development objectives. A few months after, MDBs endorsed enhanced principles for the use of concessional finance in private sector operations.[16]

In 2019, blended concessional finance was estimated by the DFI Working Group to have supported a total volume of projects of approximately US$10.4 billion, up from about US$8.8 billion in 2017 and US$6.1 billion in 2018 (Figure 1).[17] Of this total project volume, about half—5.1 billion—was financed with DFI own-account non-concessional resources, 3.1 billion were mobilized from the private sector, and 1.4 billion were concessional commitments managed by these DFIs.

[16] A Working Group on Blended Concessional Finance consisting of over 20 DFIs developed a set of guidelines in 2017 that aim to maximize its impact.

[17] See the Joint Report of the DFI Working Group on Blended Concessional Finance for Private Sector Projects (2020).

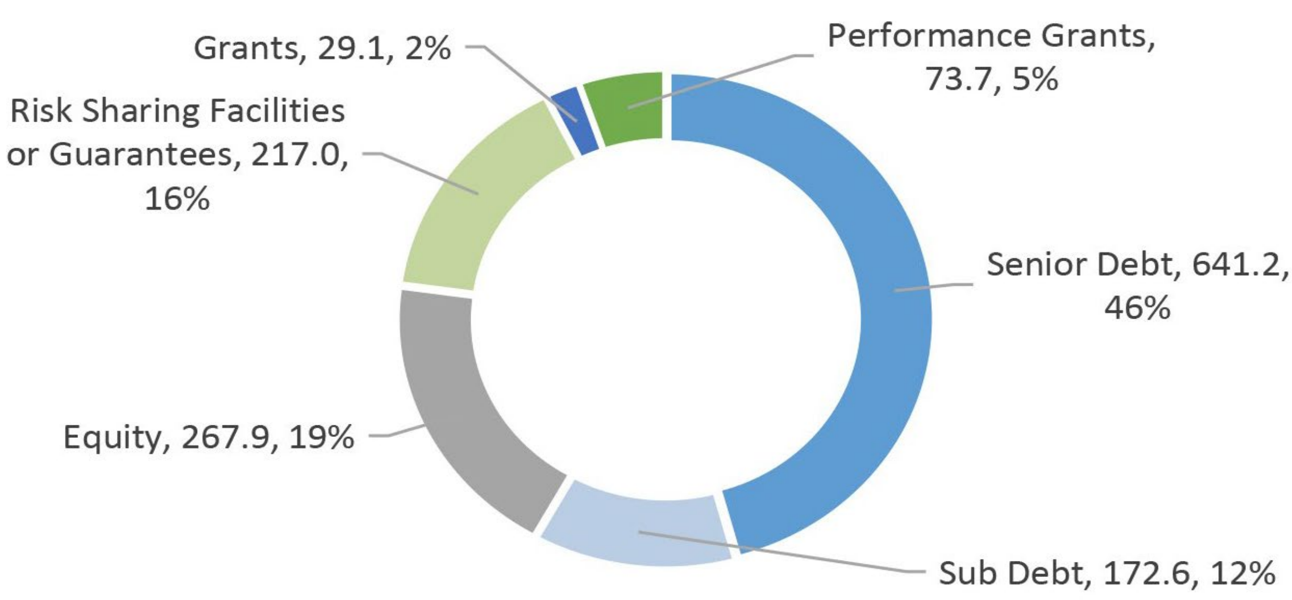
Figure 1. DFI private sector blended concessional finance new project commitments (2019)



Source: DFI Working Group on Blended Concessional Finance for Private Sector Projects (2020 Update).

The volume of blended concessional finance in 2019 was primarily composed of senior debt which claims about 46 percent (Figure 2). Other instruments that were used included equity (19 percent), risk-sharing facilities or guarantees (16 percent), and subordinated debt (12 percent). Overall grants, including performance grants, amounted to about 7 percent.

Figure 2. Concessional commitment volume by blended concessional finance instrument, 2019

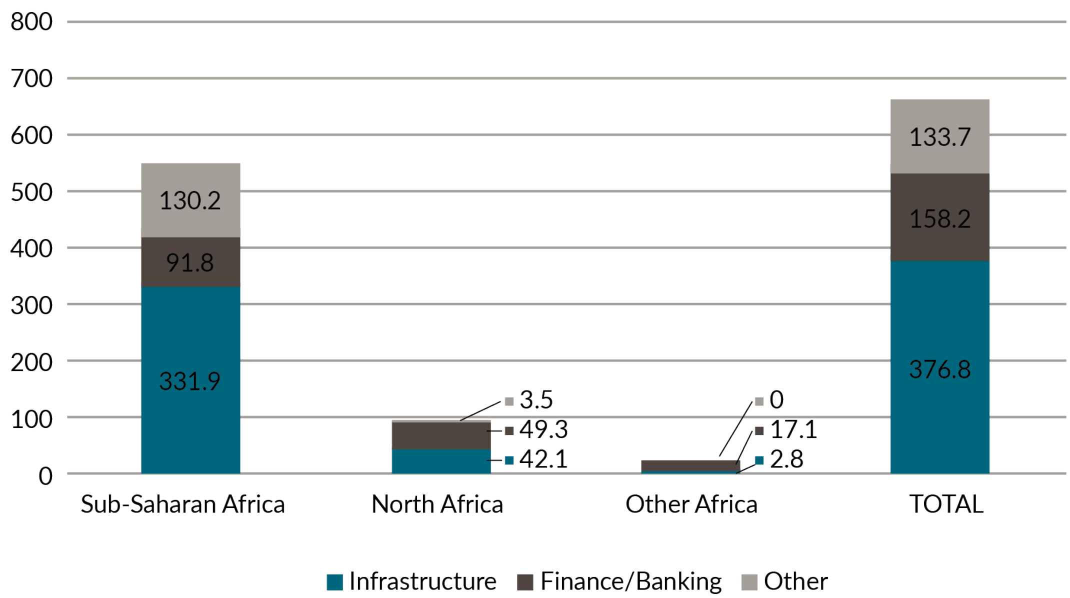


Source: DFI Working Group on Blended Concessional Finance for Private Sector Projects (2020 Update)

In Africa multilateral institutions have typically supported economies with concessional and nonconcessional lending, with recourse to blended finance instruments relatively limited but increasing. In 2019, the DFI Working Group reports that the volume of DFI blended concessional finance projects amounted to about $2.8 billion.[18] About half of this amount originated from DFI-own resources and about 0.67 billion was mobilized from the private sector. This suggests DFIs' blended finance commitments helped mobilize private finance at a ratio of 2 to 1 in Africa the year before the pandemic crisis hit.

On average, 56 percent of blended finance deployed in Africa was allocated to infrastructure development (Figure 3). This rate is relatively greater in Sub-Saharan countries, where 60 cents of each blended finance dollar are spent in the infrastructure sector.

Figure 3. Africa—new concessional commitments from DFIs by sector (2019) (in US million)



Source: DFI Working Group on Blended Concessional Finance for Private Sector Projects (2020 Update)

Bolstering private finance inflows to developing countries on the continent remains challenging in the face of acute risk perception. In this context, risk management instruments have a strong potential to mobilize commercial capital and private investments. For instance, the World Bank notes that 48 guarantee transactions utilizing $7.4 billion in IBRD/IDA commitments supported the mobilization of $30.2 billion of commercial financing plus $20 billion of public financing as of 2019.[19] This suggests that $1 in IBRD/IDA commitment could potentially mobilize about $4 in commercial financing and $3 in public financing. Yet, as illustrated by Figure 2, risk-sharing facilities or guarantees comprised only 16 percent of the total DFI blended concessional finance volume in 2019.

[18] See Joint Working Group report (2020).

[19] https://www.worldbank.org/en/programs/guarantees-program#6

Project-based and policy-based guarantees continue therefore to be provided at a limited scale, notwithstanding their significant benefits, notably in terms of loan and project performance and private finance mobilization.

Many African policymakers have expressed interest in working with development partners to secure more affordable access of African sovereigns to international capital markets. In particular, one of their recurrent calls is for bilateral and multilateral donors to develop credit enhancement mechanisms that would help reduce borrowing costs, extend loan maturities, particularly for international sovereign bond issuances. In this connection, UNECA (2020) has championed the creation of a Liquidity and Sustainability Facility (LSF) backed by MDBs' loans and guarantees to lower borrowing costs of countries with strong fundamentals.

Yet there are only a few cases in Sub-Saharan Africa in which MDBs have successfully deployed their credit enhancement facilities to support sovereign debt restructuring to more favorable terms. One of these cases took place back in 2010 when the African Development Bank used this type of facilities in the context of the Seychelles' sovereign debt restructuring. Another case was completed in 2018, as the World Bank provided Benin with a policy-based guarantee that helped to attract private financing and restructure government debt to more favorable terms. Through this operation which was branded by the institution as "a first-of-its-kind in Africa", Benin contracted a World Bank's policy-based guarantee using $45 million of IDA financing to secure commercial loans of about $450 million.[20] The transaction helped Benin reduce its borrowing costs and create fiscal space by freeing up domestic resources for critical priority spending.

To further mobilize private finance for African countries, IFIs need to significantly expand the use of guarantees and other risk management instruments. Key measures should include revisiting their lending policies and rules on partial guarantees with a view to improving the conditions under which their credit enhancement tools are made available to African LICs and LMICs. For instance, the World Bank utilizes a lengthy list of stringent criteria to assess eligibility for its guarantee support, thus leaving aside many potentially transformative projects which public and private sponsors are struggling to launch across the continent.[21] In addition, guarantee pricing includes upfront and recurring fees which remain unchanged for the life of the guarantee. While the guarantee fee level is determined by the average life of the guarantee and the classification of the country, they are essentially the same for all countries, resulting in guarantee average life of up to 10 years regardless of income level.

Furthermore, IDA policy allows 25 percent of the value of guarantee to go against the country's IDA allocation on a dollar-for-dollar basis. As a result, IDA countries currently face a difficult tradeoff, as any use of IDA allocation through a guarantee implies a commensurate reduction of their access to IDA concessional financing. Yet, World Bank

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[20] The IDA guarantee which was valued at $180 million offered a coverage of 40 percent of the amount raised, allowing Benin to access up to $450 million in commercial lending.
https://www.worldbank.org/en/results/2019/05/16/guaranteeing-success-in-benin

[21] https://www.worldbank.org/en/programs/guarantees-program#3

could instead leverage its IDA resources through the use of guarantees, by adopting a policy that recognizes the reduced credit risk associated with guarantees and accordingly discounts the debiting of IDA allocation relative to use in direct financing.

It has also been argued that the IMF and the World Bank should play a role similar to the one they played in the context of the "Brady deal" restructurings of the 1990s. Although such practices are clearly consistent with the World Bank's mandate, concerns have been expressed about the IMF's limited ability under its Articles of Agreement to provide partial guarantees. But the question remains open as to whether such a limitation legally concerns IMF accounts other than its General Resource Account as well as the financial and technical services which the institution is entitled to carry out under Article V, Section 2(b) of the Articles of Agreement.[22]

While recognizing the potential positive contribution of IFI financing of cash or credit enhancements to debt restructurings, the IMF cautions against using such financing at a large scale in order to avoid undermining the de facto preferred creditor status of IFIs.[23] Still, opinion has it that scope exists for some IFIs with strong capital base to support more debt restructurings in developing countries without putting at risk their ratings.

2.3 Debt relief

Under the G20 Debt Service Suspension Initiative (DSSI), 73 countries, including 38 from Africa are eligible for a temporary suspension of debt-service payments owed to their official bilateral creditors.[24] Originally set to expire on December 31, 2020, the moratorium has been extended through June 2021.

According to the World Bank, over 40 DSSI eligible countries have so far benefited from about $5 billion in relief since the DSSI took effect on May 1, 2020.[25] Based on its estimates, the potential bilateral debt service relief for all DSSI-eligible African countries would have averaged about $8.5 billion a year over 2021–23 (Figure 4). Among them 27 countries have requested relief under the DSSI that could potentially total up to about $7.7 billion if granted by all their bilateral creditors during that period.

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[22] This point is made by the Africa Private Creditor Working Group (AfricaPCWG) in a discussion note. A copy of the Note is on file with the author.
[23] See IMF (2020).
[24] Over 20 African countries benefited from temporary debt service relief from the IMF at the onset of the pandemic. This followed the IMF Board's approval of changes 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.
[25] https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

Figure 4a. Africa—total debt service of DSSI-eligible countries by creditor type (in $US billion)

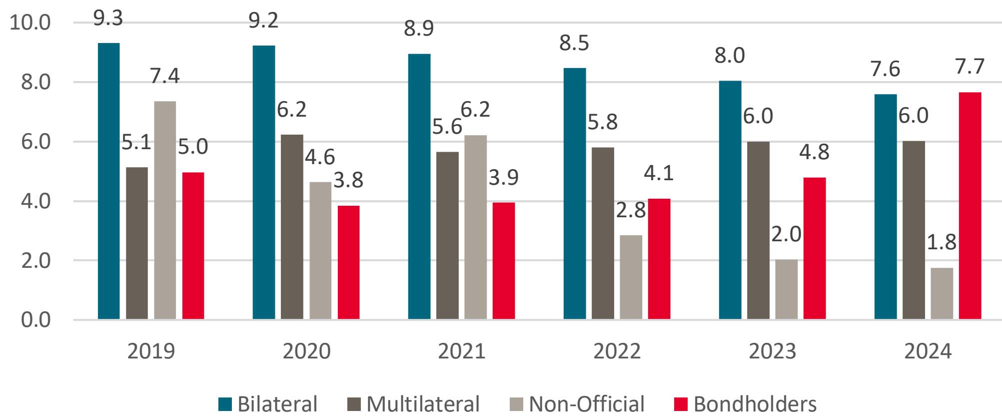
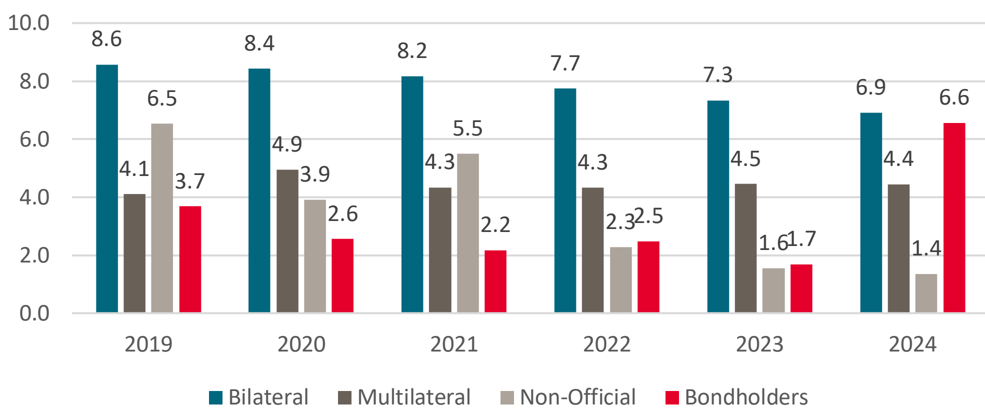


Figure 4b. Africa—total debt service of DSSI participating countries by creditor type (in $US billion)



Source: World Bank Debtor Reporting System (2020).

In November 2020, the G20 and the Paris Club endorsed the Common Framework for Debt Treatments beyond the DSSI. Under this framework, debt treatments will be determined on case-by-case basis, with their need to be assessed based on IMF-WBG Debt Sustainability Analysis (DSA) and the participating official creditors' collective assessment. A number of African countries have already expressed interest in benefiting from debt treatments under this new framework, including Chad, Ethiopia and Zambia.

On its part, the IMF has provided debt service relief under its Catastrophe Containment and Relief Trust (CCRT). Since the onset of the crisis, 29 vulnerable LICs have been eligible for such relief, including 23 countries from Africa.

While the DSSI has failed to secure the participation of private creditors and address solvency problems facing some African countries, it has provided temporary solutions to the strong liquidity pressures facing African countries during the pandemic crisis. Naturally, several African Finance Ministers have thus called for the debt service moratorium to be extended at least until 2022.[26]

However, continued debt relief under the DSSI beyond May 2021 remains uncertain at this stage. Increased attention is now paid on how the G20-endorsed Common Framework for Debt Treatments beyond the DSSI could be successfully implemented. Under this new initiative, the scope of potential debt relief that will be accessible to participating African countries does not lend itself to easy quantification, especially since the potential debt treatment and restructuring envelope needed will be determined based on the World Bank-IMF debt sustainability analyses.

Timely and successful implementation of the G20 Common Debt Framework will be beneficial for African countries with unsustainable debt such as Zambia. At the same time, a number of concerns have been voiced about whether countries with sustainable debt but facing urgent liquidity pressures would receive adequate debt treatment under the framework. This concern has been largely settled by the IMF's clarification that the Common Framework is applicable to eligible countries in cases where the institution calls for additional liquidity to close financing gaps in their IMF-supported programs, notwithstanding the IMF's assessment that the country's debt is sustainable in the medium term.

Furthermore, the Common Framework has raised a number of challenging issues.[27] In particular, some stakeholders in debtor countries have expressed unease about its requirement for participating countries to seek debt treatment from private creditors that is at least as favorable as that provided by official bilateral creditors. At the same time, the lack of private sector participation is met with strong public opposition in many creditor countries, particularly when a large part of private sector debt claims is believed to be held by Chinese parastatals. Under these circumstances, only a few African countries have concluded privately-held sovereign debt restructurings in recent years, including Chad in 2018 and Mozambique in 2019. Other protracted restructuring processes are underway, including the Republic of Congo and Zambia.

3. Policy recommendations

In the current context characterized by weak market confidence and strong fiscal headwinds facing bilateral partners, the IMF, the World Bank and other multilateral institutions are expected to be among the most reliable sources of additional external financing for Africa. Here are a number of steps these institutions and the global community should take in the near term to help meet part of Africa's external financing gap in coming years.

[26] https://www.uneca.org/stories/african-ministers-meet-imf-eca-immediate-economic-response-covid-19
[27] https://www.brettonwoodsproject.org/2020/12/g20-debt-proposal-continues-to-favour-creditors/

For the IMF:

- **An immediate priority must be to promptly provide additional liquidity to countries on the continent by building on the recent consensus reached by its large shareholders on the need for a general allocation of IMF SDRs and reallocation of excess SDRs.** To this end, both new allocations and unused SDRs need to be urgently put to good use in efforts to help Africa's lowest income countries bolster economic recovery, whilst contributing to global health security objectives. In addition to strengthening the lending capacity of the existing IMF concessional window in the immediate future, other avenues for reallocating excess SDRs through a complementary on-lending arrangement within or outside the IMF could also be considered subject to appropriate safeguards.

- **The IMF should mobilize additional resources for its concessional window so that it can sustain, at least until full crisis recovery, the level of new concessional commitments of about $ 9 billion that were made in 2020, including about $6 billion to Africa.** Annual commitments of similar scale will be more consistent with LICs' growing financing needs triggered by crisis mitigation and recovery efforts. Mobilizing additional loan resources for the PRGT should be a manageable endeavor for the IMF, especially since these resources are typically borrowed from member countries at relatively low SDR interest rates. Such an effort could be funded by unused SDRs still held by some members.[28] With regard to subsidy resources, immediate suspension of the reimbursement of PRGT costs to the GRA is warranted, as proposed by Andrews (2021*b*).[29] In the medium term, the IMF should be authorized, if necessary, to sell part of its gold reserves to generate the subsidy resources needed to preserve the self-sustainability of the PRGT.

- **The IMF should enable African presumed blenders with adequate borrowing space to enjoy potentially greater access to its nonconcessional funding in the event available concessional resources remains insufficient to close their external financing gap**.[30] In this connection, the IMF should suspend the 1 to 2 ratio in which blending of concessional and nonconcessional resources currently takes place.[31] While presumed blenders should enjoy more limited access to IMF concessional resources relative to PRGT-only members, applicable limits to their access to nonconcessional financing should be more closely aligned with those pertaining to the GRA.

On its part, the World Bank should:

- **Commit to at least double and sustain FY2020 IDA lending to help eligible countries, including from Africa, fully recover from the pandemic crisis.** Under IDA19 which covers the period from July 1, 2020 to June 30, 2023, the World Bank's concessional financing commitments total $US82 billion, including $US53 billion for Africa. A doubling of IDA lending will therefore make over $50

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[28] As noted by Andrews (2021*a*), the stock of SDRs was estimated at $200 billion at end 2020.

[29] This decision would require a simple majority vote of the IMF Executive Board.

[30] It is worth noting that some LICs have access to PRGT-only financing, while the so-called presumed blenders are eligible to a blend of IMF financing according to a 1 to 2 ratio of concessional to nonconcessional resources.

[31] As part of the Financing for Development initiative, the institution enacted a rebalancing of the funding mix of concessional and non-concessional resources provided to countries that are presumed to blend.

billion in additional concessional funds available to eligible African countries—preferably IDA-only—over the next three years relative to pre-pandemic IDA19 commitments. That said, the doubling of IDA lending to these countries should not necessarily lead to lower IDA exposure to other regions. Instead, it could primarily be achieved at the expense of upper middle-income countries. Should additional resources needed, increased reliance on market borrowing against the IDA's strong equity base should be targeted over additional donor contributions.

- **Make greater and enhanced use of guarantees and other credit enhancement tools to help African countries lower borrowing and project implementation costs, mobilize additional private finance, and incentivize creditors to participate in debt restructurings.** To make its guarantees more effective, the institution should:
    - revisit IDA policy to address the one-to-one scoring of guarantees and financing and ensure IDA countries can mobilize more resources for guarantees;
    - enhance access of African LICs and LMICs to innovative risk-management instruments;
    - condition the use of policy-based guarantees on adequate macroeconomic policy frameworks.
- **At least quadruple FY20 IBRD commitments to African eligible countries and sustain it at least for the next three years.** As IBRD commitments to Africa totaled about $4.5 billion in FY20, a quadrupling of these commitments would potentially help mobilize about $18 billion more resources annually for IBRD-eligible and blend countries on the continent. Naturally, care will need to be taken to ensure that these countries can accommodate increased IBRD exposure, while preserving debt sustainability. In any case such option would likely be more profitable from the perspective of IBRD borrowers which typically enjoy market access at more unfavorable financing terms.

More generally, the World Bank and other MDBs should tap on all available funding sources to extend additional lending and mobilize increased private finance flows to African countries, notably by:

- **Taking step, in consultation with national authorities, to exhaust resources already made available to borrowing countries.** For instance, they could work with country authorities to redirect resources allocated to slow- and low-disbursing projects toward sectors and policies that are supportive of sustained and inclusive growth and recovery. For the World Bank, this is likely to free significant "new" financing, particularly in many Sub-Saharan African countries where the institution struggles to achieve its targeted disbursement rate which is typically 20 percent per year.

- **Exploring all avenues for mobilizing additional internal resources for crisis lending purposes, notably through budget reallocations and efficiency savings.** To respond to the COVID-19 crisis, some MDBs have shifted some resources from their private sector envelope to provide budget support to Sub-Saharan African governments.[32] Other MDBs active on the continent notably the African Development Bank (AfDB), the European Investment Bank, and the European Bank for Reconstruction and Development (EBRD) could explore ways to generate additional loan and subsidy resources to boost support for Africa. Key measures that can help include completing AfDB capital increase and expanding operations of the EBRD to SSA.

- **Leveraging more their balance-sheets, including by borrowing from capital markets to strengthen their development lending capacity.** For instance, IDA has built a strong equity base estimated at US$170 billion but still remains largely underleveraged, leaving ample scope for the World Bank to raise funds from markets to support recovery efforts in IDA-eligible countries, while preserving IDA's triple A rating.[33] Greater use of frontloading mechanisms could help MDBs use their long-term concessional commitments as assets to back the issuance of bonds in the international capital markets.[34]

- **Soliciting capital increases from their memberships to bring their lending capacity up to par with the levels needed to effectively support Africa's post-pandemic recovery.** However, experience shows capital increases tend to take time to implement, given the challenge of securing shareholders' consensus over their opportunity and size. Even when such increases are approved, securing subsequent payments from shareholders has proven to be a Sisyphean task. More than one year after the AfDB's board approved a 125 percent capital increase in October 2019, a significant majority of shareholders have yet to make necessary payment for their capital subscription. The very small share of paid-in capital that was agreed as part of this deal did little to expand the lending capacity of the institution, thus limiting the ability of AfDB to mount an adequate COVID-19 response.

Regional development finance institutions have also a potential role to play in filling financing gaps in Africa. The largely oversubscribed first bond issue of the West African Development Bank (BOAD) in January 2021 suggests there is strong appetite for similar operations from Africa-based regional development banks.[35] There is also scope for further strengthening collaboration with IFIs in support of crisis recovery efforts by the public and private sectors in Africa.

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[32] See Joint Report (2020).

[33] Building on the decision by IDA shareholders to leverage this capital base, the first IDA bond in international capital markets was launched in 2018, raising only $US1.5 billion. Notwithstanding additional bond issuances in recent replenishment cycles, IDA is still underleveraged.

[34] A similar scheme was developed by the United Kingdom to frontload future development aid in the context of the International Finance Facility (IFF).

[35] This BOAD's first bond with sustainability development objectives raised €750 million with a 12-year maturity. According to the institution, the issue attracted more than 260 investors across the world, with total demand amounting to €4.4 billion.

Beyond expanded IFI funding, timely debt relief will create additional fiscal space for recovery efforts in a growing number of African countries bending under heavy debt burdens. To reach this outcome, the following steps should be implemented:

- **The DSSI should be extended at least through end 2021, and so long as the Common Framework is not successfully operationalized, to help eligible countries cope with liquidity pressures arising from the crisis.** Ultimately, there is merit in extending temporary debt service standstills to low-income countries assessed by the IMF as being at risk of falling into debt distress in the event of continued debt servicing to all creditors, as suggested by Lee (2020).

- **For effective operationalization of the Framework in countries facing solvency crises, the IMF should, in collaboration with the authorities, play an active role in coordinating debt treatments by official and private creditors.** However, it is important to take steps to secure private creditor participation in debt restructurings, while preserving the rights of concerned LICs acting in good faith to benefit from IMF financing. For this reason, the IMF needs to exercise caution about making disbursements under IMF arrangements contingent on private creditor participation, as called for by some observers. At the same time, the G20 and the Paris Club work with credit ratings agencies to ensure that a request for debt treatment under the Framework is not deemed to be a motive for ratings downgrade.

- **MDBs should be mandated to make greater use of their credit enhancement capabilities to further mobilize private finance and incentivize creditors to participate in restructured bonds or exchanges.** At the same time, steps need to be taken to ensure that additional MDB exposure does not unconditionally benefit the borrower nor bail out official bilateral and private creditors. While strong economic policies should be a key obligation from the borrower's side, appropriate burden sharing should be required from official bilateral and private creditors.

- **The IMF should continue the provision of debt service relief under its Catastrophe Containment and Relief Trust (CCRT) beyond April 2021** and the G7 and the G20 should fully support the IMF's efforts to mobilize grant resources needed for such continuation. According to Andrews (2021*b*), only about $US 0.7 billion will be needed to finance continued debt relief under the CCRT.

4. Activating an external financing package for Africa

Based on the policy recommendations reported in the previous section, Table 4 illustrates an indicative external financing package that could be activated for Africa through 2023, taking account of the latest IMF projections of the external financing gap facing countries on the continent.[36] It is assumed that G7/G20 members consent to reallocate between 10 to 15 percent of their new SDRs to IDA-only African countries.

Under the illustrative package, the IMF and the World Bank could mobilize additional financing to cover at least two-third of Africa's projected financing gap. While this envelope would help meet the unfunded needs of North African countries, it would leave Sub-Saharan African countries that are not eligible to IMF and World Bank concessional financing with a financing gap ranging from $82 billion to $112 billion. To fill this gap, other financing solutions will need to be explored, including lending from other MDBs, private capital flows, and potential debt relief in some cases.

Alternatively, it could be possible to set more ambitious targets for SDR reallocations or increased MDB financing. But the success of these various formula would be contingent on the strength of the political commitment from the G7/G20 to support rapid and resilient recovery in low-income countries. It would also require linking access to new financing to sound policies and reforms on the part of recipient countries.

But the ultimate measure of success will be the commitment of all involved stakeholders to upgrade the global financial safety net so that it leaves no country behind at this critical juncture.

[36] Under the IMF's central scenario as of October 2020, Africa's external financing needs amounted to USD 1.2 trillion for the 2020–2023 period.[36] Of this amount, about USD 885 billion is expected to be mobilized from the private sector, multilateral and bilateral partners, leaving a projected financing gap of about USD 345 billion, of which over 40 percent is accounted for by low-income countries eligible for access to the IMF's PRGT.

Table 4. Indicative external financing for post-pandemic economic recovery

Regions, income groups, and lending categories	Number of countries	External financing gap for 2020–23 (in $ bn) (i)	IMF—World Bank financing solutions							Other financing solutions			
			IMF Financing (in US$ billion)				World Bank (In $ bn)		Total IMF and World Bank financing	Additional external financing needs	DFIs	Debt relief	Other financing sources
			Original $500 billion SDR allocations (in $ bn)	SDR reallocations (10–15% of G7 or G20 allocations) (vi)	Sustain 2020 level of PRGT commitment for at least 3 years	Sustain 2020 level of GRA commitment for at least 3 years	Double and sustain FY20 IDA commitment for 3 years	Quadruple and sustain FY20 IBRD commitment for 3 years					
Africa	**54**	**345**	**26**	**21–51**	**18**	**57**	**84**	**54**	**239–269**	**76–106**	… Internal resource mobilization; … Financial innovation, … Expanded EBRD presence in Africa, … Completion of AfDB capital increase, … Increased financing from EIB, IsDB	… DSSI extension; … Common Debt Framework; … CCRT debt service relief; … Use of IFI credit enhancement tools in debt workouts; … Resolution of Sudan and Somalia IMF arrear cases	Bilateral assistance, Private capital flows
By region													
SSA (iv)	48	287.5	22	21–51	18.0	30	84	21	175–205	82–112			
North Africa (ii)	6	57.5	4	0	0	27	0	33	63.8	0			
By PRGT/IDA-eligibility													
PRGT-eligible o/w	39	145	11	21–51	18	0	84	3	137–167	0–12			
IDA-only	34	99	9	21–51	17	0	56	0	103–133	0			
IDA-blend (iii)(v)	5	46	2	0	1	0	28	3	34	12			
Non-PRGT-eligible/IBRD	15	200	15	0	0	57	0	51	123	77			

Notes:

(i) IMF central scenario, as of October 2020

(ii) Djibouti which is classified among MENA countries is eligible to the PRGT and IDA. But for simplicity purposes this is not reflected in the Table.

(iii) Nigeria is classified as blend country by the World Bank but is not PRGT-eligible at the IMF. In this table it is included in the latter category.

(iv) It is assumed that SSA countries retain the same share of IBRD credit to Africa in FY20 (about 40 percent).

(v) Blend countries received about one-third of IDA concessional and nonconcessional commitments to Africa in FY20. It is is assumed that they will benefit from the same share through 2023. In 2020, IMF financing to Cabo Verde, Cameroon, and Kenya were on concessional terms, totaling $1.15 billion. No IMF lending were made to the Republic of Congo and Zimbabwe during this period.

(vi) It is assumed that SDR reallocations benefit only PRGT-eligible countries.

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