STUDY ON MANAGING SOVEREIGN DEBT IN TIMES OF CRISIS:

Insights from the Covid-19 pandemic and lessons for the future

External Financing Operations

Macroeconomic and Financial Management Institute of Eastern and Southern Africa

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FOREWORD

The dark clouds of the COVID-19 pandemic that suddenly descended upon the global economy spared nobody and triggered one of the most devastating global health and economic crises in modern history. The pandemic placed severe strain on the public finances of all types of economies. For developing countries in particular, debt levels that were already high before the pandemic increased further, exacerbating existing debt vulnerabilities at a time when pressure to spend on health and social services became unavoidable.

The IMF noted that the impact of COVID-19 was historic and unusual in its severity as the debt stress it induced exceeded past experiences across a number of dimensions, including the dramatic increase in government borrowing needs, sharp downturn in economic activity, strain in market conditions, and disruption in operations (IMF, 2020).

The pandemic also resulted in the materialisation of a number of operational risks as governments were required to adjust. One of the main challenges of the pandemic to the environment was how to meet increased government borrowing requirements against a backdrop of volatile market conditions, both locally and globally. In addition, the adoption of remote working arrangements changed the overall control environment in which staff performed their roles, thus exacerbating the vulnerability of the Debt Management Offices to operational risks.

As part of efforts to harness a range of lessons and insights emerging from the pandemic, MEFMI, with the support of FSD Africa, commissioned a study to document debt and related policies and practices that countries adopted to manage public debt and support debt markets during the crisis. The study covered four themes: (a) macroeconomic policy interventions, (b) external financing operations, (c) local currency bond markets and (d) governance and operational risk management frameworks for public debt.

In December 2022, MEFMI and FSD Africa organised a seminar to validate the findings and recommendations from the study. The content of the study has now been finalised and has been released as separate chapters, while a study summary has also been produced.

This is Chapter Two of the study. It focuses on external financing operations that took place while the pandemic was unfolding, along with the main lessons learnt.

We hope that the findings and lessons from this study will be useful in informing policy makers and debt practitioners of pertinent actions needed in both normal times and in times of crisis. Readers can access the Study Summary and the other chapters here.

TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

LIST OF TABLES

LIST OF FIGURES

ACRONYMS

AfDB	African Development Bank
AFREXIM	The African Export-Import Bank
AMSP	Africa Medical Supplies Platform
ARICA CDC	AFREXIM-UNECA Africa Centre for Disease Control and Prevention
ATM	Average term to maturity
BADEA	Arab Bank for International Development
BMGF	Bill & Melinda Gates Foundation
BOT	Bank of Tanzania
BRICS	Brazil, Russia, India, China and South Africa
CBK	Central Bank of Kenya
CCR	Catastrophe Containment and Relief Trust
COVAX	COVID-19 Vaccines Global Access
COVAXAMC	COVAX Advance Market Commitment
CRF	COVID-19 Rapid Response Facility
DMO	Debt management office
DSA	Debt sustainability analysis
DSSI	Debt Service Suspension Initiative
ECA	Export credit agency
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EU	European Union
FSD	Financial Sector Deepening
G20	Group of Twenty
G20CF	G20 Common Framework (for debt treatment beyond the DSSI)
GAVI	The Vaccine Alliance
GDP	Gross domestic product
GNI	Gross national income
HIPC	Highly indebted poor country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDS	International Debt Statistics
IFI	International financial institution
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
LDCs	Least developed countries
LICs	Low income countries
MDRI	Multilateral Debt Relief Initiative
MEFMI	Macroeconomic & Financial Management Institute of Eastern and Southern Africa
MSMEs	Micro, small and medium enterprises
NGO	Non-government organisation
OECD	Organization for Economic Cooperation Development
OFID	OPEC Fund for International Development
ORM	Operational risk management
PATIMFA	Pandemic Trade Impact Mitigation Facility
PPGD	Public and publicly guaranteed debt
PRGT	Poverty Reduction and Growth Trust
RBM	Reserve Bank of Malawi
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RMCs	AfDB regional member countries
SDGs	Sustainable Development Goals
SDR	Special drawing rights
SME	Small and medium enterprise
SPRP	Strategic Preparedness and Response Plan
SSA	Sub-Saharan Africa
SVTP	Shire Valley Transformation Program
UN	United Nations
UNECA	United Nations Economic Commission for Africa
WB	World Bank
WHO	World Health Organization

1. INTRODUCTION

Since the beginning of 2020, countries around the world have been grappling with the worst economic, social and sanitary crisis of recent times. At the end of March 2020, the UN was already warning about a 'looming financial tsunami' for developing countries. Then, the dark clouds from the COVID-19 pandemic suddenly clogged all aspects of economic and social life. The pandemic brought about a severe contraction of productive sectors and overall GDP; increased unemployment; and put serious pressure on countries' fiscal balance sheets through reduced revenue collection, the need for massive budgetary reallocation to finance urgent expenditure in health and other essential services, and the urgent need to put in place social safety nets for the most vulnerable segments of the population.

The COVID-19 pandemic is still evolving as the virus continues to mutate and infect more people around the globe. Initially, some observers felt that Africa had not been unduly affected by the spread of the pandemic.

However, it has become clear that the pandemic's economic and social impact on African countries has been as considerable and pronounced as in other parts of the world. Despite recent progress in strengthening health systems, dealing with future waves of COVID-19 is likely to be more challenging in Africa than in other parts of the world, given limited access to healthcare across the continent and the availability of vaccines. According to the World Health Organization (WHO), as of mid-January 2022, only 17.31 vaccine doses per 100 population had been administered in Africa, compared to 143.14 in Europe, 144.4 in the Americas, 102.87 in South-East Asia and 185.21 in the Western Pacific. If indeed the reduction in mortality rates experienced in other continents is attributable to vaccination, then as the least vaccinated continent Africa remains very much at risk.[1]

According to the IMF, since the onset of the COVID-19 pandemic, real GDP of sub-Saharan African countries fell by 1.9 per cent in 2020, the worse performance on record. As reviewed in Chapter One of this study, MEFMI countries also saw a contraction in economic activity. Although real GDP in the sub-Saharan region recovered in 2021, the IMF is of the view that per capita output will not get back to 2019 levels before 2025.[2]

African countries have had to respond quickly and put in place a wide array of support measures – from procuring equipment and drugs to coping with the sanitary situation and putting into place safety nets for citizens in view in the fall in aggregate demand, employment and income. Among the different means available to urgently deal with the impact of the pandemic, external borrowing has played a key role, alongside other measures. As also seen in Chapter One of this study, the impact of the pandemic on MEFMI member countries varies from country to country in view of the diversity of the group. However, all MEFMI countries were negatively affected.

Chapter One also discusses in detail the macroeconomic impact of the COVID-19 pandemic on MEFMI countries and shows how the pandemic generated both supply and demand shocks that affected countries' domestic sectors, as well as external sectors.

On the **supply side**, lockdowns affected the rate of labour participation in production, especially in industries that could not implement work from home mitigation measures due to the nature of businesses.

On the **demand side**, the first wave of the pandemic led to disruptions in trade and global value chains as some of the MEFMI region's major trading partners (China, the European Union and the United States) went into lockdown. For the MEFMI region this meant that demand for exports, especially for primary commodities, was seriously affected. The fall in global demand also depressed commodity prices, including those of oil, metals, minerals and agricultural products.

The combined effects of these two channels have

[1] More recent figures on global COVID-19 vaccination rates can be obtained from the Kaiser Family Foundation website: https://www.kff.org/interactive/kff-global-covid-19-vaccine-coverage-tool-current-and-projected-coverage/.
[2] IMF, Regional Economic Outlook: Sub-Saharan Africa, 2021.

affected MEFMI countries on several fronts:

- **Macroeconomic performance and growth:** most countries have experienced a decline in the overall rate of growth with some sectors, especially those providing services such as tourism and transport, being particularly affected.
- **Fiscal situation:** the fall in government revenue linked to the reduced economic activity compounded an already difficult situation on the fiscal front.
- **Trade performance:** the fall in commodity prices led to consequent falls in export earnings and a worsening of the current account in most countries of the MEFMI region.
- **Capital flows:** in general, capital flows decreased globally in 2020, a trend which was also observed in MEFMI countries (with a few exceptions).
- **Exchange rates:** the external imbalance that occurred resulted in exchange rate depreciation which, in turn, has led to inflationary pressures in most countries.

Faced by this catastrophic situation, countries responded through a series of measures. These ranged from a reprioritisation of expenses towards the health sector to using contingency funds and taking advantage of various initiatives that were made available by the internal financial community either to address liquidity problems to service existing debt or to raise much-needed additional resources to cope with the pandemic.

This chapter focuses on the use made by MEFMI countries of external financing to cope with and mitigate the effects of the COVID-19 pandemic. The next section establishes the importance of external finance as a source of development funding, and the risks that it entails. It also provides an overview of trends in the lead-up to and during the first two years of the pandemic. It specifically highlights the deteriorating debt levels and risks, as well as the fiscal pressures, faced by countries. Section 3 then describes the response of international financial institutions (IFIs), as well as that of private creditors, to the pandemic. Using data from a survey conducted by MEFMI for this paper,[3] Section 4 analyses the debt management policies and practices that MEFMI countries adopted regarding external finance. Section 5 considers other effects of the pandemic on the external debt portfolio. Finally, the chapter concludes by drawing lessons learnt that could benefit public debt management policy formulation in general, and the management of external borrowing in particular.

[3] Twelve of the 14 MEFMI countries participated in the survey. Non-participants were Angola and Burundi. The survey was completed during December 2021 and the last questionnaires were returned in January 2022.

2.

EXTERNAL FINANCE: IMPORTANCE, FEATURES AND TRENDS BEFORE AND DURING COVID-19

2.1 Importance of external finance

Historically, external borrowing has been an important source of development funding for developing countries, supplementing low levels of domestic savings and local revenue sources. Prior to the year 2000, the share of external debt as a percentage of total public debt of low-income countries was as high as 80 per cent, or even above, for certain years.[4]

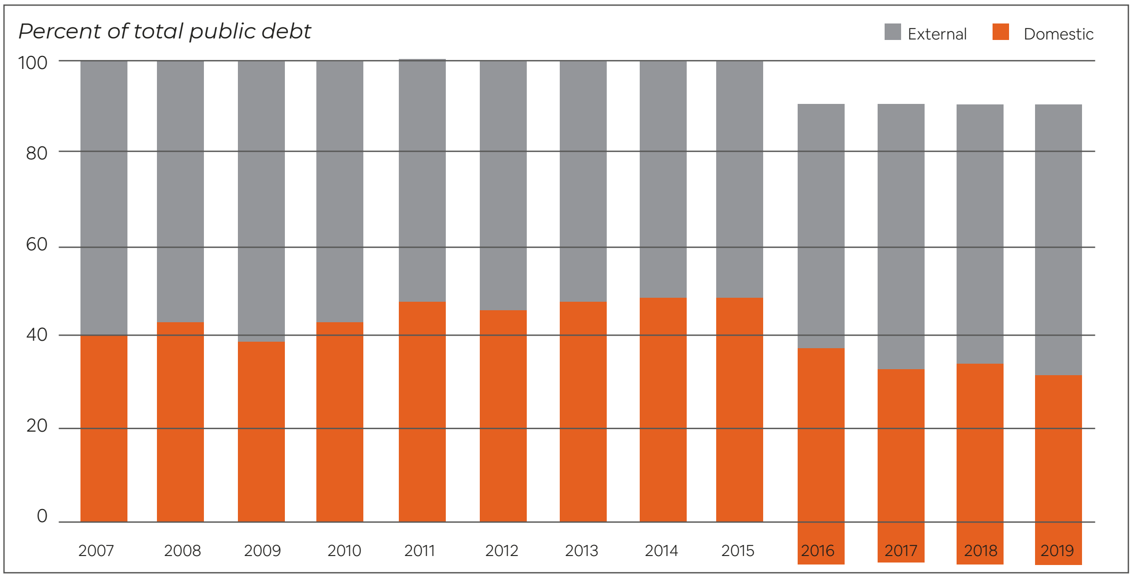
The importance of external borrowing started to decline in the early 2000s. Countries that participated in the Highly Indebted Poor Country (HIPC) initiative, and which also benefited from the Multilateral Debt Relief) Initiative (MDRI), saw the sharpest drop in external debt due to the significant amount of debt relief provided by both exercises. By 2006, the share of external debt of HIPC countries as a percentage of total public debt had fallen to 54 per cent. Non-HIPC countries (as well as some HIPCs) also reduced their dependence on external finance through their efforts towards increased domestic resource mobilisation, including the development of local public debt markets.

This trend has since seen a reversal since the mid-2010s as the share of external public debt has gradually increased, fuelled by:

- **On the demand side**: a rise in countries' funding requirements to meet their development needs, including in such areas as infrastructure.
- **On the supply side**: the availability of additional funding sources, including access to the international bond market by several countries and the emergence of 'new' bilateral and plurilateral creditors.[5]

More recent data published by the African Development Bank (AfDB)[6] shows that the share of external debt in total public debt of African countries stood just below the 60 per cent mark over the 2007–2019 period, as shown in Figure 2.1 below.

Figure 2.1: Shares of Domestic and External Public Debt in Africa, 2007–19 (%)



Source: African Development Bank (2021), page 53.

[4] Bua, G., Pradelli, J. & Presbitero, A., 'Domestic public debt in low-income countries: trends and structure', Review of Development Finance, Vol 4, 2014.
[5] The term 'plurilateral creditor' refers to 'official lenders with more than one shareholder that extend non-commercial credit to other sovereigns and that do not have universal/open memberships'. United Nations, Financing for Development, Progress and Prospects, 2018. For a list of plurilateral creditors, see IMF, Macroeconomic Developments and Prospects in LIDCs, 2018, Appendix III.
[6] African Development Bank, African Economic Outlook, 2021. See Figure A.2 at Annex A.

2.2 Importance of external finance in MEFMI countries

Table 2.1 below shows the evolution of the share of external debt in total public and publicly guaranteed debt (PPGD) over the period 2017–2020 in MEFMI countries. The data shows that in four countries, the share of PPGD as at the end of 2020 was below 60 per cent: Botswana, 46.47 per cent; Kenya, 52.5 per cent; Malawi, 56.3 per cent; and Namibia, 35.8 per cent.

The share of external debt in PPGD for the rest of the countries is around the 70 per cent level, except for Mozambique and Zimbabwe, which are very reliant on external funding (92.00 per cent and 97.63 per cent respectively).

Table 2.1: Share of External Debt in Total Public & Publicly Guaranteed Debt, 2017–2020 (%)

	2017	2018	2019	2020
Botswana	63.28	64.59	63.51	46.47
Eswatini	-	-	-	-
Kenya	52.10	50.90	52.00	52.50
Lesotho	89.10	78.80	75.80	73.20
Malawi	54.82	57.92	57.88	56.34
Mozambique	74.00	84.00	84.00	92.00
Namibia	41.80	42.00	38.40	35.80
Rwanda	67.80	70.00	71.30	73.60
Tanzania	70.07	70.09	70.91	71.34
Uganda	64.90	68.20	66.40	68.00
Zambia	66.10	69.90	69.80	69.90
Zimbabwe	52.24	45.88	86.51	97.63

Source: MEFMI survey. Eswatini: data not reported; Rwanda: the data for December 2020 refers to June 21. Tanzania: data is at end of June of each year.

2.3 Characteristics of external debt

2.3.1 Different dimensions for analysing external finance landscape

The external finance landscape is a complex one. It can be looked at from various angles, such as creditor type (e.g. multilateral, bilateral, commercial, etc.); whether the borrowing instruments are marketable or non-marketable; the degree of concessionality, etc.; or using a combination of these attributes. Access to certain types of external debt or instruments will vary depending on these characteristics. For example, income levels determine access to concessional lending while creditworthiness will establish whether a country can tap into the international capital markets or not. For some countries, such as Mozambique, external grants are also an important source of funding, thereby reducing the need to resort to borrowing.

Another set of considerations that characterises external borrowing is the inherent risk that it comprises. Foreign exchange risk is the one mostly associated with external finance, as such instruments are normally denominated in a foreign currency. However, there are other types of equally important risks, including:

- Interest risk which arises when instruments bear floating interest rates. The interest rate for such instruments is normally charged as a margin over a market-determined interest rate which fluctuates over time.
- Refinancing risk which, for instance, can arise when a country encounters difficulties in finding affordable funding sources to repay debt service for short or long-term instruments, e.g. when refinancing a Eurobond through a new issuance on the international markets. Such situations may compel the country to accept very high lending terms.

Many developing countries have experienced debt crises as the result of an accumulation of long-term external debt – including a large share of non-concessional loans – which can lead to an unsustainable situation due to shocks to the economy (arising from a range of events, both domestic and external) or to the risks described above. A high volume of debt service arising from short-term external debt can also trigger a debt crisis due to a liquidity problem, as opposed to a solvency issue as in the previous example. In many instances, as is the case for the COVID-19 pandemic, the crisis can be the result of a combination of factors.

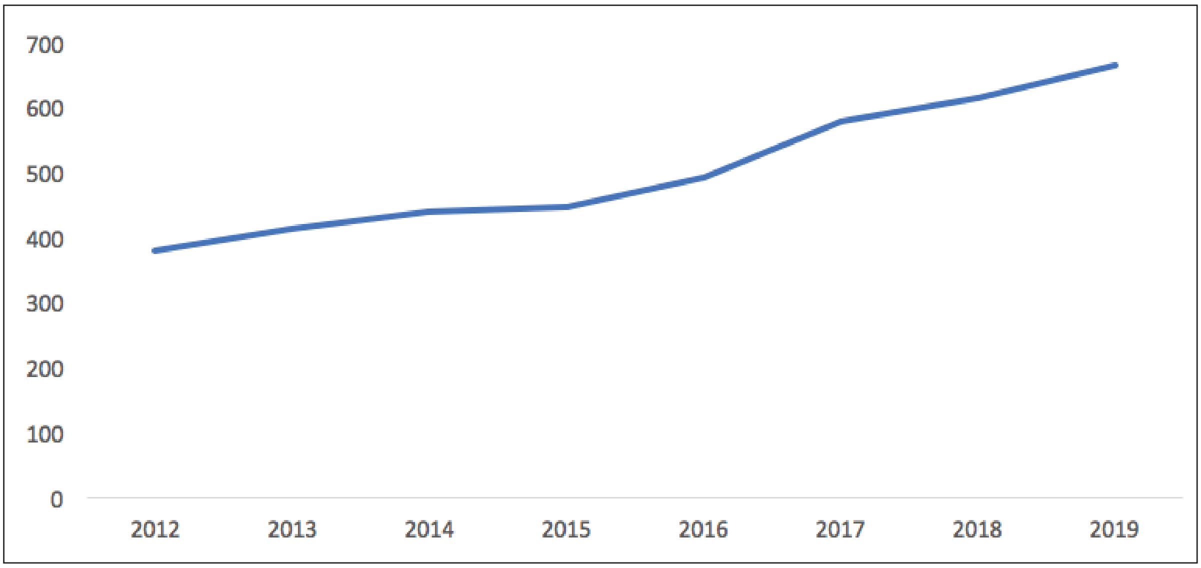
2.4 Long-term trends in external debt prior to COVID-19 pandemic

Three main trends can be discerned concerning external funding in the years preceding the COVID-19 pandemic: rising debt levels, changes in the creditor composition of external borrowing, and an increase in the cost of borrowing. Allowing for region-specific situations, these trends are applicable to MEFMI countries, sub-Saharan Africa (SSA), and low- and middle-income countries generally.

2.4.1 External debt levels have been rising

Since the mid-2000s there has been a rise in the external debt levels of both low- and middle-income countries, including African countries. Figure 2.2 shows the long-term trend in total external debt stocks for SSA countries over the period 2012–2019.

Figure 2.2: Sub-Saharan Africa: Total External Debt Stocks, 2012–2019 (US$ Billion)



Source: International Debt Statistics (IDS) database (World Bank, 2022). SSA data excludes high-income countries in SSA. The IDS database is accessible at: https://databank.worldbank.org/source/international-debt-statistics.

By 2014, the external debt burden of low- and middle-income countries was considered moderate, with average external debt to GNI at 22 per cent and external debt as a ratio of exports standing at 79 per cent – both indicating that countries' capacity to service their debt was satisfactory. However, from 2015 there were signs that the situation regarding external finance had begun to deteriorate. The two main factors that have contributed to the rapid increase in external funding are: [7]

- Favourable macroeconomic conditions, which facilitated borrowing countries' access to the international financial markets, including a number of SSA countries. With a buoyant international bond market that reached US$242 billion in 2014, a rise of 29 per cent on the preceding year, the bond market became a key source of public financing globally. Between 2011 and 2019, sovereign bond financing to low- and middle-income countries tripled. SSA countries were also able to access commercial funding at favourable rates to meet their development needs. Several emerging African countries made their debut issuance during that time, including Kenya in 2014.
- A change in the creditor composition of external finance, which is discussed further below.

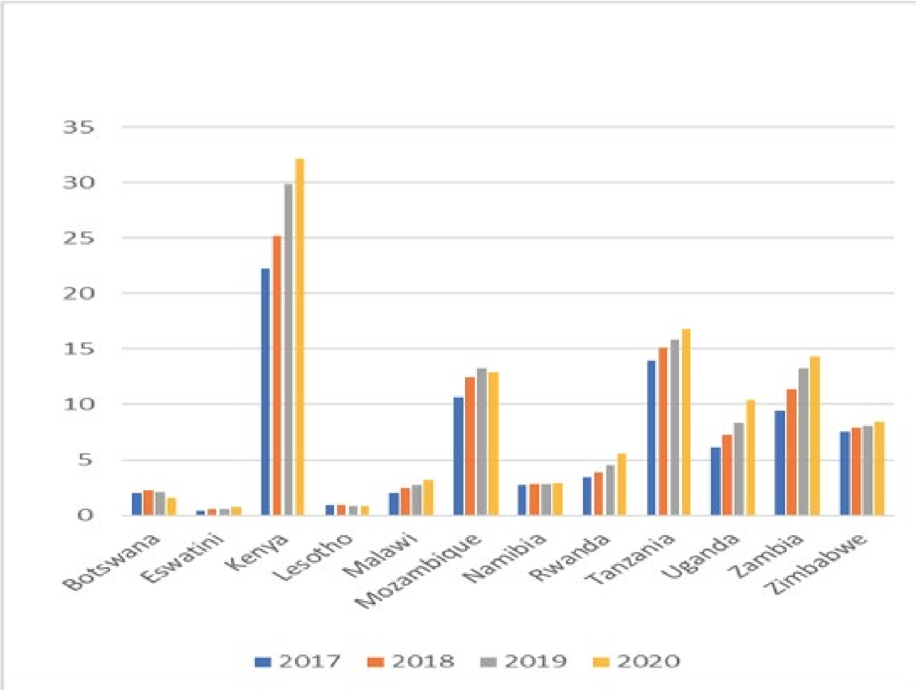
Trends witnessed during the first year of the pandemic (2020) point to a further accumulation of external debt. According to the IDS (2022), 'the external debt stock of DSSI-eligible countries rose 12 per cent in 2020 to US$860 Bn (US$770 Bn in 2019). Long-term public and publicly guaranteed debt rose 14 per cent to US$618 Bn (US$541 Bn in 2019). Debt owed to multilateral creditors, including the IMF, rose by 22 per cent to US$295 Bn (US$243 Bn in 2019) – equivalent to 48 per cent of public and publicly guaranteed debt stock at end-2020.'

[7] Other factors that have been identified as drivers for the increase in debt levels include commodity price shocks and loose fiscal policy in some countries.

2.4.2 Rising external debt trends in MEFMI region

The situation in MEFMI countries was in line with overall trends. Figure 2.3 depicts the evolution of MEFMI countries' PPGD levels over the 2017 to 2020 period. Except for Botswana and Lesotho, all countries saw an increase in debt levels over the period.

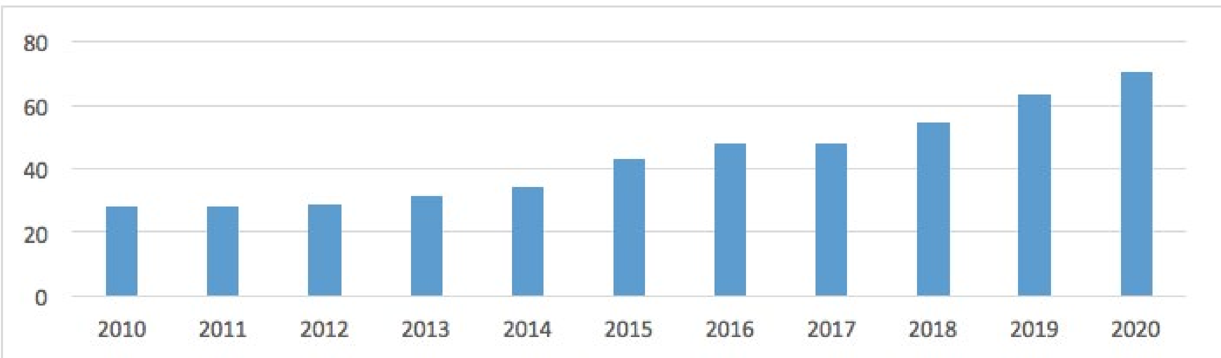
Figure 2.3: Evolution of PPGD in MEFMI Countries, 2017–2020 (US$ Billion



Source: MEFMI survey.

As with much of sub-Saharan Africa, public debt in the MEFMI region was rising even before the onset of the pandemic. However, COVID-19 saw an acceleration in the pace of debt accumulation in the region, as shown in Figure 2.4. In a few of the countries, debt-carrying capacity has also deteriorated during the pandemic. This has contributed to worsening ratings of countries' risk of debt distress.

Figure 2.4: Average Public Debt as a Percentage of GDP in the MEFMI Region



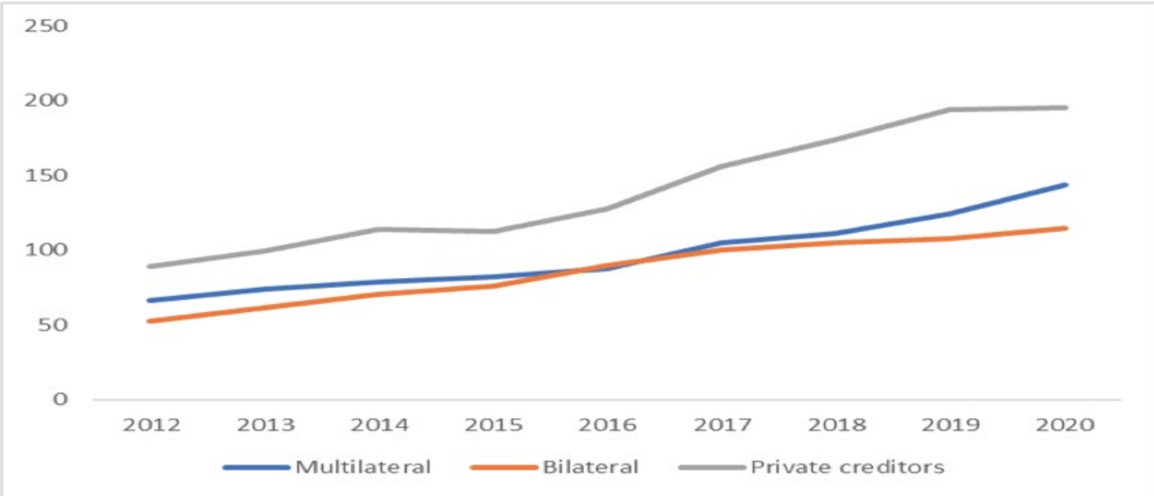
Source: IMF World Economic Outlook, October 2021.

2.4.3 The creditor composition of external finance has evolved

Besides the increase in borrowing from private creditors,[8] the composition of external finance shows an increase in bilateral funding. According to the IDS (2018), new loan commitments from bilateral lending increased by 115 per cent in 2016 to reach US$84 billion, overtaking new commitments from multilateral institutions which remained unchanged at US$74 billion. Within bilateral creditors, there has been a shift from Paris Club to Non-Paris Club lenders. This is due to the emergence of new bilateral creditors such as the BRICS group of countries (Brazil, Russia, India, China and South Africa). For example, China is now the largest creditor to developing countries.

Multilateral lending has also been rising since 2012, and the increase during the first year of the COVID-19 pandemic is clearly discernible. However, as a percentage of total external debt stocks, multilateral lending for low- and middle-income countries remained steady at 9 per cent between 2016 and 2020, while for sub-Saharan Africa it rose by 1 per cent annually from 2018 to reach 20 per cent in 2022. Figure 2.5 below shows the evolution of external debt flows by creditor category over the period 2012–2020.

Figure 2.5: Evolution of External Lending to SSA Countries by Creditor Category, 2012–2020 (US$ Billion)

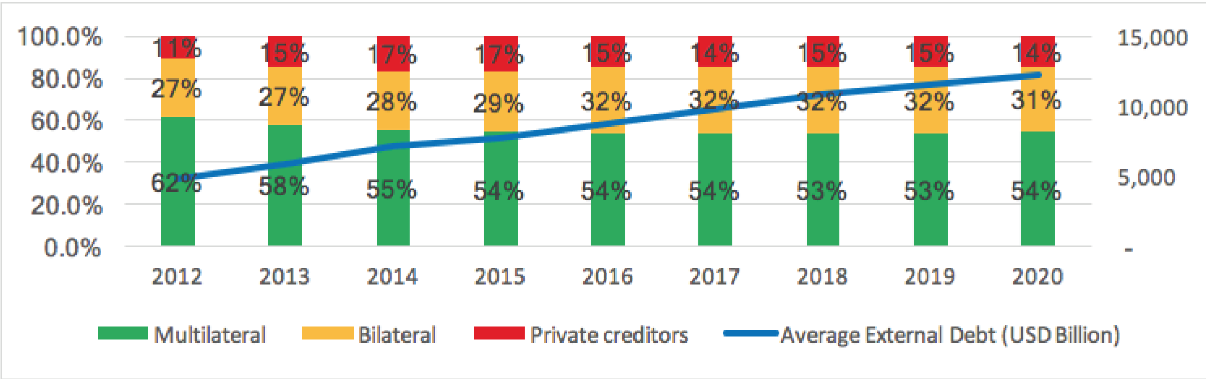


Source: IDS Database[9]

2.4.4 Distribution of external debt in the MEFMI region by creditor type

In line with the increase in total debt, there has been a rapid rise in external public debt across the MEFMI region. Average external public debt increased from US$4.9 billion in 2012 to US$12.3 billion in 2020, an increase of over 150 per cent. As shown in Figure 2.6, the region has also seen a gradual shift away from multilateral to bilateral and private debt. Private debt is typically commercial in nature and includes Eurobonds. Multilateral debt, which tends to be highly concessional, decreased from 62 per cent of external debt in 2012 to 54 per cent in 2020. Over the same period, bilateral debt increased from 27 per cent to 31 per cent of external debt, while private debt increased from 11 per cent to 14 per cent.

Figure 2.6: Shares of External Debt by Creditor Type for MEFMI Region



Source: International Debt Statistics Database, World Bank.

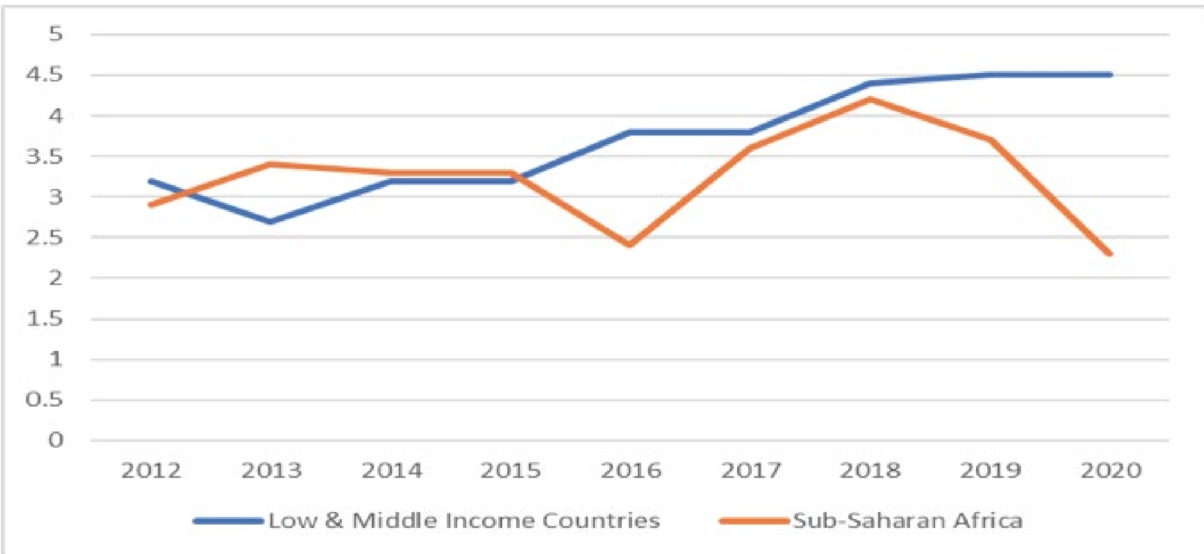
China has emerged as the largest bilateral lender to the MEFMI region since 2011. As Annex 2.3 at the end of this chapter shows, Angola has been the largest recipient of Chinese loans among MEFMI countries, with Kenya, Tanzania, Uganda, Zambia and Zimbabwe also being notable recipients.

2.4.5 The cost of borrowing has been rising

Overall, there has been an increase in the cost of borrowing for low- and middle-income countries as can be seen in the movement in the average interest rate charged on new external debt commitments over the 2012–2019 period. One of the main reasons behind this trend is the increase in the share of borrowing from private sources, which could be an indirect consequence of countries graduating from low- to lower-middle-income status. However, this indicator shows a fall for the SSA region over the period 2019–2020, which is possibly due to interest rates falling to historically low levels as well as countries being able to access more concessional external loans, especially during the COVID-19 pandemic.[10]

Figure 2.7 shows the evolution of the average interest rate charged on new external debt commitments over 2012–2019 for low- and middle-income countries, as well as SSA countries.

Figure 2.7: Average Interest on New Commitments for Low- and Middle-Income Countries and Sub-Saharan Africa, 2012–2020 (%)



Source: IDS Database

[10] The fact that some countries graduated from low to higher income groups is also likely to have increased borrowing costs.

2.4.6 Spreads on Eurobonds issued by MEFMI countries

In tandem with the increase in public debt, there has been a rapid increase in the spreads of Eurobonds issued by countries in the region. The sovereign spreads peaked around May to June 2020 at the height of the first phase of COVID-19. They moderated over time, but as at 13 December 2021, of the 17 outstanding Eurobonds, issued by 5 MEFMI countries, 9 had a spread above the 570 basis points[11] benchmark used by the IMF to indicate unfavourable market sentiments. The bonds whose spreads were above the benchmark were: all three bonds issued by Zambia, all four bonds issued by Angola and one of the six bonds issued by Kenya, as shown in Table 2.2.

Table 2.2: Sovereign Spreads for MEFMI Member Countries

Country	Maturity	Coupon (%)	Z – Spread (basis points), 14 December 2020	Z – Spread (basis points), 13 December 2021
Angola	Nov-25	9.500	913	676
Angola	May-28	8.250	866	727
Angola	Nov-29	8.000	851	727
Angola	May-48	9.375	905	842
Angola	Nov-49	9.125	897	836
Kenya	Jun-24	6.875	372	361
Kenya	May-27	7.000	430	459
Kenya	Feb-28	7.250	456	478
Kenya	May-32	8.000	498	554
Kenya	Jan-34	6.300	N/A	536
Kenya	Feb-48	8.250	585	679
Namibia	Oct-25	5.250	326	284
Rwanda	May-23	6.625	326	191
Rwanda	Aug-31	5.500	N/A	418
Zambia	Sep-22	5.375	5,111	4,979
Zambia	Apr-24	8.500	3,349	2,090
Zambia	Jul-27	8.970	2,683	1,644

Source: Data from Bloomberg.

2.4.7 Risk indicators

By 2019, the combination of the three trends described above had raised alarm bells. As 49 per cent of the IMF's Poverty Reduction and Growth Trust (PRGT)-eligible low-income countries were either classified in or at high risk of debt distress, it became apparent that low-income countries (LICs) – including those in Africa – would not only be unable to fund their development needs and meet Sustainable Development Goals (SDGs) targets, but that they were heading towards a crisis situation.

Several analytical works have pointed to how COVID-19 has exacerbated the dynamic of growing debt burden and worsening debt sustainability that had begun before the pandemic. Many countries found themselves facing widened fiscal deficits compounded by the health and economic crisis, and had no choice but to resort to new borrowing. According to data made available by the Bank of Canada and the Bank of England, 36 countries had accumulated arrears owed to foreign public or private creditors, representing more than 1 per cent of GDP.

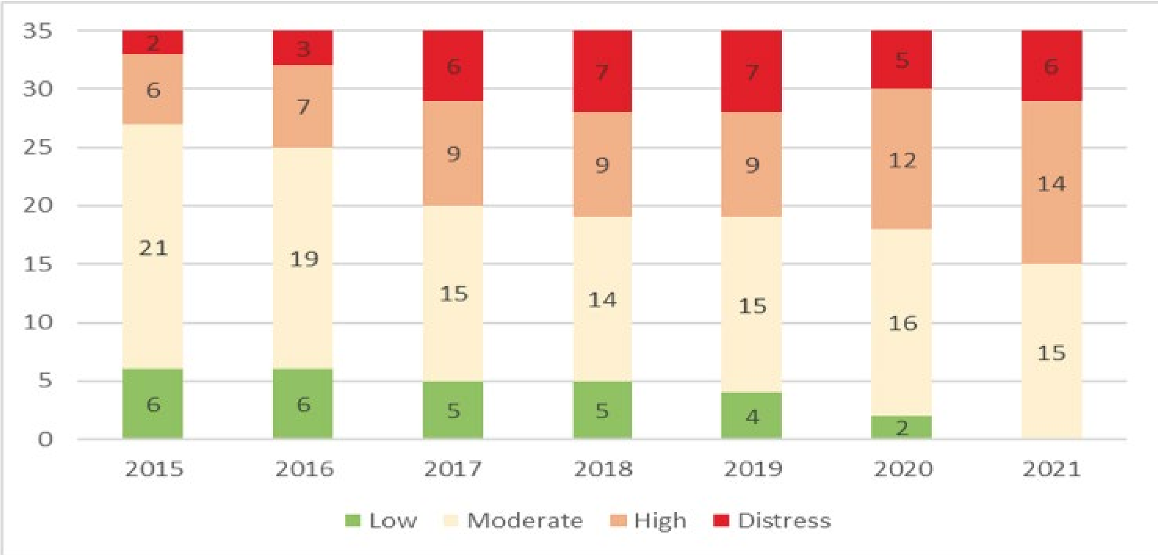
Debt indicators further worsened during 2020 and 2021. As indicated in the IMF's Regional Outlook for Sub-Saharan Africa,[12] 'all regions were impacted by the worsening of debt indicators in 2020. External debt ratios have deteriorated over the past decade, but this trend was exacerbated by the global pandemic when the pace of external debt accumulation outstripped growth in most low- and middle-income countries'.

[11] Both the low-income country and market access country DSA Frameworks use the 570 as a benchmark for risks related to market access.

[12] IMF, Regional Economic Outlook: Sub-Saharan Africa, April 2022.

The per centage of the IMF's PRGT-eligible low-income countries classified as in or at high risk of debt distress further rose to 57 per cent in 2021, as illustrated in Figure 2.8 below. According to the IDS (2022): 'Countries in Sub-Saharan Africa have seen the most pronounced deterioration in debt indicators: the ratio of debt to GNI rose from an average of 23.4 per cent in 2011 to 43.7 per cent in 2020, and the average debt-to-export ratio tripled over the same period to 212.3 per cent in 2020'.

Figure 2.8: Sub-Saharan Africa: Debt Risk Status for PRGT-Eligible LICs, 2015–2021 (Number of countries)



Source: Reproduced from IMF, Regional Economic Outlook: Sub-Saharan Africa, April 2022. Original data is from the IMF's Debt Sustainability Analysis Low-income Developing Countries Database.

The situation among MEFMI countries varies. Drawn from data provided in the MEFMI survey, Table 2.3 provides a set of nine risk indicators both prior to and during the first year of the COVD-19 pandemic. The data clearly illustrates the worsening of the debt burden of countries, even for those with quite comfortable debt-to-GDP ratios, like Botswana.

Table 2.3: MEFMI Countries: Debt Risk Indicators, 2018–2020

Year end (unless otherwise stated) and in indicated unit

MEFMI Countries: External Debt Risk Indicators, at year end (unless other wise stated) and in indicated units

		Botswana			Eswatini			Kenya			Lesotho		
		2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
1	Total Public and Publicly Guaranteed Debt as a % of GDP	19.34%	19.51%	23.29%	25.80%	33.00%	38.8	59.40%	62.00%	65.80%	38.20%	47.40%	60.20%
2	External Public & Publicly Guaranteed Debt as a % of GDP	12.49%	12.39%	12.17%	10.80%	12.10%	14.90	30.20%	32.30%	34.40%	30.10%	35.90%	44.00%
3	Central Government Debt as a % of GDP	19.31%	19.47%	23.18%	25.35%	32.51%	38.29	57.80%	60.30%	64.20%	n/a	n/a	n/a
4	Medium & Long term Debt as a % of Total debt	99.82%	99.82%	99.53%	83.65%	86.92%	86.19	100.00%	100.00%	100.00%	n/a	n/a	n/a
5	Short term Debt as a % of Total debt	1.73%	1.98%	5.62%	16.35%	13.08%	13.81	0.00%	0.00%	0.00%	n/a	n/a	n/a
6	Total Debt maturing within next 12 months as a % of Total debt	1.86%	1.98%	5.66%	n/a	n/a	n/a	23.00%	17.10%	15.50%	5.80%	5.50%	5.50%
7	Average Term to Maturity (ATM) of External Debt in years	12.00	11.30	10.44	n/a	n/a	n/a	9.70	11.10	11.00	10.99	11.03	11.07
8	External Debt Service as a % of Total Debt Service	30.04%	45.60%	20.20%	n/a	n/a	n/a	36.90%	43.30%	34.30%	80.00%	74.00%	44.00%
9	External Debt Service as a % of exports of goods and services	2.58%	3.48%	0.92%	n/a	n/a	n/a	40.50%	60.10%	37.40%	79.37%	77.03%	77.44%

		Malawi			Mozambique			Namibia			Rwanda		
		2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
1	Total Public and Publicly Guaranteed Debt as a % of GDP	44.44%	47.60%	58.82%	105.00%	105.00%	115.00%	47.00%	53.60%	66.80%	52.30%	56.80%	71.30%
2	External Public & Publicly Guaranteed Debt as a % of GDP	25.74%	27.55%	31.16%	84.00%	84.00%	92.00%	19.60%	22.50%	23.90%	1.00%	44.30%	55.60%
3	Central Government Debt as a % of GDP	22.48%	21.96%	24.01%	86.00%	79.00%	n/a	41.80%	47.90%	60.40%	36.70%	40.50%	52.50%
4	Medium & Long term Debt as a % of Total debt	n/a	n/a	n/a	n/a	n/a	n/a	75.30%	74.90%	74.40%	78.40%	78.10%	77.90%
5	Short term Debt as a % of Total debt	n/a	n/a	n/a	n/a	n/a	n/a	24.70%	25.10%	25.60%	n/a	n/a	n/a
6	Total Debt maturing within next 12 months as a % of Total debt	24.30%	12.20%	17.00%	10.40%	10.40%	11.00%	25.70%	27.10%	26.60%	2.40%	4.70%	n/a
7	Average Term to Maturity (ATM) of External Debt in years	15.30	14.70	13.50	11.50	10.20	10.20	7.10	7.30	5.20	13.60	13.30	n/a
8	External Debt Service as a % of Total Debt Service	18.80%	18.31%	15.30%	n/a	n/a	n/a	47.20%	32.30%	38.00%	53.60%	49.40%	58.60%
9	External Debt Service as a % of exports of goods and services	6.29%	6.49%	n/a	12.60%	10.80%	8.80%	3.70%	3.30%	4.30%	14.30%	15.80%	15.60%

		Tanzania			Uganda			Zambia			Zimbabwe		
		2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
1	Total Public and Publicly Guaranteed Debt as a % of GDP	n/a	n/a	n/a	41.50%	42.00%	47.20%	62.30%	76.97%	118.10%	46.90%	88.00%	72.60%
2	External Public & Publicly Guaranteed Debt as a % of GDP	n/a	n/a	n/a	28.10%	27.90%	30.70%	41.82%	52.38%	78.90%	40.00%	47.00%	71.20%
3	Central Government Debt as a % of GDP	25.90%	27.10%	26.80%	41.50%	42.00%	47.20%	57.48%	70.77%	109.40%	n/a	n/a	n/a
4	Medium & Long term Debt as a % of Total debt	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	89.58%	91.69%	91.43%	n/a	n/a	n/a
5	Short term Debt as a % of Total debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	10.42%	8.31%	8.57%	n/a	n/a	n/a
6	Total Debt maturing within next 12 months as a % of Total debt	4.50%	7.50%	4.90%	13.60%	13.30%	12.70%	10.42%	8.31%	8.57%	n/a	n/a	n/a
7	Average Term to Maturity (ATM) of External Debt in years	14.20	13.60	13.50	15.00	14.10	12.70	7.87	7.76	7.36	n/a	n/a	n/a
8	External Debt Service as a % of Total Debt Service	53.80%	47.60%	60.70%	37.00%	46.10%	36.80%	13.70%	30.10%	22.13%	5.00%	84.00%	99.00%
9	External Debt Service as a % of exports of goods and services	10.30%	11.70%	14.00%	6.50%	8.00%	6.70%	7.46%	13.19%	8.10%	2.00%	2.50%	5.40%

Source: MEFMI survey

Lesotho: ATM applies for external debt only

Malawi: Indicators 6,7 and 8 are as at June 2020

Uganda: Indicators 8 and 9 are as at June 2020

N/A indicates data is not available

Blanks indicate non response

Source: MEFMI survey. n/a – data not available

In terms of risk of debt distress, Table 2.4 compares the status of MEFMI countries just prior to the COVID-19 pandemic (November 2019) and the situation in March 2022. The percentage of countries considered at high risk of or already debt distressed increased from 33.3 per cent in 2019 to 55.5 per cent in 2022.

Table 2.4: Change in Risk of Debt Distress Status of PRGT-Eligible MEFMI Countries as of November 30, 2019, compared to March 2022.

Country	Risk of debt distress as of November 2019	Risk of debt distress as of March 2022
Kenya	Moderate	High
Lesotho	Moderate	Moderate
Malawi	Moderate	High
Mozambique	In debt distress	In debt distress
Rwanda	Low	Moderate
Tanzania	Low	Moderate
Uganda	Low	Moderate
Zambia	High	High
Zimbabwe	In debt distress	In debt distress

Source: IMF

A look at the longer-term trend of debt distress is also revealing. There has been a visible deterioration in the risk ratings across the MEFMI region over recent years and this accelerated due to COVID-19 in 2020 and 2021, as shown in Table 2.5.

Table 2.5: Evolution of Risk Ratings for External Debt Distress

Country	2014	2015	2016	2017	2018	2019	2020	2021
Kenya	Low	Low	Low	Low	Moderate	Moderate	High	High
Lesotho	Moderate	Moderate	Moderate	Low	Low	Moderate	Moderate	Moderate
Malawi	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Mozambique	Moderate	Moderate	Moderate	Distress	Distress	Distress	Distress	Distress
Rwanda	Low	Low	Low	Low	Low	Low	Moderate	Moderate
Tanzania	Low	Low	Low	Low	Low	Low	Low	Moderate
Uganda	Low	Low	Low	Low	Low	Low	Low	Moderate
Zambia	Low	Moderate	Moderate	High	High	High	High	Distress
Zimbabwe	Distress	Distress	Distress	Distress	Distress	Distress	Distress	Distress

Source: IMF/World Bank DSA Reports.

By the end of 2021, none of the nine MEFMI countries assessed using the LIC DSF had a rating of 'Low'. Four countries were rated 'Moderate', two countries rated 'High' and three countries were rated as being in debt distress. The impact of the COVID-19 pandemic is evident in the deterioration of the risk ratings of some countries during 2020 and 2021. Specifically, Kenya's rating changed from 'Moderate' in 2019 to 'High' in 2020, while Rwanda moved from 'Low' to 'Moderate' over the same period. The ratings for Tanzania and Uganda changed from 'Low' to 'Moderate' in 2021, while Malawi moved from 'Moderate' to 'High'. The change in risk ratings was driven by a combination of higher debt levels and lower debt-carrying capacity.

2.5 The external financing environment during the COVID-19 pandemic

As seen in the analysis so far, debt levels in emerging and developing economies were already at a record high when the COVID-19 pandemic started. The total external debt of low- and middle-income countries stood at US$8.1 trillion at the end of 2019, a third of which was owed to private creditors. Fiscal support to mitigate the impacts of COVID-19 pushed external debt levels even higher in 2020. According to the IDS (2022), the external debt stock of low- and middle-income countries rose on average by 5.3 per cent in 2020.

While all regions were impacted by the worsening of debt indicators, SSA saw the most pronounced deterioration. According to the IMF, 'the ratio of debt to GNI rose from an average of 23.4 per cent in 2011 to 43.7 per cent in 2020, and the average debt-to-export ratio tripled over the same period to 212.3 per cent in 2020'. The IMF further states that by 2022, 'some 60% of low-income countries – mostly in Africa – were either in debt distress or at high risk of it, up from less than 30% in 2015'. The World Bank forecasts that '74 low-income nations must repay US$35 billion to bilateral and private lenders in 2022 – nearly double from 2020'.

The COVID-19 pandemic has been an unprecedented crisis in so far that it has been truly global, affecting practically all developing and emerging countries as well as advanced countries, which have been struggling to finance their own response to the pandemic. From an external funding point of view, given the scale of the pandemic, the risk of a scarcity of funds was very real. While countries were taking decisive measures, the demands for additional resources coupled with difficulties to continue servicing their debt became a genuine concern for many.

The international community was fully aware of the problem faced by many countries and such concerns resulted in a number of targeted initiatives, while incremental financing for countries at risk was made available. This included the reaction of the G20 and the instructions issued to IFIs and the private sector as described in the next sub-section. The IMF, the World Bank and other multilaterals promptly provided much-needed funding amid the pandemic as government revenues collapsed alongside economic activity while private capital flows came to a sudden stop.

[3] The lower bound of 50 per cent is derived from the MAC DSF, which uses this value to differentiate between lower and upper scrutiny countries. The upper bound of 60 per cent is derived from the SADC convergence criteria.

3.

THE RESPONSE OF THE INTERNATIONAL COMMUNITY AND COMMERCIAL LENDERS

As indicated earlier,[13] the international financial community reacted swiftly to the COVID-19 pandemic. The G20 countries were among the first to take concrete action in April 2020[14] by urging official lenders (and private lenders on a voluntary basis) to subscribe to a Debt Service Suspension Initiative (DSSI). A year later, it also put forward the Common Framework (G20CF) for debt treatment beyond the DSSI.

Given its traditional role of providing balance-of-payments support, including in cases of emergency, the IMF already had facilities in place to deal with emergency situations, which could be enhanced to respond to the severity and scale of the COVID-19 crisis. Other institutions, such as the World Bank and the African Development Bank, were able to allocate or reallocate funds to help countries fight the pandemic.

The rest of this section describes some of the more important initiatives taken by the international community to respond to the pandemic, while Section 4 illustrates how MEFMI countries made use of these facilities.

3.1 Initiatives by the G20

3.1.1 The Debt Service Suspension Initiative

Launched by the G20 countries in April 2020, the main objective of the DSSI was to help the poorest low- and middle-income countries mitigate the negative impacts of the COVID-19 pandemic by providing a temporary suspension of debt service payments (moratorium) owed to official bilateral creditors. This allowed countries to ‘concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people’. [15]

The DSSI was targeted at International Development Association (IDA) countries (as of April 2020 when the initiative was approved) and least developed countries (LDCs) as defined by the United Nations. Seventy-three countries were eligible to join the initiative, although only 48 countries participated.

The initiative initially covered debt service payments falling due from 1 May–31 December 2020, but was extended for twelve months to end-December 2021 in view of the continuing pressures faced by countries because of the pandemic. The G20 also encouraged private lenders to follow suit, albeit with little success. There were some conditions attached to the DSSI. Participating countries agreed to:

- commit resources that had been saved to increase spending in response to the crisis; disclose all public sector financial commitments (involving debt and debt-like instruments); and
- limit their non-concessional borrowing to levels agreed under IMF/WB programmes and policies.

Countries were originally given five years to repay the suspended payments (one-year grace period and four-year maturity). The repayment period for maturities falling due in 2021 was extended to five years with a one-year grace period (six years total).

According to the G20 communiqué,[16] the DSSI suspended US$12.9 billion in debt service payments between May 2020 and December 2021.

Table 2.6 shows the potential savings from deferred DSSI payments for eligible MEFMI countries. Table 2.8, later, provides data on DSSI savings actually received based on the survey response.

[13] See also Chapter One of this study.
[14] The World Health Organization declared the COVID-19 outbreak a pandemic on 11 March 2020.
[15] World Bank, Brief on Debt Service Suspension Initiative, 10 March 2022.
[16] G20 Finance Ministers and Central Bank Governors Meeting, 17–18 February 2022, available at: https://www.bi.go.id/en/G20/Documents/G20-Communique.pdf.

Table 2.6: Potential DSSI Savings for Eligible Countries in MEFMI Region (US$ Million and % of Exports) as of November 30, 2019, compared to March 2022.

Country	May -Dec 2020	% of Exports	Jan- Dec 2021	% of Exports
Angola	1,734.9	8.24	2,900.2	8.59
Kenya	630.8	10.47	1,189.5	17.62
Malawi	17.1	2.19	36.6	4.00
Mozambique	292.6	8.46	565.1	11.06
Rwanda	12.6	0.89	26.5	1.53
Tanzania	138.6	2.32	462.6	7.24
Lesotho	67	8.19	13.5	1.34
Uganda	91.1	2.20	231.2	4.38
Zambia	165.4	2.05	529.2	4.72

Source: World Bank, 2021a, IMF various Country Article IV, Trademap (2022), https://www.trademap.org/Index.aspx.

3.1.2 The Common Framework for Debt Treatment beyond the DSSI

Recognising that the DSSI may not be enough to keep the debt of many countries on a sustainable path, an agreement was reached by G20 countries and the Paris Club in December 2020 on a Common Framework for debt treatments beyond the DSSI. [17]

The G20 Common Framework (G20CF) is intended to 'facilitate timely and orderly debt treatment for DSSI-eligible countries, with broad creditors' participation including the private sector'. [18]Countries' debt situations would be assessed through debt sustainability analysis (DSA), and countries would need to subscribe to an IMF-supported programme.

Debt eligible for treatment under the G20CF would include all public and publicly guaranteed debt with a maturity of more than one year. As usually included in Paris Club terms, a cut-off date prevents new loans from being rescheduled. In this case the cut-off date would be that included in the 2020 DSSI term sheet.
The actual terms of the rescheduling are not defined in the G20CF but options (or 'key parameters') that may constitute an agreement include:

- changes in the nominal debt service over the IMF programme period;
- debt reduction in present value terms; and
- the extension of the duration of the treated claims.

However, the G20CF indicates that 'in principle, debt treatments will not be conducted in the form of debt write-off or cancellation'.
Since the launch of the G20CF, several ideas have been put forward to enhance the initiative in an attempt to promote its implementation. A key challenge that has slowed down progress is the coordination that is required between the Paris Club, creditors and multiple local stakeholders, which has taken a long time to achieve.

3.2 The International Monetary Fund

In line with its mission to provide financial assistance to its members in cases of emergencies, the IMF has been at the forefront of the fight against COVID-19. The fact that it already had facilities in place that member countries could avail of to deal with natural disasters (including pandemics) was a major advantage. The three main facilities that have been available to deal with the COVID-19 crisis are:[19]

3.2.1 The Rapid Credit Facility

The objective of the Rapid Credit Facility (RCF) is to provide concessional finance to low-income countries which are facing balance-of-payments problems. This may result from a range of emergency situations including natural disasters but also various types of economic shock. All PRGT countries are eligible for the RCF, but they must demonstrate that they face an urgent and temporary balance-of-payments crisis. The facility is available without the need to put in place an IMF programme as long as policies supported by the RCF are meant to address the underlying cause of the balance-of-payments problems.

To ensure that the funding can be delivered rapidly, funds are disbursed as one disbursement, although countries can access the facility twice within a 12-month period. There are, however, cumulative access limits expressed as a percentage of the country's IMF

[17] The DSSI shares many characteristics with traditional Paris Club debt restructuring but for the purposes of this paper is considered as a distinct initiative. Three countries have formally applied for debt relief under the G20CF: Ethiopia, Chad and Zambia. They are all at different stages of negotiation.
[18] Available at www.imf.org/-/media/Files/News/news-articles/english-extraordinary-g20-fmcbg-statement-november-13.ashx
[19] The description of the various facilities draws upon details on the IMF website.

quota – currently raised to 150 per cent of quota for the exogenous shock window and 183.33 per cent of quota for the large natural disaster window.

RCF funds carry concessional terms: they are interest free, and have a grace period of five and a half years and a final maturity of 10 years. Section 4.5.3 details the extent of resources received under this facility by MEFMI countries based on survey response.

3.2.2 The Rapid Financing Instrument

The Rapid Financing Instrument (RFI) was introduced in 2011 to replace two previous IMF assistance programmes dealing with natural disasters and post-conflict situations.[20] Like the RCF, the RFI is meant to provide quick financial assistance to countries experiencing balance-of-payments difficulties arising from a range of situations, including commodity price shocks, conflict and post-conflict effects, natural disasters, and emergencies linked to fragility of the economy.

RFI terms are the same as for stand-by arrangement and flexible credit line financing. The terms comprise a floating lending rate based on the market-determined rate for the special drawing rights (SDRs) and a fixed margin of 100 basis points and a surcharge if the credit outstanding is above 187.5 per cent of the member's quota.[21] There is also a commitment fee which varies according to the amount committed and a service charge of 50 basis points applied to each disbursement. RFI credits are repayable within 3.25 to 5 years.

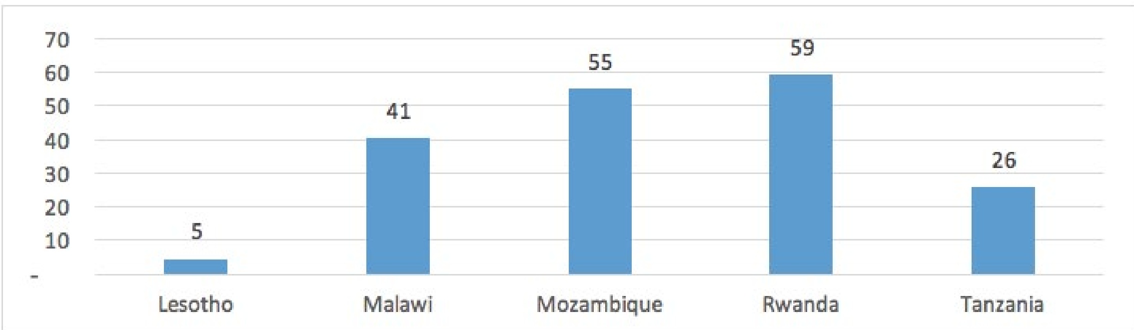
Although the RFI is accessible to all IMF member countries, PRGT countries are more likely to use the RCF described above as the terms are more concessional. Section 4.5.3 details the extent of resources received under this facility by MEFMI countries based on survey response.

3.2.3 The Catastrophe Containment and Relief Trust

The Catastrophe Containment and Relief Trust (CCRT) was established in February 2015 in response to the Ebola outbreak in West Africa. The CCRT provides grants that can be used as debt relief to the poor and vulnerable countries afflicted by natural disasters or health crises. The thinking behind the CCRT is that the relief provided on debt service payments due to the IMF can be used to meet the additional funding needs caused by the disaster, including urgent medical spending and health-related needs.

In March 2020, the IMF reviewed the functioning of the CCRT and took steps to make it accessible to a larger number of countries. Essentially, all member countries with per-capita income below the World Bank's threshold for concessional support can benefit from debt service relief for up to two years. At the same time, the IMF also launched a fundraising exercise with the objective of mobilising US$1 billion of grants for beneficiary countries, to which several contributors responded favourably. The 2020 reforms to the CCRT enabled 29 of the world's poorest countries to receive a total of US$488 million in grants to offset 2020 debt service payments made to the IMF. Five MEFMI countries have benefited from the CCRT during the pandemic, as shown in Figure 2.9. Section 4.5.3 details the volume of funding received under this facility by MEFMI countries based on survey response.

Figure 2.9: Support to MEFMI Countries under CCRT, April 2020 – Oct 2021 (US$ Million)



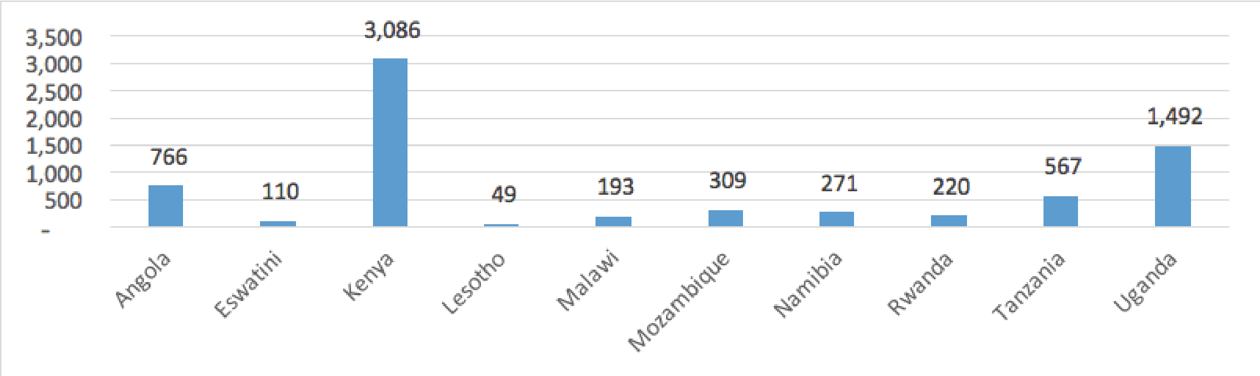
Source: IMF, 2021.

[20] These were the Emergency Natural Disaster Assistance (ENDA) and the Emergency Port-Conflict Assistance (EPCA).
[21] The surcharge increases if the credit remains above 187.5 per cent of the quota for more than three years.

3.2.4 IMF loans to MEFMI countries during the COVID-19 pandemic

Within the MEFMI region, Kenya, Uganda and Angola are the countries that received the highest amount of IMF loans during the pandemic. All three countries have an ongoing IMF programme under which the IMF has agreed to disburse significant resources if policy-related conditions are met. In April 2021, the IMF Board approved a three-year financing programme totalling US$ 2.34 billion for Kenya under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements. In June 2021, the IMF Board also approved a three-year financing programme for Uganda, under which the country would receive US$ 1 billion under an ECF arrangement.

Figure 2.10: IMF Loans to MEFMI Countries during COVID-19 (US$ Million)



Source: IMF.

Angola was already on an IMF financing programme before the pandemic, having received board approval for US$ 3.7 billion in December 2018 under an EFF arrangement. In September 2020, the IMF Board approved Angola's request for additional resources under the EFF instrument, totalling US$ 766 million. As shown in Annex 2.1, MEFMI low-income countries, notably Kenya, Lesotho, Malawi, Mozambique, Rwanda and Uganda, received support in the first few months of the pandemic through the RCF, which is designed to provide emergency IMF support with minimal conditionality. Besides the RCF, Annex 2.1 provides details of how much IMF support was received by different MEFMI countries, disaggregated by instrument.

3.2.5 Special drawing rights allocation

In August 2021, the IMF Board approved a general allocation of SDRs to all member countries totalling US$ 650 billion. The allocation was intended to bolster countries' external reserves, as well as help them deal with the effects of the pandemic. SDRs were allocated according to countries' quotas in the fund. Annex 2.2 provides details of the SDRs allocated to MEFMI member states.

3.3 The World Bank

The World Bank's efforts to help its member countries deal with the pandemic have focused on four areas of intervention: 'saving lives, protecting the poor and vulnerable, supporting business growth and job creation, and rebuilding in better ways'.

The institution was quick to react to the pandemic. On 3 March 2020, its Board of Executive Directors approved the setting up of a COVID-19 Fast Track Facility (CFTF) to assist IDA and International Bank for Reconstruction and Development (IBRD) countries.[22] US$12 billion was approved to fund the facility and by April 2020, projects were rolled out to the first group of 25 countries. The CFTF was eventually enhanced in October 2020 and June 2021 by an additional US$12 billion and US$20 billion respectively.

3.4 The African Development Bank

The AfDB's response to the pandemic has been guided by three principles: flexibility, speed and responsiveness. In addressing member countries' needs, the AfDB has made use of its previous experience providing support to countries who were affected by the Ebola epidemic.

The AfDB launched the COVID-19 Rapid Response Facility (CRF), a US$7.4 billion initiative set up early in 2020. The bank describes this as a dedicated programme to provide 'fast, flexible and effective responses to lessen the severe economic and social impact of the COVID-19 pandemic on its regional member countries, including the private sector'.[23] At the same time as running this programme, the AfDB has been reviewing its lending programme to support priority projects.

[22] This is also referred to as the COVID-19 Strategic Preparedness and Response Program (SPRP).
[23] See the African Development Bank Group's COVID-19 Rapid Response Facility, April 2020.

Box 2.1: Support provided by the private sector

Support also came from private stakeholders including philanthropic organisations and international NGOs. The two main private institutions involved are the Bill & Melinda Gates Foundation (BMGF) and the GAVI Alliance (GAVI). Initiatives from private sector organisations complemented the efforts made by IFIs by funding innovative projects, some of which were led by the private sector.

According to the institution's website, the BMGF has committed US$2 billion to support the fight against COVID-19. US$750 million went towards helping countries, including in sub-Saharan Africa, and slowing down COVID-19 transmission. An equal amount was made available in the form of guarantees, forgivable loans, and other instruments for the procurement of essential medical supplies such as testing kits and assisting companies' finance production. US$315 million was provided to 'leverage existing work and expertise to support the COVID-19 response directly'.

The BMGF has also been a major contributor to the COVID-19 Vaccine Advance Market Commitment (COVAX AMC) facility aimed at ensuring that COVID-19 vaccines are available and affordable to low- and middle-income countries.

The GAVI Alliance, which has been in operation since 2000, is a public-private global partnership whose main mandate is to increase access to immunisation in poor countries. The institution was quick to lay the foundation for the COVAX facility in January 2020, in the early days of the COVID-19 pandemic. At the time of writing, COVAX had shipped over 1 billion doses to 144 countries, 85 per cent of which were destined to 86 low- and middle-income countries.

There is no doubt that the contribution of the private sector during the COVID-19 pandemic helped developing countries reduce their reliance on borrowing, whether external or domestic, to fund their efforts at combatting the pandemic.

https://www.gatesfoundation.org/
https://www.gavi.org/

3.5 The African Export-Import Bank

The African Export-Import Bank (AFREXIM)[24] reacted to the pandemic by instituting a US$3 billion Pandemic Trade Impact Mitigation Facility (PATIMFA). The facility was delivered through direct funding, lines of credit, guarantees, cross-currency swaps and other instruments. Malawi reported that its central bank made use of the facility. The facility was intended to:

- provide emergency trade finance;
- help central banks meet trade payments falling due, thus preventing defaults; and
- support and stabilise the foreign exchange resources of central banks so that critical emergency imports could be financed.

AFREXIM also participated in several other COVID-19-related initiatives, including:

- A US$1.5 billion Collaborative COVID-19 Pandemic Response Facility, in collaboration with the Arab Bank for Economic Development in Africa, the International Islamic Trade Finance Corporation and the OPEC Fund for International Development (OFID). This facility's objectives include 'providing support to central banks, commercial banks, and corporates to enable them to finance the import of COVID-19-related materials and services [and] supporting the import of raw materials and equipment that will facilitate the production of COVID-19-related materials and services in Africa'.[25]
- The AFREXIM-UNECA Africa Centre for Disease Control and Prevention in Africa (AFRICA CDC), a US$200-million facility to support the local production of COVID-19 related supplies.
- The Africa Medical Supplies Platform (AMSP), a collaboration between the African Union, UNECA, a number of other African and international institutions, and countries such as Canada, China and France. The AMSP provides access to a database of pre-selected suppliers of medical supplies.

3.6 Export credit agencies

Export credit agencies (ECAs) also emerged as important players in ongoing efforts to ease cash flow pressures to sustain the flows of trade finance in the wake of COVID-19. These entities provided assistance to corporates and SMEs in the form of liquidity support, flexible payment, waivers on premiums and fees, and direct lending and guarantees. Some of these entities are expanding their scope, capacity and limit of cover, while others are allowing policyholders to extend credit terms to the buyers without needing additional consent from the ECA. Yet, others are offering portfolio guarantees to banks as collateral, while others still are permitting covers for existing loans to facilitate risk transfer of banks.

23 See the African Development Bank Group's COVID-19 Rapid Response Facility, April 2020.
24 https://www.afreximbank.com/.
25 AFREXIM, 2020.

3.7 The World Health Organization

The WHO is the main inter-governmental agency of the United Nations dealing with health issues and is responsible for coordinating the world's response to health emergencies. The WHO put in place and published two Strategic Preparedness and Response Plans (SPRP) in 2020 and 2021. The required funding to implement the SPRP 2020 was US$1.74 billion, while SPRP 2021 aimed to raise an additional US$1.96 billion. While SPRP 2020 has three main objectives (controlling the transmission of the virus, saving lives, and protecting the vulnerable), SPRP 2021 aims to achieve six strategic goals: supress transmission, reduce exposure, counter misinformation, protect the vulnerable, reduce mortality and morbidity, and accelerate equitable access to new COVID-19 tools.
Though the above paragraphs only cover a sample of initiatives setup by IFIs to help countries deal with the COVID-19 pandemic, they demonstrate that the international financial community has responded effectively and quickly. The survey undertaken by MEFMI indicates that member countries have, in general, taken advantage of these initiatives.

3.8 Commercial lending

If efforts by the IFIs described above did ensure continued access to multilateral and bilateral finance, the situation regarding commercial borrowing was different, as the COVID-19 pandemic negatively affected access to the international financial markets. Globally, bond issuance by low- and middle-income countries fell by 11 per cent in 2020 to US$239 billion.[26] Sub-Saharan Africa saw a massive fall of 74 per cent to only US$6.5 billion. Several sub-Saharan African countries had indicated their intention to tap into the international financial market (Angola, Benin, Côte d'Ivoire, Gabon, Ghana, Kenya, Nigeria and South Africa), but only Gabon and Ghana managed to issue bonds before the pandemic took hold. As countries resorted to lockdowns around March 2020, spreads for African issuers reached an all-time high, making borrowing inaccessible. For instance, the Eurobond yields for Kenya increased markedly. That was a clear sign that investors were placing a higher risk premium on the country as a result of the impact of the pandemic on future economic growth. Like Kenya, other countries would find it costly to raise resources on the Eurobond markets due to surging yields at a time when fiscal pressures were intensifying.

The debt and liquidity challenges caused by the pandemic have had a negative impact on countries in the MEFMI region. For example, for the first time in a long period, Botswana was rated BBB+, down from A-. Fitch revised the outlook for Rwanda to negative (July 2020) while Kenya, Lesotho, Namibia and Uganda still carry negative outlooks. Table 2.7 shows the evolution of credit ratings over the period 2018–2021 for the six MEFMI emerging countries.

Funds from the CFTF have gone towards the purchase and distribution of COVID-19 vaccines and testing kits, and treatment for COVID-19 patients.

Table 2.7: Credit Rating of MEFMI Countries 2018–2021

	2018			2019			2020			2021		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Botswana	A2	A-/A-2		A2	A-/A-2		A2	BBB+/A-2		A3	BBB+/A-2	
Kenya	B2	B+	B+	B2	B+	B+	B2	B+	B+	B2	B	B+
Lesotho	B+ (Positive outlook)				B (downgrade)			B (Negative Outlook)			B (Negative Outlook)	
Namibia	Baa2		BB	Baa2		BB	Ba3		BB	Ba3		BB
Rwanda		B (Outlook stable)			B+ (Outlook stable)			B+ (Outlook negative)			B+ (Outlook negative)	
Uganda				B2 stable outlook	B stable	B+ negative outlook	B2 stable outlook	B stable	B+ negative outlook	B2 stable outlook	B stable	B+ negative outlook
Zambia			B-			CCC			RC			RC

Source: MEFMI survey. Kenya: 2021 data is taken from June 2021

26 World Bank, International Debt Statistics, 2022. Figure excludes China

4.

EXTERNAL POLICIES AND PRACTICES ADOPTED BY MEFMI COUNTRIES IN RESPONSE TO COVID-19

This section provides an analysis of external policies and practices adopted by MEFMI countries since the start of the COVID-19 pandemic. It is based on data collected through a specially designed survey carried out for this study, supplemented by desk research. However, before discussing the results of this analysis, it is important to conceptualise the various stages of the pandemic and how these are likely to affect borrowing needs.

4.1 Policies and funding needs arising from the COVID-19 pandemic

Despite never previously facing conditions like those brought about by the pandemic, countries everywhere were quick to take decisive action to safeguard their constituents' health and protect jobs and economic activity. In charting out the ensuing response, it may be useful to consider countries' reaction to the COVID-19 pandemic in stages, as the policies they had to take initially and subsequently, as well as their concomitant funding needs, were evolving and will continue to change though time.

Globally, **the first phase** (referred to as the containment phase) coincided with the initial outbreak of COVID-19. All MEFMI countries recorded their first COVID-19 case between 13 March and 2 April 2020, except for Lesotho which recorded its first positive patient on 14 May 2020. During this phase the main objective was to contain the epidemic. Emergency funding became necessary to procure basic equipment such as gloves, masks and personal protective equipment for health workers, as well as medication, oxygen supplies etc. for patients.

Many countries resorted to lockdowns, either nationally or on a regional basis. This severely affected both the public and private sector, including the self-employed. Many governments took measures to support those affected either through direct cash transfers, wage subsidies or unemployment benefits. Attempts were also made to protect businesses through fiscal measures such as reduced lending rates, while VAT was reduced for groups of individuals. The COVID-19 pandemic brought a welcomed close interaction between monetary and fiscal measures, including in Africa. Much of the funding required during the containment phase was sought as budget support or, in some cases, as grants (both in cash and in kind) from multilateral institutions, as well as international non-governmental and philanthropic organisations.

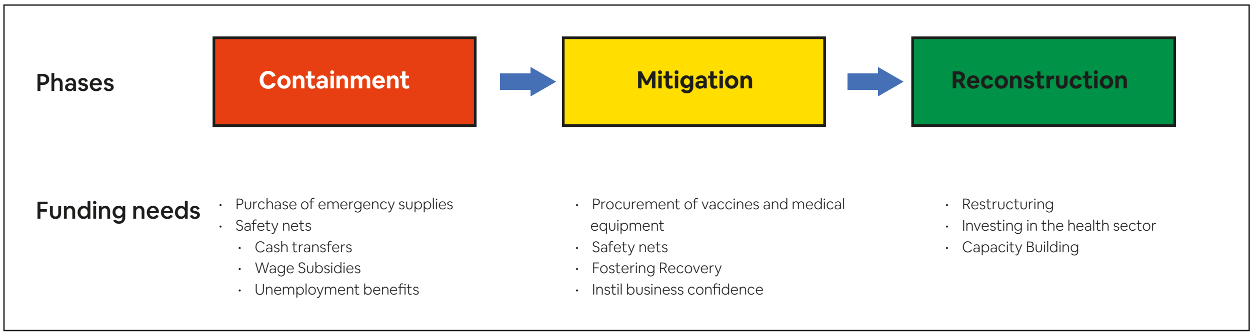
The second phase (or mitigation phase) required governments to temper the effect of the pandemic. Some governments still had some safety net measures in place to assist those most hit by the crisis and there was an additional need to procure equipment and medication, especially vaccines. By this point, efforts were focused on mitigating the effects of the pandemic, fostering economic recovery and re-instilling business confidence.

In Botswana, for example, the travel restrictions that were put in place because of the pandemic seriously affected the diamond industry. In the face of rapidly declining revenue from minerals, and therefore declining overall revenue, the government had to find ways to finance the budget. Many governments also procured vaccines to safeguard their populations.

Finally, **the third phase** focuses on longer-term reconstruction. This involves evaluating lessons learnt, restructuring, investing in the health sector and building capacity in terms of the number of health workers, training, etc. For instance, Kenya formally published its Post-COVID-19 Economic Recovery Strategy, 2020–2022.

This stylised representation of the evolution of the pandemic is depicted graphically in Figure 2.11, below. It should be noted that in many cases the pandemic did not evolve in a linear fashion as described above. For example, many countries experienced several waves of the virus, meaning they oscillated between the containment and mitigation phases. Also, the data from the MEFMI survey indicates that some countries started planning for reconstruction earlier than others, borrowing for long-term investment in the health and other sectors while still in the containment phase.

Figure 2.11: Stages of the COVID-19 Pandemic and Funding Needs



Source: Author's construct

The evolution of the pandemic into phases has also been observed by creditors such as the AfDB and the WB.

As mentioned in the AfDB's COVID-19 Rapid Response Facility document, 'the African Development Bank Group is using its palette of instruments, including policy-based operations and investment projects, to support its regional member countries (RMCs) to address the economic and social consequences of COVID-19. Given the adverse impact of COVID-19 on governments' fiscal position, RMCs are primarily requesting budget support from the Bank Group. Based on its total resource envelope, the Bank Group can meet part of those requests, while the rest of its resources would be directed to other instruments. Over time as the crisis abates, it is expected that RMCs will request less for budget support and more for investment operations'.

The World Bank's approach also consists of three phases:

- The relief stage, which focuses on providing funding for emergency measures, whether public health, economic or social.
- The restructuring stage, which targets the restructuring of health systems.
- The resilient recovery stage, which aims to make countries' health systems 'pandemic ready' and focuses on equity, inclusion and green business growth.

4.2 Measures available to debt managers

Although this paper focuses on public debt management policy during the COVID-19 crisis, it is important to bear in mind that the initial challenges triggered by the pandemic were more of a fiscal nature (Chapter One of this study covers such trends as well as the macro response that was urgently required). However, it did not take long for the fiscal pressures to be felt on the debt front, with a growing number of countries finding it difficult to service their debt while revenue was collapsing and health and social spending were becoming more urgent.[27]

Consequently, the first policy measures taken by governments included a reprioritisation and re-allocation of current expenditure. Lesotho illustrates well how countries reprogrammed domestic expenditure to free resources to fight the pandemic. By delaying the issue of payment warrants, the country reduced budgeted expenditure for non-priority development projects as well as good and services. According to the IMF, this measure was expected to save close to 5 per cent of GDP compared to the budget.

Other measures not related to debt management that were taken by countries at the onset of the pandemic include:

- The putting into place of voluntary and/or non-voluntary funds (COVID funds) to raise domestic resources.[28] Countries' experiences in setting up such funds, which were funded from various sources (public, private or both), were mixed. One challenge has been the extent to which these funds were integrated in the countries' public financial management structures or kept off budget, which raised concerns about transparency.
- The use of reserves, whenever available. Of the countries that responded to the MEFMI survey, Botswana indicated that 'during the crisis, government drew on foreign reserves as cash balances decreased and the deficit increased ... and [these] were used to finance the budget'. For its part, the Namibian government 'tapped into its cash reserves in the sinking funds to supplement the funding of the budget deficit. These cash reserves generally form part of foreign reserves. However, the actual foreign reserves under the custodian of the central bank were not affected'.

4.3 Options available to debt managers to cope with the pandemic

On the debt front, debt managers faced a dual challenge:

- mitigating the impact of the pandemic on the current debt portfolio; and
- meeting the additional funding needed to

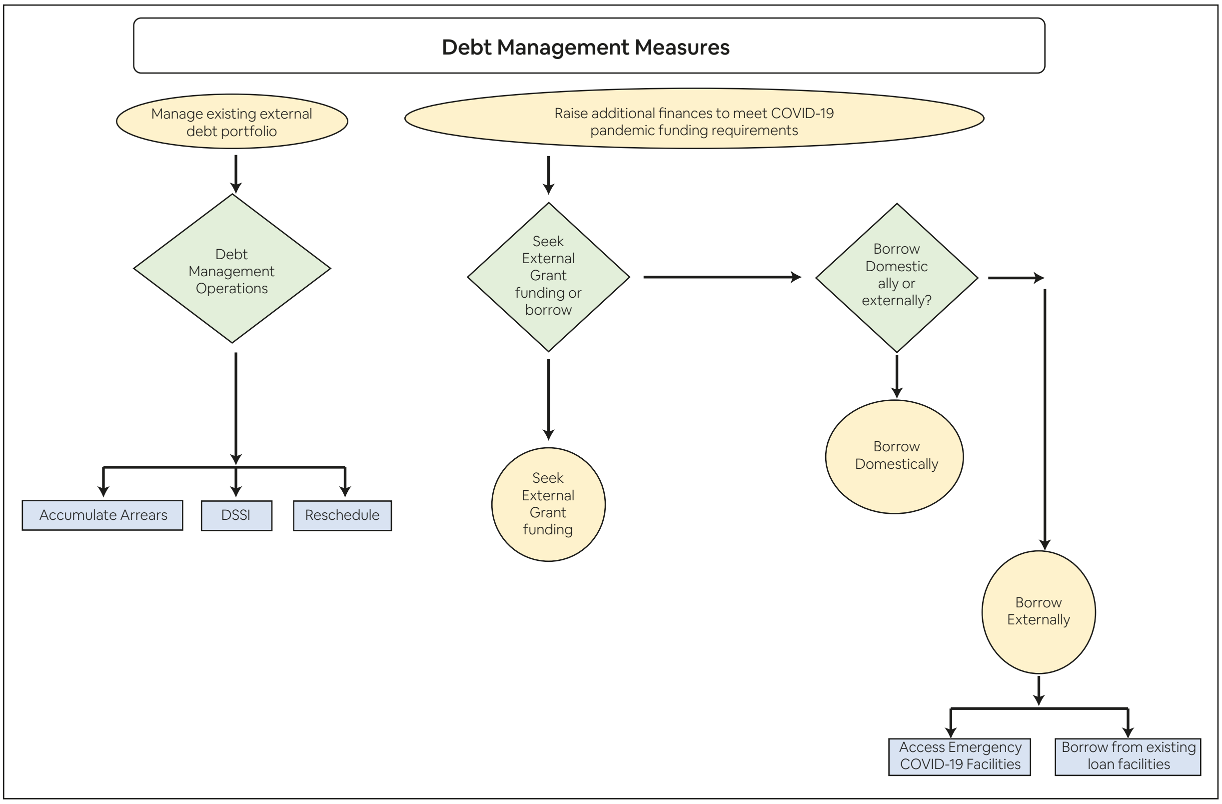
27 IMF, Lesotho: Requests for disbursement under the Rapid Credit Facility and purchase under the Rapid Financing Instrument, July 2020.
28 Rahim, F., Allen, R., Barroy, H., Gores, L. & Kutzin, J., COVID-19 Funds in Response to the Pandemic, IMF Fiscal Affairs Department, August 2020.

cope with the crisis.

What made the situation different from the routine development and execution of an annual borrowing plan was the urgency posed by the pandemic. In addition, the new funding options earmarked for the COVID-19 pandemic had to be explored and debt managers also had to integrate new borrowings arising from the pandemic into their existing debt management strategies.

Figure 2.12 depicts the challenges and debt management options that were available to debt managers regarding both the existing debt portfolio and the raising of new borrowings to cope with the unprecedented situation they faced.

Figure 2.12: Challenges of the Debt Crisis and Options Available to Debt Managers to Cope with it



Source: Author's construct.

4.4 Managing the existing debt portfolio

4.4.1 Arrears accumulation

Given the fiscal difficulties experienced by countries because of the pandemic, it is reasonable to expect that the situation may have given rise to an accumulation of arrears on debt service payments.[29] The MEFMI survey attempted to collect data on two issues related to the accumulation of arrears by asking:

1. whether countries had been compelled to accumulate arrears during the COVID-19 crisis; and
2. what measures had been agreed with creditors, if any, regarding the clearing of any accumulated arrears.

All countries except for Zambia and Zimbabwe indicated that the COVID-19 crisis did not give rise to an important accumulation of debt service arrears. In the case of Zambia, the COVID-19 pandemic worsened what was an already difficult debt situation. By the end of June 2021, cumulative public debt arrears amounted to US$1,475.89 million of which US$1,005.5 million were principal arrears. The country sought debt service suspension from all its creditors and relief was obtained from a few non-bilateral lenders. However, the treatment of the arrears will need to be addressed comprehensively as part of the debt rescheduling exercise that has been initiated through the Paris Club. For its part, Zimbabwe indicated that the country had started accumulating arrears to creditors such as the AFREXIM bank.

Interestingly, arrears clearance was used by some governments to support the private sector. For example, Eswatini indicated that 'budget support loans were used primarily to

[29] See Utz, R., Mastruzzi, M., Ahued, F. & Tawfik, E., An overview of potential impact of COVID-19 crisis on the accumulation of Government Expenditure Arrears, World Bank, 2020.

clear arrears among other things. This was used to stimulate economic growth as Government is primarily the source of most tenders'. Namibia also took steps to accelerate the payment of overdue and undisputed value-added tax (VAT) refunds in order to 'enhance the cashflow of enterprises paying VAT'. A similar measure was adopted in the case of overdue and undisputed invoices for goods and services provided to the government.

4.4.2 MEFMI countries' participation in the DSSI

Overall, the DSSI provided some breathing space to participating countries in terms of liquidity and fiscal space, although the benefits of participation were dependent on the bilateral debt structure of individual countries. The implementation of the DSSI has not been without challenges. The two main areas of difficulties have been actual implementation issues relating to the treatment of arrears, penalty interest, etc. and the absence of private sector participation.

The IMF concedes that 'although [the DSSI] provides a valuable liquidity support, the initiative does not provide debt relief—the temporary suspension is designed to be net present value neutral—and does not address any underlying sustainability issues'. Regarding the African continent, it is felt that the impact of the initiative has been 'valuable but limited'.[30]

Of the 14 MEFMI countries, 10 were eligible for the DSSI. These were: Angola, Burundi, Kenya, Lesotho, Malawi, Mozambique, Rwanda, Tanzania, Uganda and Zambia. Only nine asked to participate in the initiative, namely Angola, Burundi, Kenya, Lesotho, Malawi, Mozambique, Tanzania, Uganda and Zambia.

Though eligible, Rwanda did not participate in the DSSI as the initiative was not deemed helpful given the country's debt portfolio structure. Malawi indicated that it wrote to the bilateral creditors but got responses from only two of the five of them. Some major creditors (China, India and Kuwait) did not respond and therefore the country did not participate in the initiative.

Two additional issues were raised in relation to the DSSI at the joint MEFMI/FSD Africa validation seminar, organised in Nairobi from 5–7 December 2022 to discuss the draft of this document. Some participants indicated that there was a perception that participation in the DSSI might negatively affect countries' credit ratings. This is debatable as the DSSI was a creditor-led initiative and participation was voluntary. In no way could it be compared to a default situation which would have the mentioned effect. The second point made was that there is at least anecdotal evidence that one or two bilateral creditors did not encourage participation in the DSSI and alluded that this could affect the country's access to new loans.

Figures provided by MEFMI countries in the survey are summarised in Table 2.8 below. Excluding Zambia, which had not published related statistics at the time of writing,[31] the five participating countries postponed US$701.2 million in debt service.

Table 2.8: Participation of MEFMI Countries in the DSSI

Country	Period	Amount in US$ million
Kenya	May 2020 – December 2021	320.16
	July 2021 – December 2021	87.14
Total Kenya		407.30
Lesotho	May 2020 – December 2021	2.84
	January 2021 – June 2021	0.36
Total Lesotho		3.20
Mozambique	May 2020 – June 2021	23.40
	January 2021 – June 2021	126.89
Total Mozambique		150.29
Tanzania	May 2020 – December 2021	32.58
	July 2021 – December 2021	88.13
Total Tanzania		120.71
Uganda		19.70
Zambia (*)		
Grand total		701.20

Source: MEFMI survey.
**Zambia has participated in the DSSI but is waiting for all agreements to be finalised and official statistics published.*

30 Fuje, H., Ouattara, F. & Tiffin, A., Has the DSSI helped lower Sovereign Spreads of Participating SSA Countries? IMF African Department, August 2021.
31 Early 2022.

clear arrears among other things. This was used to stimulate economic growth as Government is primarily the source of most tenders'. Namibia also took steps to accelerate the payment of overdue and undisputed value-added tax (VAT) refunds in order to 'enhance the cashflow of enterprises paying VAT'. A similar measure was adopted in the case of overdue and undisputed invoices for goods and services provided to the government.

4.4.3 Resort to debt rescheduling

Debt rescheduling is normally considered a last-resort measure, should countries get into a situation of debt distress.[32] Given that half of low-income countries (36 out of 70) were already in or at high risk of debt distress prior to the pandemic, substantial resort to debt restructuring was a real possibility, although this has not been the case. Since the onset of the pandemic, only one African country has concluded a rescheduling exercise through the Paris Club (Chad on 9 June 2020), while Zambia has been seeking to restructure its debt having reached a staff-level deal with the IMF at the end of 2021. Ethiopia is also engaged in talk with its creditors for an eventual debt restructuring under the G20CF.

While debt restructuring is implemented on a case-by-case basis, it is often carried out as part of standard debt treatment terms to ensure fair burden-sharing among creditors – which is one of the basic principles of Paris Club rescheduling. Under the 'comparability of treatment' clause found in Paris Club agreements, debt countries need to seek similar treatment from all bilateral and commercial creditors, although the latter group has not participated in the DSSI initiative.

How successful the G20CF be in alleviating the economic fall-out of the COVID-19 pandemic remains to be seen. The World Bank and the IMF have made some recommendations on further improving the principles of the G20CF but these are yet to be endorsed by the G20.

4.5 Meeting the additional funding needs to cope with the crisis

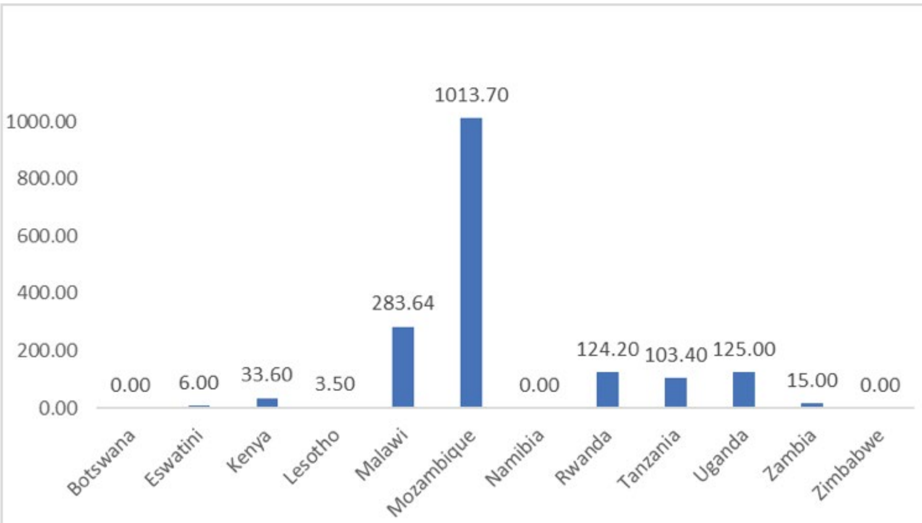
4.5.1 Resort to grant funding

External grants, whether in cash or in kind, are arguably the first external funding option that countries would contemplate when facing natural disasters and emergency situations. However, access to grants depends on a country's income level and is not available to all countries. Secondly, grant funding can be very volatile, and the actual outturn can sometimes fall short of projected amounts.[33] Thirdly, for larger countries this avenue is unlikely to be sufficient to combat an emergency of the scale of the COVID-19 pandemic.

Grant funding during the COVID-19 pandemic has been available from many sources, including multilateral creditors, bilateral development partners and private institutions (international NGOs and philanthropic organisations). Among the multilateral institutions, MEFMI countries benefited from grants from the IMF, the IDA, the AfDB and the European Union (EU).

According to figures provided in the survey, MEFMI countries benefited from an estimated US$1,708 million in external grants during the first two years of the pandemic. Figure 2.13 shows the amounts received by country, while Table 2.9 provides details on the sources of funds.

Figure 2.13: Estimated Grant Funding by MEFMI Countries, 2020–2021 (US$ million)[34]



Source: MEFMI survey. Includes grants more than US$1 million only.

[32] See IMF, The Evolution of Public Debt Vulnerabilities in Lower Income Economies, December 2019.
[33] Data gathered from the MEFMI survey for the period 2017–2020 indicated that this problem was particularly acute in Botswana, Kenya and Lesotho. However, Mozambique and Rwanda managed to achieve projected amounts and for some years, grant outturn even exceeded the projected amount.
[34] The period covered in this section starts from the onset of the COVID-19 pandemic (January 2020) and ends when the last questionnaire for MEFMI survey was received (22 February 2022).

The grants received were used for various COVID-19-related expenditures, including the purchase and transportation of vaccines (Kenya, Lesotho, Malawi); the training of nurses (Lesotho); and social protection measures (Malawi, Tanzania, Zambia). Only Uganda has indicated that it has an additional grant in the pipeline to mitigate the ongoing and long-term impact of the COVID-19 pandemic.

Table 2.9: Estimated External Grant Funding by MEFMI Countries, 2020–2021

	Donor	Amount (USD Mn)	Date	Comment
		-		
Eswatini		6.00		USD6 million from World Bank aimed at buying Health related expenditure to purchase/supplement Personal Protective Equipment together with water tanks for public spaces.
Kenya	European Union	33.60	May2020	Equivalent to EUR30,000,000
Lesotho	IDA	3.50	October 2020	Financing from Health Emergency Preparedness and Response Multi-Donor Trust administered by the IDA
Malawi	AfDB	205.90	July 2020	
	IDA	7.00	April 2020	Financing from Health Emergency Preparedness and Response Multi-Donor Trust administered by the IDA
	IDA	30.00	June 2021	Financing from Health Emergency Preparedness and Response Multi-Donor Trust administered by the IDA
	IMF	40.74	April 2020 - October 2021	Used to pay Malawi elegible debt falling due in the period from April 14, 2020 to January 10, 2022. Figures from IMF sources
Malawi (total)		283.64		
Mozambique	AfDB	42.00	July 2020	
	World Bank	100.00	November 2020	
	Islamic Development Bank	27.90		
	European Union	60.50		
	Agence Francaise de Developpement	190.00		Ministry of Health support
	UNICED	1.20		
	Global Fund	15.70		
	PHCPS	1.50		
	Pledge Health	25.00		
	PIF	2.00		
	CHAI	461.00		
	Crown Agents	82.00		
	World Health Organisation	4.90		
Mozambique (total)		***1013.70***		
Rwanda	World Bank/IDA	30.00		Included in budget FY 2021/22
	IMF	70.20		CCRT Started in 2019/20 Since the beginning of COVID-19 Pandemic Budget in total USD70.2 million are estimated for 3 Consecutive FY budget up to day namely 2019/20 ; 2021/21 and 2021/22
	Global Fund	24.00		
Rwanda (total)		***124.20***		
Namibia		0.00		
Tanzania	World Bank	3.79	September 2020	Pandemic Emergency Financing Facility
	IMF	25.50	August 2020 & February 2021	Funding from CCRT
	Sweden (SIDA)	15.20	July 2020	
	European Union	41.06	June 2020	Converted from Euro amount
	European Union	17.85	December 2020	Converted from Euro amount
Tanzania (total)		***103.40***		
Uganda		125.00		
Zambia	IDA	5.00		Zambia COVID-19 emergency project
	IDA	10.00		Additional financing for COVID-19 Emergency Response and Health System Preparedness Project
Zambia Total)		15.00		
Zimbabwe		0.00		
TOTAL		**1708.04**		

Source: MEFMI survey. Botswana indicated that it only negotiated grants in kind in the form of vaccines. Namibia and Zimbabwe did not report any grant data.

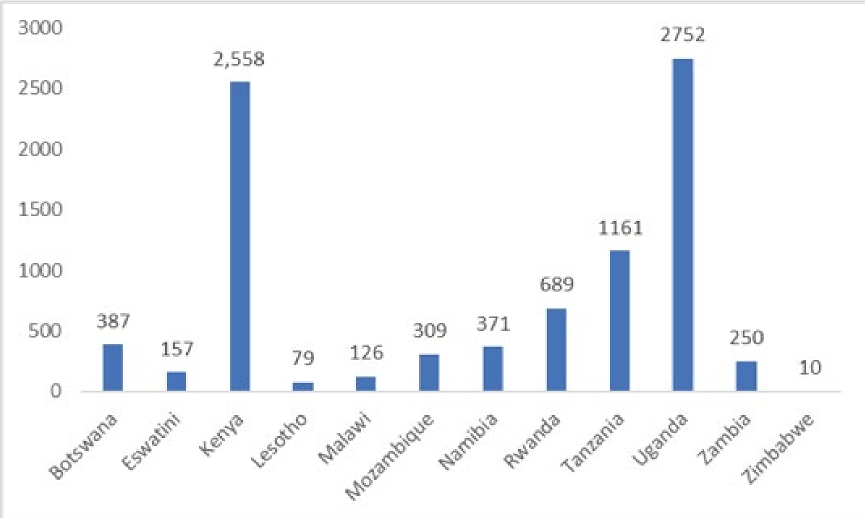
4.5.2 Resort to external borrowing

According to the MEFMI survey, the decision by countries to resort to external borrowing was motived by three factors:

- Despite the inherent foreign currency risk, external borrowing was considered 'cheaper' compared to domestic borrowing, as mentioned by Tanzania and Kenya, in view of high domestic interest rates.
- The possibility of obtaining finance quickly through the various emergency response initiatives that were put in place by IFIs was a prime determinant for most countries but was especially referred to by Rwanda and Malawi.
- For some countries, it would not have been possible to mobilise the required funding domestically, as indicated by Zimbabwe.

Based on survey responses, the total estimated amount of external loans borrowed by MEFMI countries in 2020 and 2021 to address the borrowing needs arising from the COVID-19 pandemic stands at an estimated US$8,849 million.[35] Figure 2.14 provides the level and sources of borrowing by individual countries.

Figure 2.14: External Borrowing Needs to Meet COVID-19 Needs, 2020–2021, in US$ Million



Source: MEFMI survey.
Note: Botswana indicated figures are for the current year.

These external funds were primarily sourced from multilateral creditors as indicated in Table 2.10 below:

Figure 2.14: External Borrowing Needs to Meet COVID-19 Needs, 2020–2021, in US$ Million

Country	World Bank		ADB/ ADF	IMF	Korea EXIM	BADEA	Trade and Dev. Bank	Commercial	Other	Total
	IBRD	IDA								
Botswana (1)	250		137							387
Eswatini	46			111						157
Kenya		921	212	1,425						2,558
Lesotho		30		49						79
Malawi		24		102						126
Mozambique				309						309
Namibia			100	271						371
Rwanda	155		100	202					232	689
Tanzania			52	567	541	0.77				1161
Uganda		309	32	1,491			570	350		2,752
Zambia (2)		250								250
Zimbabwe						10				10
Total										8,849

Source: MEFMI survey.

[35] However, it is important to note that although figures provided are described as 'COVID-related' borrowing, in some cases the funds supported multi-sectoral projects. This is especially true for loans that targeted the reconstruction phase.

Notes:

1. *Botswana indicated that it was also in the process of negotiating loans amounting to US$417 million from JICA, the World Bank and the AfDB.*
2. *Zambia includes the Additional Financing for COVID-19 Emergency Response and Health Systems Preparedness project loan (SDR9.7 million) which has been signed but is not yet effective. Figures may not add up due to rounding.*

In general, countries accessed the usual lending windows that they are eligible for – e.g. concessional windows of the World Bank and AfDB loans – or tapped into specific facilities set up to fund COVID-19 requirements, as discussed below.

4.5.3 Use of Emergency Funding Initiatives

As already seen in Section 3.2, in its quest to ensure the stability of the international monetary system, including the exchange rate and international payments systems, the IMF has also set up a range of facilities to deal with natural disasters and catastrophes, including sanitary emergencies such as the COVID-19 pandemic, which can put a country's balance of payments under severe stress. These emergency facilities, which are over and above the regular IMF credit lines (such as stand-by arrangements and the Extended Fund Facility), can be accessed by all countries. They are characterised by their ease of access, the absence of conditionality or conditions prior to effectiveness, and their quick disbursement.
There two most popular IMF facilities that were used by MEFMI immediately following the outbreak of COVID-19 are the Rapid Credit Facility and the Rapid Financing Instrument described in Section 3.2.

The RCF was the most popular emergency facility used by MEFMI countries. Seven out of the 13 countries surveyed accessed it in the early days of the pandemic, for a total amount of US$2,427.21 million. The countries include Kenya, Lesotho, Malawi, Mozambique, Rwanda, Tanzania and Zambia. Three MEFMI countries (Eswatini, Lesotho and Namibia) have borrowed from the RFI for a total amount of US$414 million. In addition to accessing the RCF and RFI, Kenya accessed the Extended Credit Facility arrangement and the Extended Fund Facility, while Uganda borrowed from the ECF.

Table 2.11 below indicates borrowing under the various emergency arrangements as reported by countries in the MEFMI survey. An estimated US$4,526.96 million was borrowed in 2020 and 2021 by MEFMI countries.

Table 2.11: Borrowing from Emergency Facilities by MEFMI Countries, 2020–2021 (US$ Million)

Country	Rapid Credit Facility (RCF)	Extended Credit Facility Arrangement (ECF)	Rapid Financing Instrument (RFI)	Extended Fund Facility (EFF)	Total
Botswana					0
Eswatini			110.40		110.4
Kenya	739.00	222.37		463.38	1424.75
Lesotho	16.50		32.60		49.1
Malawi	101.96				101.96
Mozambique	309.00				309
Namibia			271.00		271
Rwanda	202.00				202
Tanzania	567.25				567.25
Uganda	491.50	1,000.00			1491.5
Zambia *					0
Zimbabwe					0
	2,427.21	1,222.37	414.00	463.38	4,526.96

Source: MEFMI survey.
**Zambia has applied for borrowing under the ECF and is awaiting board approval.*

4.5.4 Allocation of special drawing rights by the IMF

As indicated in Section 3.2.5, the IMF approved an unprecedented allocation of SDRs equivalent to US$650 billion, to be credited to member countries in proportion to their SDR quota. According to the IMF, 'The SDR allocation will benefit all members, address the long-term global need for reserves, build confidence, and foster the resilience and stability of the global economy. It will particularly help our most vulnerable countries struggling to cope with the impact of the COVID-19 crisis.' SDR allocations are quite flexible and can be used for different purposes including currency stabilisation, beefing up reserves or for social and health expenditure. Annex 2.2 provides details on the allocation of SDRs to MEFMI countries.

In an attempt to promote transparency and accountability in the use of the 2021 SDR allocation, the IMF has established a website that tracks how countries intend to use theirs SDRs.[36] The data published indicates that most of the MEFMI countries used or plan to use their SDR allocation for fiscal support and to build reserves. For example:

- Kenya has indicated that 'a portion of Kenya's SDR allocation will be used to finance the larger primary deficit. In addition to resources made available from the World Bank (COVID-19 loan), half of Kenya's SDR allocation (US$370 million SDR) will be on-lent in domestic currency by the Central Bank of Kenya'.
- In Malawi, 'the authorities intend to use the SDR allocation to substitute the financing mix by reducing further accumulation of costly domestic borrowing, while maintaining the same budget envelope for FY2021/22. Through an arrangement between the Reserve Bank of Malawi (RBM) and the Ministry of Finance governing the use of the SDR allocation, the government sold the SDR allocation to the RBM in exchange for Malawian kwacha, so that the RBM could meet short-term foreign exchange reserve liabilities due'.
- Authorities in Tanzania have indicated their intention to withdraw their entire August 2021 SDR allocation of SDR381.3 million (US$534 million) to boost reserves and to buy US treasury bonds in a strategy to optimise their foreign reserves management at the Bank of Tanzania.
- Zimbabwe stated that 'the SDR allocation plan foresees that US$280 million (29.2 per cent) will be retained as foreign reserves and US$222 million (23.2 per cent) will be kept in a contingency fund to mitigate against the COVID-19 pandemic and other exogenous shocks'.

[36] Available at: https://www.imf.org/en/Topics/special-drawing-right/SDR-Tracker.

5.
OTHER EFFECTS OF THE COVID-19 PANDEMIC ON EXTERNAL DEBT PORTFOLIOS

5.1 Effects on project implementation

Faced with the urgent need to dedicate resources to health and other priorities during the pandemic, trying to cut or postpone public investment spending to make room for emergency spending has been a genuine challenge for governments. Given the shutdowns of economies, delays in implementing PPP projects were inevitable despite being bound by contractual obligations. In its special series on COVID-19, the IMF provided advice on handling public investment during the crisis.[37] It provided pointers on the role that public investment spending can play in the fiscal response to the pandemic. It particularly highlights how the post-crisis phase can provide important opportunities that can allow countries to embrace policies for 'greening' of public investment.

From a debt management point of view, the MEFMI questionnaire sought to assess to what extent the COVID-19 pandemic has negatively impacted on loan/grant utilisation. This could potentially increase the cost of borrowing due to delayed disbursements and increased commitment fee charges.

Overall, it seems that this was not a very serious issue for responding countries, although some disruption and delays were reported:

- Lesotho experienced delays for the signing of the loan agreement for a water project.
- Malawi indicated that some projects were affected by travel restrictions as key project consultants were not able to travel, while work on other projects – such as the Shire Valley Transformation Program (SVTP) – had to be halted.
- Malawi also reported issues with delays in the shipment of materials for some projects.
- Botswana indicated that some projects funded from the budget were affected due to cuts in development funding expenditure.

With regards to the increased cost of borrowing arising from delays, the situation varied from country to country. No country seems to have been unduly affected except for Botswana, which incurred additional commitment charges for loans that required an extension of the terminal date for disbursement. In the case of Malawi, it was indicated that the SVTP is IDA-funded and therefore commitment fees are waived.

[37] IMF, Special Series on COVID-19: Managing Public Investment Spending During the Crisis, 11 May 2020.

6.

CONCLUSION AND LESSONS FOR THE FUTURE

This chapter has focused on the use made by MEFMI countries of external finance in meeting the additional financing needs brought about by the COVID-19 pandemic. The study, which describes how member countries have addressed this challenge, points to some interesting conclusions and lessons, both regarding debt management in general but also in relation to external borrowing. The following 10 findings and lessons learnt should inform public debt management both in normal times and in times of crisis, should events on a similar scale to the pandemic occur in the future.

First, the experience of MEFMI countries during the first two years of the COVID-19 pandemic reiterates the importance of official external finance (multilateral and bilateral) as a crucial and dependable source of funding in times of crisis.[38] According to figures provided in the survey, MEFMI countries were able to mobilise an estimated US$8,849 million in loans and an additional US$1,708 million in grants during 2020 and 2021.

Official external financing exhibits a 'counter-cyclical' aspect that no other source of funding can match. For example, given its focus on countries' macroeconomic outlooks, crediting ratings, risk premia and yields, commercial borrowing can hardly be relied upon in times of crisis. This conclusion in no way downplays the importance of developing domestic bond markets, which countries should pursue as part of their medium- and long-term debt strategies. However, in spite of the progress made by many MEFMI countries in recent years in developing local markets for government securities, it is clear that in most countries, domestic financing would not have sufficed to deal with the additional funding needs generated by the COVID-19 pandemic. This is especially true as countries moved through the different phases of the crisis – containment, mitigation and reconstruction – as the latter phases are expected to require larger funding envelopes.

Second, the analysis of the response of the IFIs to the pandemic provided in this chapter indicates that, by and large, IFIs responded quickly and effectively to the COVID-19 crisis. MEFMI countries were able to rapidly and successfully tap into the various emergency facilities that were available, such as the RCF and RFI. Though globally successful, the DSSI did not benefit all countries to the same extent, due to the way it was structured. In particular, the lack of participation of commercial creditors was disappointing and an indication that more must be done in terms of outreach and advocacy to bring this group on board. As for the G20CF, it is difficult to evaluate how successful it will be due to the slow uptake.

Third, the COVID-19 pandemic has put public debt management in the limelight and reiterated its importance. The crisis has also ultimately tested individual countries' debt management capacities. Had debt management entities failed to raise the required levels of funding, the toll of the COVID-19 pandemic would have been much worse. As Botswana indicated, the pandemic demonstrated that 'it is important to put structures in place to be able to manage debt accordingly'. The need for 'better debt management' so that decisions makers can be informed in a timely manner about associated risks was also highlighted by Rwanda. Therefore, governments must ensure that debt management offices (DMOs) are adequately resourced to be able to operate optimally and deliver the functions they are entrusted with at all times. This includes having a full complement of staff, adequate training and an up-to-date IT infrastructure, as well as policies and procedures to support debt management operations.

Fourth, while the pandemic tested DMOs' capacities across the board, the need to have strong front-office capability clearly stands out. Front-office functions include, inter alia, the sourcing, evaluation and negotiation of new borrowing. In an emergency such as the COVID-19 pandemic, the ability to quickly identify available sources of finance and negotiate with creditors is fundamental. As mentioned by Botswana, 'it is important to build relationships with

[38] According to the OECD Development Co-operation Profile (2022), 'Official Development Assistance (ODA) increased to its highest level ever in 2020, reaching US$ 161 billion. The increase was driven in part by OECD-DAC members' response to the COVID-19 pandemic, even as global gross domestic product (GDP) and other financing fell'.

creditors so that there is rapport that can be to the country's advantage during a crisis'. Front offices therefore need to develop strong negotiation, public relations and communications skills. In particular, the need to communicate with different external stakeholders on possible revisions to issuance plans, or the need to come back to the market, becomes a priority, especially during times of crisis. For emerging countries which need to access the international financial markets regularly, a further step should be to set up a dedicated investors relations section, which can serve as a single window for connecting to investors.

Fifth, the ability to keep debt management operations going throughout the pandemic was an essential requirement. For example, throughout the lockdown periods, front offices needed to engage in loan negotiations while back offices had to continue effecting debt service payments, updating databases and producing debt data for publication and analysis. Any delays in servicing external loans could have resulted in arrears build-up and the occurrence of penalty payments.

Although best practice in public debt management puts a lot of emphasis on operational risk management (ORM), there is a natural tendency for DMOs to assign a lower priority to this area as the probability of a disaster happening is generally low. The COVID-19 pandemic tested the ORM of each country to its fullest extent. Overall, MEFMI countries seem to have fared quite well. Botswana indicated the need to institute 'structures that will allow debt servicing to continue even when there are restrictions on movement due to the pandemic'. Kenya indicated that the pandemic proved that successful loan negotiations could be undertaken remotely. Although Lesotho shared the same positive experience, it pointed to the difficulties experienced in negotiating and signing an IDA financing remotely.

This ORM issue is discussed in detail in Chapter Four (Governance and Operational Risk Management Framework for Public Debt). It would be useful for countries to undertake an evaluation of how their ORM strategies and business continuity plans fared during the pandemic, so that necessary steps can be taken to improve or adjust systems and procedures.

Sixth, most countries that participated in the survey realised the inherent risks associated with external borrowing. Although many MEFMI countries were able to access grants or concessional loans at fixed interest rates to deal with the pandemic, several countries recognised that inherent forex risks were high. The pandemic therefore raised interest about risk management measures that countries could adopt in the future to mitigate the shocks that extreme events bring about. In response to the survey, countries referred to both:

- general measures such as the need to maintain adequate fiscal space and adequate foreign reserves levels (Tanzania) and to finance projects as much as possible from domestic resources (Kenya); and
- specific measures such as the creation of a contingency fund for health and natural disasters, to reduce dependency on external funding. This was a suggestion made by Mozambique, and Lesotho was of the same view, suggesting the development of a sinking fund that could be used as a buffer.[39]

Botswana indicated that it was important for countries to take into consideration risk management possibilities during loan negotiations, so that the agreements would provide for some measure of hedging. Malawi also indicated the need to 'hedge against refinancing risk and explore Liability Management Operations'.

Admittedly, many of these suggestions assume that countries have adequate financial resources to implement such measures. They also require sustained efforts in the long term to achieve the desired objectives.

Seventh, responses to some of the questions in the survey indicate that even if funding choices were limited at times, some debt management decisions still had to be taken. These included whether to borrow domestically or externally; whether to access 'normal' lending windows or resort to emergency facilities; which emergency sources to tap; etc. While normal debt management decisions tend to focus on the cost and risk trade-off, in an emergency situation the speed at which funds can be negotiated, committed and disbursed is an equally important consideration. DMOs therefore need to devise methodologies to assess these additional 'qualitative' factors.

Eighth, the pandemic highlighted the close link between cash and debt management and the need for effective interaction between the two functions. It is clear that financing needs evolved as countries moved through the containment, mitigation and reconstruction phases of the pandemic. At the outset, the focus was on addressing immediate liquidity risks, whether in relation to support efforts to combat the COVID-19 pandemic or to service the debt portfolio. Working within the existing public financial management framework, DMOs must engage with the treasury function and others dealing with cash management to develop a good understanding of governments' short-term cash needs in the face of collapsing revenues and implications to meet debt servicing needs. Another thing to closely scrutinise, as recommended by Botswana, is how to make use of precautionary cash buffers to meet debt service needs.

[39] Namibia is an example of a country that effectively uses sinking funds for liability management. As mentioned in Chapter Three (Local Currency Bond Market), the country maintains two sinking funds: one denominated in local currency for domestic debt management, and another denominated in US dollars for external debt management. These accounts are funded on a quarterly basis in preparation for future debt service.

Ninth, the pandemic raises questions about how debt policies should be formulated during emergency situations. An unprecedented event like the COVID-19 pandemic has the potential to derail debt policy and strategy formulation in any country. Borrowing decisions could potentially bypass established procedures as these are fast-tracked to cope with the emergency. At least one country (Botswana) highlighted the need to operate within the objectives of the debt management policy and indicated that despite the urgency that natural disasters and pandemics may cause, countries need to 'get financing that is affordable to the country' and to stay 'within the statutory limits'.

The MEFMI survey sought to find out (a) whether there were any specific external debt policies or strategies that were put in place to deal with the COVID-19 crisis, and (b) whether decisions to borrow externally were taken following a DSA or medium-term debt strategy (MTDS) – and if not, whether the existing debt strategy documents were updated.

Except for two countries – Namibia and Rwanda – none of the countries surveyed indicated that specific debt management policy or strategy documents were published to document the debt management measures that were taken to deal with the pandemic. For its part, Rwanda indicated that 'DSA and MTDS have been undertaken during the COVID-19 period'. What should countries do when events force them to deviate from established debt management policy? At what interval should DSAs and MTDSs be updated and published? While these are matters for further consideration, a key premise to highlight is this: notwithstanding the advent of a crisis, any emergency borrowing requirement should to the extent possible be couched within countries' 'revised' debt management strategies and borrowing plans. MEFMI countries may wish to reflect on this issue and develop appropriate guidelines for the future.

Tenth, another element that came out loud and clear from the pandemic is the greater prominence of public debt transparency and accountability. Though the need to achieve public debt transparency has been on the global agenda for some time now, COVID-19 has compelled the G20 in particular to put the spotlight on the need for greater clarity and openness on countries' actual debt liabilities.[40] Both creditor and debtor countries have been called upon to embrace transparency principles to achieve responsible lending and borrowing. While a lot more needs to be done to make this a genuine reality, the onus is on debt managers to ensure that they have the tools and ability to record and report on different types of debt and continent liabilities at all times.

[40] Extract from IMF, Key to Resolving Covid's Global Debt Crunch: Transparency, 4 March 2021: 'In connection with the DSSI, the International Monetary Fund and the World Bank have taken important steps to disclose more data on the creditor composition of each country. In the private sector and civil society, the call for greater transparency has also escalated, as highlighted by a recent Group of 30 report. The Institute for International Finance finally agreed on voluntary principles for debt transparency, although it remains to be seen whether there will be effective implementation by private creditors.'

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ANNEX 2.1: IMF Support to MEFMI Countries during COVID-19 Pandemic (US$ Million)

Country	Date	Financing type	Amount	Total
Angola	16 September 2020	EFF	766	766
Eswatini	29 July 2020	RFI	110	110
Kenya	6 May 2020	RCF	739	3,086
	2 April 2021	ECF	577	
	2 April 2021	EFF	1,770	
Lesotho	29 July 2020	RFI	33	49
	29 July 2020	RCF	17	
Malawi	1 May 2020	RCF	91	193
	2 October 2020	RCF	102	
Mozambique	24 April 2020	RCF	309	309
Namibia	31 March 2021	RFI	271	271
Rwanda	11 June 2020	RCF	111	220
	2 April 20210	RCF	109	
Tanzania	7 September 2021	RCF & RFI	567	567
Uganda	6 May 2020	RCF	492	1,492
	28 June 2021	ECF	1,000	

Source: IMF

ANNEX 2.2: SDR Allocations in MEFMI Member Countries

SDR allocation (millions)				SDR allocation % of	
	SDR	US$	LCU	GDP	Govt debt
Angola	709	1,022	670,843	1.64	1.29
Botswana	189	272	2,937	1.71	8.56
Eswatini	75	108	1,581	2.74	5.83
Kenya	520	749	81,795	0.75	1.1
Lesotho	67	96	1,406	4.66	9.27
Malawi	133	192	7,760	1.72	1.96
Mozambique	218	314	23,495	2.18	1.78
Namibia	183	264	3,858	2.5	3.8
Rwanda	154	221	214,996	2.13	3.5
Tanzania	381	549	1,262,258	0.87	2.27
Uganda	346	498	1,818,950	1.32	2.9
Zambia	938	1350	28,582	7.29	6.19
Zimbabwe	677	976	79,794	4.64	5.22

Source: China-Africa Research Initiative, John Hopkins University.

ANNEX 2.3: China Lending in to MEFMI Countries in US$

	2011	2012	2013	2014	2015	2016	2017	2018
Angola	3,758	1,598	3,166	2,588	1,713	19,021	2,535	405
Botswana	-	-	-	-	-	-	-	-
Eswatini	-	-	-	-	-	-	-	-
Kenya	394	456	209	3,710	1,653	1,061	506	170
Lesotho	17	-	-	-	-	-	-	98
Malawi	79	70	-	-	-	23	-	-
Mozambique	70	1,186	176	432	-	-	156	-
Namibia	-	358	-	-	-	-	-	8
Rwanda	20	141	-	8	-	71	-	126
Tanzania	15	1,210	379	-	200	-	-	-
Uganda	466	10	-	483	1,629	85	-	-
Zambia	577	109	851	508	709	2,177	2,068	1,361
Zimbabwe	115	398	345	219	127	-	1,003	157

Source: China-Africa Research Initiative, John Hopkins University.

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