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The IMF's Engagement with Sub-Saharan African Countries During the Pandemic [*]

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ABBREVIATIONS

AFD	Agence française de développement
AfDB	African Development Bank
AFR	African Department (IMF)
ARA	Assessment of Reserve Adequacy
BOP	Balance of Payments
BCEAO	Central Bank of West African States
CBN	Central Bank of Nigeria
CCRT	Catastrophe Containment and Relief Trust
CPIA	Country Policy and Institutional Assessment
CDC	Centers for Disease Control and Prevention
CSO	Civil Society Organization
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ECF	Extended Credit Facility
EF	Emergency Financing
EFF	Extended Fund Facility
EIB	European Investment Bank
EU	European Union
FCFA	West African CFA Franc
FCL	Flexible Credit Line
FX	Foreign Exchange
GDP	Gross Domestic Product
GHS	Global Health Security
KfW	Kreditanstalt für Wiederaufbau
LOI	Letter of Intent
NPL	Non-Performing Loan
PFM	Public Financing Management
PRGT	Poverty Reduction and Growth Trust
PSI	Policy Support Instrument
RCF	Rapid Credit Facility
REN-LAC	National Network for the Fight Against Corruption
REO	Regional Economic Outlook
RFI	Rapid Financing Instrument
SME	Small and Mid-size Enterprise
SMP	Staff-Monitored Program
SSA	Sub-Saharan Africa
TCF	Targeted Credit Facility
UCT	Upper Credit Tranche
UN	United Nations
UNICEF	United Nations Children's Fund

UNODC	United Nations Office on Drugs and Crime
VAT	Value-Added Tax
WAEMU	West African Economic and Financial Community
WEO	World Economic Outlook
WHO	World Health Organization

EXECUTIVE SUMMARY

This paper assesses the IMF's engagement with countries in the African Department (AFR) from January 2020 to April 2021, describing both the Fund's overall engagement with the region and providing case studies of five countries that received emergency financing (Burkina Faso, Cote d'Ivoire, Malawi, Nigeria, South Africa) and one that did not (Zambia).

Timely and appreciated Fund support. The Fund helped the region at a time of critical need with financing instruments and policy advice well suited to the situation of the pandemic. Nearly all 45 countries in AFR received Fund financial support, helping to secure additional fiscal space and maintain foreign exchange reserves, thus allowing countries to increase spending when it was most needed. Authorities in the region, including in our five case studies, expressed appreciation for the timely assistance, while also noting that a higher scale of financing would have been more commensurate with their needs in 2020.

Collaboration and catalytic effect. The partnership with the World Bank was effective in advocating for the G20 Debt Service Suspension Initiative. Bank-Fund cooperation worked well at the country team level. Financing decisions were also generally aligned, with both the World Bank and African Development Bank providing greater financial support to countries that had received Fund financial support. In our case studies, authorities felt that Fund support had helped catalyze funding from other sources. However, in a few cases (e.g., Nigeria and South Africa), the World Bank's disbursements were delayed relative to those of the Fund by the former's greater attention to policy concerns.

Perceptions of lack of even-handedness. Authorities found it difficult to fully understand cross-country differences in access levels and reliance on prior actions and governance commitments in the Fund's provision of emergency financing. Fund staff noted that decisions rested on a number of considerations such as: how much Fund financing provided as a percent of GDP; internal assessment of governance concerns; judgments about debt sustainability; judgments about whether the political situation posed risks to policies and ability to repay the Fund; and quality of prior engagement with the authorities. It is not surprising that decisions arising from this complex process fed authorities' perceptions of lack of even-handedness.

Lessons. The main lesson is that the framework for the provision of emergency financing worked quite well, but consideration should be given to having more tiered access, allowing low access in very difficult cases (e.g., Malawi, Zambia) and higher access levels in countries where policy frameworks are stronger and governance and political concerns less prevalent, and balance of payments needs justify it. The second lesson is about the difficulty of strengthening governance safeguards in the midst of an ongoing crisis. The evidence suggests that governance safeguards were strengthened over time, but implementation remained a challenge; the strengthening of public financial management (PFM) systems during normal times provides more reliable assurance of governance safeguards during crises. The third lesson is the need for more attention to ensuring that staff on the front lines during a crisis, such as those in AFR in this instance, receive more support to be able to avoid the risks of stress or burnout.

I. INTRODUCTION

1. **Purpose.** This paper assesses the IMF's engagement with countries in the African Department (AFR) during the COVID-19 pandemic, drawing on the experience of five countries that received emergency financing (Burkina Faso, Cote d'Ivoire, Malawi, Nigeria, and South Africa) and one that did not (Zambia).[1] The first three countries were among the early recipients of emergency financing from the Fund, though access levels differed, providing an interesting perspective on the Fund's considerations on how much financing to provide. Nigeria and South Africa, two of the largest economies in the region, had been perceived in the past as reluctant to approach the Fund for financing but did so during the pandemic. Zambia would have liked to receive emergency financing but did not do so as it was judged to face an unsustainable debt situation. The paper also briefly describes the Fund's overall engagement with the region, including AFR's policy advice during the pandemic and the department's strategy for helping the region.

2. **Evaluation period and sources.** The focus of the assessment is on the period from January 2020 to April 2021. For the six country cases, the narrative is based on extensive interviews with the IMF mission chiefs during 2020–21, several country team members (including resident representatives), and country authorities. Internal documents provided by AFR for the country cases were also consulted. In addition, we interviewed AFR senior staff who were involved in crafting the department's strategy and financing decisions, staff who put together AFR's Regional Economic Outlook (REO) reports; Executive Directors and their advisors; and outside experts.

3. **Structure.** Section II summarizes developments in the region during the pandemic and AFR's response to help countries through policy advice and financing.[2] Sections III to VIII present the case studies, including our assessment of IMF performance in each case. Section IX draws common lessons from the experience.

4. **Related papers.** The thematic background papers for this evaluation cover in greater depth some of the issues touched upon in this paper:

- **Provision of emergency financing.** Kincaid, Cohen-Setton, and Li (2023) lay out the operational aspects of the provision of emergency financing, such as the use of prior actions, governance safeguards and use of debt sustainability analysis, and the factors that determined access levels.

- **Role of Fund financing in mitigation.** Batini and Li (2023) analyze the role of Fund financing in filling balance of payments gaps and mitigating output losses.

[1] The case studies of Burkina Faso, Cote d'Ivoire and Nigeria were carried out by Benedicte Vibe Christensen and the case studies of Malawi, South Africa and Zambia by Steve Kayizzi-Mugerwa.

[2] The Fund's capacity development and technical assistance work during the pandemic are covered in a separate IEO evaluation (IEO, 2022).

- **Strategy and collaboration with partners.** Ocampo and others (2023) describe the formulation and implementation of the Fund's strategy and its collaboration with partners, particularly the World Bank.

- **Formulation of outlook and policy advice.** Loungani and others (2023) assess the processes for formulating the outlook—including for low-income countries—and policy advice, particularly on fiscal policies.

II. IMF'S ENGAGEMENT WITH THE REGION

A. Developments and Policy Advice

5. **Pre-pandemic conditions.** The Sub-Saharan Africa (SSA) region faced considerable macroeconomic and policy challenges ahead of the onset of the pandemic (IMF, 2019a). The resource-intensive countries, in particular, were already facing growth slowdowns, owing to the softness in international commodity prices; a number of countries were suffering from the effects of drought; and terrorism and insecurity were weighing on countries in the Sahel. The region's vulnerability to shocks was also high owing to high levels of public debt, low levels of foreign exchange reserves, and weaknesses in financial and nonfinancial corporate balance sheets. As a consequence, the October 2019 REO stressed the need for reforms that tackled the structural impediments to growth.

6. **Onset of the pandemic.** Staff had to quickly change tack in their April 2020 REO report (IMF, 2020a) after the pandemic hit, which AFR senior staff considered an "unprecedented threat" to the region's development that required a decisive regional and international response. The region was seen as highly vulnerable to spillovers from the global slowdown in demand and trade, the cutback in international capital flows, as well as the collapse in commodity prices, all of which were expected to lead regional output to contract by over 1½ percent in 2020, compared to the 3.2 percent growth that had been anticipated prior to the pandemic. The region was also seen as poorly placed to cope with rising infections, given the weaknesses in the health care systems.

7. **Policy advice.** To help the region cope with what was expected to be a dire situation, the Fund's policy advice placed an immediate priority on doing "whatever it takes to ramp up public health expenditures to contain the virus outbreak, regardless of fiscal space and debt positions" (April 2020 REO). In addition, the Fund called for targeted and temporary fiscal support, including through cash transfers to the worst hit individuals and firms, although the scope for fiscal measures was seen as more limited among the oil-importing countries. Monetary easing, coupled with cautious steps to utilize macroprudential buffers where they existed, was seen as playing an important role in ameliorating the macroeconomic effects of the pandemic in light of limited fiscal space. AFR also stressed the crucial role that needed to be played by development partners in easing external financing constraints.

8. **Policy response by governments.** In line with IMF advice, significant fiscal measures were quickly introduced by many governments in response to the pandemic, estimated to average around 3 percent of GDP, although this was considerably smaller than the fiscal response in other regions. A sharp drop in tax and other revenues, and the limited scope for borrowing, meant that these spending packages were paid for by cutting capital and other spending. The Fund estimated that 2020 government spending would fall in nominal terms, even as the average fiscal deficit that year would rise to over 7½ percent of GDP, nearly twice the level in 2019. Central banks in the region moved quickly to lower interest rates and boost liquidity, including in some cases by expanding the range of accepted collateral or by lowering reserve requirements, and exchange rates in many cases were allowed to depreciate.

9. **June 2020 forecasts and advice.** In June 2020, the IMF had become even more pessimistic about the growth prospects for the global economy, as discussed in Loungani and others (2023). As in other area departments, staff who worked on the AFR REO report that there was greater recourse to top-down guidance from the Fund's Research Department—which has responsibility for putting together the World Economic Outlook (WEO)—than during past crises. However, given the small weight of AFR countries in the global growth forecast, this did not materially affect AFR's forecasting process. However, staff faced two other challenges:

- First, it was difficult to put trust in the reliability of the data on infections and mortality rates that were being reported in many AFR countries. Staff reached out to several sources, including the U.S. Centers for Disease Control and Prevention (CDC), for better data but without much success. It was difficult to ascertain from afar whether the situation on the ground "was better or worse than was being reported," which in turn made it difficult to formulate the outlook and policy advice. In the end, AFR's June 2020 forecasts—while not deliberately marked down—reflected AFR management guidance "not to sugarcoat" the situation but make realistic forecasts.[3]

- Second, pressures of time and lack of timely data meant that while country teams revised their growth forecasts, they were not always able to update the implications for other variables such as inflation and external balances. Hence the consistency of forecasts suffered, and the implications of the subsequent improvement in growth forecasts for inflation were missed.

10. **Evolution of 2020 forecasts and advice.** By mid-2020, reported infections in the sub-Saharan region were starting to decline, countries were cautiously emerging from lockdowns, and higher frequency indicators were suggesting that macroeconomic recoveries were beginning. However, the October 2020 REO (IMF, 2020h) still expected regional GDP to drop by 3 percent in 2020, reflecting broad-based contractions that were especially severe among the tourism-

[3] Staff reported that a paper by Sandefur and Subramanian (2020) suggesting that the IMF's April 2020 forecasts for low-income countries were too rosy did "create some noise in AFR" but was not instrumental in affecting the direction of the June 2020 forecasts.

dependent countries. Moreover, there were growing concerns about a second wave of infections and the continued strains on health care systems. On the policy side, the "whatever it takes" message remained in place, and the October 2020 REO provided examples of some of the temporary emergency measures that countries were using to help address the consequences of the pandemic. At the same time, however, the REO flagged the importance of improved governance, including to help unlock financing from other multilateral and private creditors, and also noted that many countries would need to begin soon to take steps to place debt on a more sustainable path. Although the region experienced a surge in infections late in the year, the overall contraction of regional GDP in 2020 was 2 percent, less severe than earlier expected. The REO warned that the recovery in 2021 was expected to be relatively modest and slow, with real per capita GDP reaching its pre-pandemic levels only by 2023.

11. **Evolving Fund policy advice in 2021.** By early 2021, it was becoming clearer that reported infection and death rates in the region were relatively modest and that economic recoveries were in train. Accordingly, the Fund's focus began to shift more toward advocating for policies to address structural impediments to longer term growth, including the scarring effects of the pandemic, and to improve the region's resilience to future crises. Hence, although the April 2021 REO (IMF, 2021b) continued to emphasize the immediate need to address the pandemic's health and macroeconomic effects, there was increasing emphasis that fiscal measures would have to be in the context of "restoring the health of public balance sheets" and reducing region-wide fiscal deficits by 1½ percent of GDP that year. The REO also cautioned that growing inflation pressures meant that central banks were "running out of room" for additional monetary stimulus.

12. **Inflation and debt dynamics**. Even before the pandemic, inflation was relatively high at 8.1 percent in sub-Saharan Africa (SSA). Against the backdrop of higher food prices, inflation increased further in 2021. While the effects of food inflation on aggregate CPI inflation were expected to dissipate over the medium term (October 2021 REO: Sub-Saharan Africa), uncertainty around inflation prospects remained elevated. The pandemic also caused public debt in SSA to jump by more than 6 percentage points, to about 57 percent of GDP in 2020—the highest level in almost 15 years (Georgieva, 2021). In 2021, half of the region's low-income developing economies were either in debt distress or at high risk of debt distress (Kincaid, Cohen-Setton, and Li, 2023). While the Debt Service Suspension Initiative (DSSI) provided much-needed support, the October 2021 REO stated that an elevated degree of sovereign bank co-dependence and additional fiscal risks[4] could also increase systemic financial risk, ultimately jeopardizing the post-COVID-19 recovery.

[4] Increasing government contingent liabilities and direct fiscal transfers to state-owned enterprises.

B. Strategy and Financing Decisions

13. **The Fund's emergency support to the region.** In interviews, AFR senior staff noted that in the years preceding the pandemic, AFR had been trying hard to position itself as an "ally" of the region: when the pandemic hit, it was seen as critical to match word with deed. AFR strongly supported the Fund's evolving strategy in mid-February 2020 of focusing on providing rapid access to emergency financing and in fact urged that the Fund should go further by providing generous access given the needs of the situation and easing access limits, both for the RFI and RCF, so that countries would not bump up against them. In the end, nearly all of the 45 countries in the region, were provided financial support via emergency financing, UCT arrangements, or both, totaling US$26 billion compared to a total of US$4.6 billion in 2018–19. The region represented more than half of all country requests for IMF financial assistance in 2020 (Amidzic and Pattillo, 2021). Besides providing an important stopgap in the face of the withdrawal of international capital and the surge in public spending, staff viewed this support as having a salutary effect on perceptions of the Fund within the region, especially among countries that had been previously reluctant to accept Fund policy advice or financing. However, AFR staff also expressed some frustration with the level of financial support that the Fund was able to provide to the region, noting that the additional Fund lending provided was much less than the precautionary access under the FCL that had been provided to other regions. They observed that the risks to the Fund's balance sheet from its lending to the AFR region were spread across a much larger number of countries than in the case of the FCL.

14. **Access decisions.** Consistent with the Fund's overall strategy, emergency financing was typically negotiated quickly, and access was usually provided up to Fund-wide limits. The speed of negotiation was facilitated by the fact that many countries already had a program engagement with the Fund, which eased information flow and communications, even though this was done remotely. However, in some cases these pre-existing programs limited countries' access under the Fund's emergency financing window, owing to the annual limit on access to PRGT resources (for example, Burkina Faso). In some cases, pragmatic decisions were taken to use emergency financing to replace the funding that was scheduled under existing programs, given that adherence to the earlier-agreed conditions was not possible in the midst of the pandemic (for example, Burkina Faso's ECF disbursements were rephased and Malawi's ECF program was put on hold). However, there were notable exceptions—debt sustainability concerns precluded emergency support for the Democratic Republic of Congo, Zambia, and Zimbabwe.

15. **Governance safeguards.** As discussed in Kincaid, Cohen-Setton, and Li (2023), governance safeguards were strengthened over time in the provision of emergency financing. While appreciating the importance of these safeguards, country teams and other AFR staff interviewed by the IEO felt that the application of the safeguards was sometimes relatively mechanical ("like a checklist"), and they were worried that implementation would prove difficult given lack of institutional capacity in many countries. They also noted an over-emphasis on rules

regarding beneficial ownership, which they did not feel was as applicable in the African context as elsewhere. Staff also remarked that the extent of the need for governance safeguards was not always easy to judge. In addition to looking at external indicators, staff used internal assessments of governance issues (based on perceptions of previous mission chiefs, views of technical assistance missions that had visited the country, and other sources). As a result, the application of these safeguards sometimes did not appear even-handed to country authorities or outside observers.[5]

16. **Relationship with partner agencies**. Interviews with staff for the case studies suggested that country teams worked well with their counterparts at the World Bank. The Bank and the Fund also collaborated effectively under the auspices of the G-20 to provide debt service relief to countries under the Debt Service Suspension Initiative. The breadth of the Fund's emergency support was also helpful since it meant that the Fund was in an easier position to provide the assessment letters needed to support the Bank in its own assistance (for example, Malawi). However, AFR senior staff in interviews also noted that the emphasis placed by Bank management on policy conditions led to some instances of divergence between the two institutions in the timing and scale of the support provided (for example, Nigeria and South Africa).

17. **Transition from emergency financing to UCT arrangement.** At the beginning of the pandemic, only one country in AFR received additional financing through UCTs (the Gambia).[6] Out of the 36 countries that initially obtained additional financing through emergency financing, 10 (27 percent) transitioned to UCT financing by end 2021. More countries in AFR, such as Malawi and Zambia, expressed interest in UCT arrangements, but these did not materialize before the end of 2021 due, in part, to debt sustainability concerns. By making US$33 billion available to the region, the SDR allocation of August 2021 may also have delayed the transition to UCT (Kincaid, Cohen-Setton, and Li, 2023).

18. **International support for vaccination.** The Fund rang early alarms about the fact that the vaccine rollout within the sub-Saharan region was the slowest in the world. The April and October 2021 REOs demonstrated the regional inequity in vaccination rates and helped document the financial and other impediments to access. The October 2021 REO also provided empirical evidence to suggest that macroeconomic recoveries were significantly lower in countries with weaker vaccination rates. Staff and Fund management pressed publicly and strongly for international support for measures that would improve access to vaccines and laid out in June 2021 a menu of specific actions that donors and other international agencies could take.[7]

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[5] For example, see Transparency International, IMF COVID-19 Emergency Loans: A View from Four Countries, March 30, 2021, and Transparency International, The IMF, COVID-19 and Anti-Corruption: The Story so Far, July 19, 2020. However, the October 2021 REO (pp. 11–12) provides a more benign assessment of the effectiveness of the safeguards.

[6] The Gambia also received EF.

[7] See Kristalina Georgieva and Abebe Selassie, "Sub-Saharan Africa: We Need to Act Now," IMF blog, June 2021.

III. BURKINA FASO

A. Background and Economic Developments

19. **Initial conditions.** Burkina Faso is one of the poorest countries in SSA and has been an epicenter for security threats within the Sahel region. Prior to the COVID-19 pandemic, economic activity evolved in a national environment marked by the persistence of terrorist attacks—leading to one of the largest internal displacements of populations in Africa, from about 120,000 in 2019 to nearly 2 million by 2022—and social disputes that periodically paralyzed public administration (IMF, 2020i). The scope and intensity of security incidents rendered large parts of the country's northern territory hard to govern and forced large swaths of the population to flee their homes, leading to unprecedented humanitarian and socio-economic consequences in an economy already characterized by high levels of poverty and large exposure to climate-driven disasters (IMF, 2020b).[8] According to Transparency International Corruption Perceptions Index, Burkina Faso ranked 78 out of 180 countries in 2021.

20. **Impact of COVID-19 and the security crisis**. The health crisis came on top of the security and social crises. After an initial period of rapid transmission, the government imposed confinement measures and travel restrictions to contain the outbreak, including a nationwide curfew and the closure of schools and universities. These measures were eased over the course of 2020, as the transmission of the virus and fatalities ended up being less severe than expected. Nevertheless, the pandemic took a heavy toll on Burkina Faso's growth, with particularly large slowdowns in the tourism and transportation sectors—2020 growth ended up at just under 2 percent compared to the 6 percent expected prior to the pandemic (Table 1), with economic activity in the non-mining sector declining by 0.5 percent. However, growth rebounded strongly to pre-COVID projections in 2021.

Table 1. Burkina Faso: Selected Economic Indicators

	2019		2020			2021
	Actual[2]	Projections Pre-COVID[1]	Projections COVID[1]	June WEO	Actual[2]	Actual[2]
GDP growth (Percent)	5.7	6.0	2.0	0.9	1.9	6.9
Inflation (Percent)	-3.2	2.0	3.2	2.0	1.9	3.9
Budget balance (Percent of GDP)	-3.4	-2.9	-5.0	-5.0	-5.7	-5.6
Government debt (Percent of GDP)	42.0	40.8	43.0	46.7	46.5	50.7
Current account balance (Percent of GDP)	-3.3	-4.0	-4.3	-4.3	-0.1	-3.1
External debt (Percent of GDP)	23.4	22.3	23.0	25.0	23.8	24.7
Official reserves (USD billions)	1.8	N/A	N/A	1.8	2.0	2.7

Sources: IMF; IEO calculations.
[1] Staff Report of Request for RCF (IMF, 2020b).
[2] IMF WEO Published.

[8] Around 40 percent of the population live below the poverty line. Climate change has affected particularly the agriculture and animal husbandry sectors and has increased the competition for land between farmers and nomads, which, in turn, aggravates the security crisis (IMF, 2021c).

21. **Fiscal response.** Although fiscal space was limited, fiscal policy was eased to respond to the security and health crisis. The 2020 fiscal deficit ending up nearly twice as large as envisaged prior to the pandemic (see Table 1). On top of the direct costs associated with the healthcare response, the authorities introduced a series of tax policy and administrative measures for tax relief especially for small and mid-size enterprises (SMEs). However, the budget deficit also reflected additional spending on defense, an item that had been increasing in the years prior to the pandemic, as the government sought to manage the security situation.

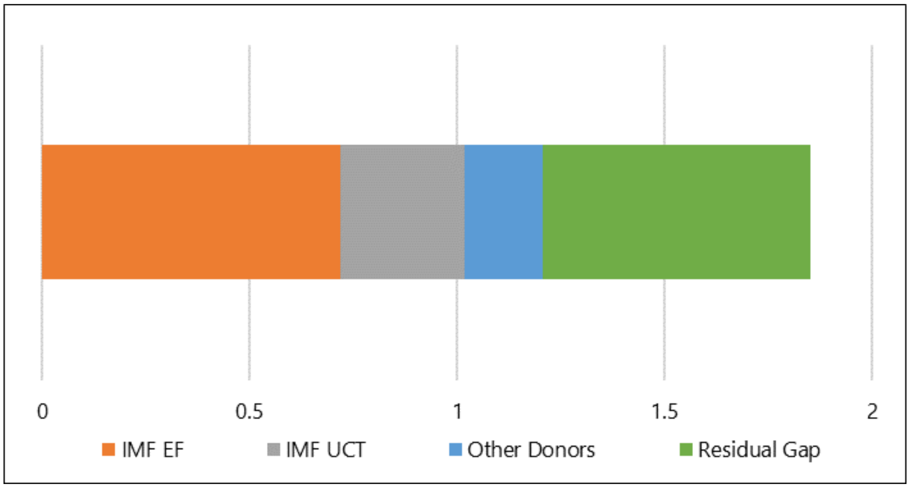
22. **Monetary Response.** The West African Economic and Financial Community (WAEMU)'s central bank BCEAO announced a series of measures to provide liquidity, extended the collateral framework to access the BCEAO's refinancing for the benefit of prequalified private companies, set up a framework with the banking system to support firms with COVID-19-related repayment difficulties, and help safeguard the stability of the financial sector of the member states.

B. Engagement with the Fund

23. **Initial financing through RCF**. At the onset of the pandemic, Burkina Faso had been implementing a 3-year ECF arrangement approved in March 2018. Preliminary information at end-December 2019 suggested that implementation of the program was satisfactory. Because of the urgency of the balance of payments need, and the need for additional time to assess the full impact of the pandemic and recalibrate the program, an augmentation of access under the current ECF was, however, considered infeasible. Instead, the ECF was rephased and additional financing provided through the Rapid Credit Facility (RCF). Despite the RCF's access limit of 100 percent of quota, the disbursement of 70 percent of quota (US$115 million, 0.8 percent of GDP) approved in April 2020 was the maximum permissible under the Fund's existing annual access limits for PRGT resources. Staff viewed this level of access as reasonable in light of the limited absorptive capacity of the country's social and health systems and staff's expectations of forthcoming financing from other donors. The RCF covered around 40 percent of the 2 percent of GDP balance of payments gap (Figure 1).

24. **Further engagement through ECF.** After the overall access limits on PRGT resources were increased in July 2020, Burkina Faso could have requested the remaining 30 percent of quota remaining under the RCF, but the authorities preferred to complete the last two ECF reviews to obtain the same amount of Fund financing in November 2020, when the country received a disbursement of about US$51 million (30 percent of quota, 0.3 percent of GDP). In addition, Burkina Faso benefitted from debt service relief in two tranches from the Catastrophe Containment and Relief Trust (CCRT) amounting to US$26 million (0.2 percent of GDP). Negotiations for a subsequent ECF arrangement were initiated in July 2021, although they were protracted and later suspended following a military coup in January 2022. The new Burkinabe authorities have expressed strong interest in accessing financing under the new Food Shock Window and in resuming program negotiations, for which a mission is planned for early 2023.

Figure 1. Burkina Faso: Ex Ante Balance of Payments Gap
(In percent of GDP)



Sources: Staff Report for RCF Request (IMF, 2020b); IEO staff calculations.
Note: Following Kincaid, Cohen-Setton, and Li (2023), reserve drawdown is treated as financing.

25. **Catalytic effects of IMF support.** The approval of the RCF in April 2020 provided an important signal for other donors to continue their financial support. The Fund's rapid response was viewed as essential because increased security spending was already crowding out other critical spending. IMF support helped to unload early commitments from the World Bank, AfDB, the West African Development Bank and other official sources. While the extent to which the World Bank would commit to support was not very clear to IMF staff at the time of the provision of the RCF, eventually the World Bank committed around US$280 million to Burkina Faso, including a substantial amount of policy support.[9] Other partners also provided support, included the African Development Bank (0.3 percent of GDP),[10] the European Union (0.8 percent of GDP), and France (IMF, 2020i). But the resources which got committed were not always quick to disburse, which staff felt reflected donors' preference to link budget support to traditional Fund arrangements with conditionality. This may have spurred Burkina Faso to resume its ECF program at the end of 2020.

26. **Governance safeguards and safeguards assessment.** Like most emergency financing requests approved before May 2020, Burkina Faso's Letter of Intent (LOI) did not include the specific governance commitments that would later become standard Fund practice, but a more general commitment of the authorities to a transparent and accountable use of the funds.

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[9] This included US$21 million to strengthen the public health systems' capacity to prevent, detect and respond to the pandemic that was approved in April 2020 and disbursed in July 2020 (P173858), a development policy operation of US$148 million approved and disbursed in June 2020 (P170934), US$100 million in emergency budget operation approved in December 2020 (P174315), US$10 million in additional financing for Financial Inclusion Support Project to Support COVID-19 Crisis Recovery (P177087) approved in July 2021.

[10] Including around US$57 million through Burkina's "Programme d'appui à la riposte à la COVID–19 G5 Sahel" approved in July 2020.

Already before the approval of the request for RCF, the authorities had taken measures to transparently track resources and expenditures related to the pandemic, including by opening new accounts at the central bank specific to this purpose. In addition, staff urged adherence to the commitments that were being adopted in emergency financing requests by other countries during a June 2020 Virtual Mission. In the fourth and fifth review of the ECF that was completed in November 2020, the authorities committed to publish all pandemic-related procurement contracts and their beneficial owners as well as an audited report on COVID-19-related spending at end-December 2020.

27. With technical assistance from the World Bank, the authorities adopted a new emergency spending framework for dealing with future crises. Burkina Faso's example of managing the funds with CSO involvement and civil society was highlighted by the United Nations Office on Drugs and Crime (UNODC). A management unit, composed by Members of Parliament, government officials, several professional organizations as well as CSOs was created to monitor the use of emergency funds. The National Network for the Fight Against Corruption, a national network of CSOs, published the results gathered on the use of the funds and ensured the monitoring with citizens to uphold accountability.[11]

28. The BCEAO had undergone a safeguards assessment by the IMF in 2018. The assessment found that, overall, the central bank has maintained a strong control culture. The BCEAO has implemented all recommendations of the 2018 safeguards assessment.

C. Assessment

29. **Overall assessment.** The IMF disbursement of RCF emergency assistance provided critical and timely financial support. Staff indicated that the existence of the ECF arrangement significantly improved the preparedness of the authorities and staff to expedite the provision of emergency financing. Though not included in the initial RCF arrangement, the government attempted to implement governance and accountability measures being sought for subsequent RCF purchases, but also raised questions about the rationale for these costly measures, especially in a country where the involvement of CSOs and the country's anti-corruption bodies in the oversight of the disbursement of the COVID-19 funds was considered exemplary. Staff noted that the introduction of these requirements would have been made easier if staff and the authorities had been provided with earlier guidance on their implementation.

30. **Access level and transition between EF and UCT**. The authorities were supportive of the use of emergency financing as the main source for Fund financing during the pandemic, reserving UCT programs for dealing with more structural problems. However, authorities considered it inadequate that they could only draw the same percentage of quota as countries who only had to deal with one emergency, while Burkina Faso faced multiple emergencies, including large population displacements created by the security situation and a drought. With

[11] UNODC, COVID-19, Emergency Support Packages in West and Central Africa.

25 percent of budget expenses already dedicated to security, the scope for reprioritizing spending to fight the pandemic was small. Nevertheless, in the end, financial support and a stronger than anticipated current account balance proved sufficient to meet the estimated financing needs and international reserves were not drawn down (see Table 1).

31. **Governance safeguards.** While specific governance commitments were not included in the RCF, the Ministry of Finance adopted a general governance and accountability framework that was used to facilitate interactions with external donors and the public.[12] The government already fulfilled most of the governance commitments later requested by the Fund in the context of their existing public financial management (PFM) systems. The authorities questioned the requirement that the names of the final beneficiaries be made public. On top of legal difficulties, the authorities did not want to set the precedent of requiring publication of personal information but felt that the objective of transparency could be achieved through the publication of audits and publications of procurement contracts on the Ministry's website. Staff also did not fully appreciate why this requirement was deemed necessary in the current context and felt that in pushing for this action they were losing goodwill with the authorities for small benefits. It was, nonetheless, eventually included as a commitment in the fourth and fifth reviews of the ECF and the authorities issued a circular on May 6, 2022, to identify the ultimate beneficiaries of COVID-19 related contracts (exceeding or equal to FCFA 10 million). They also agreed to the publication of these contracts awarded following the issuance of the circular and their ultimate beneficiaries.

IV. COTE D'IVOIRE

A. Background and Economic Developments

32. **Initial conditions.** As the largest and most populous economy in the WAEMU, Cote d'Ivoire holds importance for the whole region. Workers from the neighboring countries account for nearly 30 percent of the population with their remittances being an important source of transfers for their home countries. From being a fragile state, the country has emerged in recent years to become a strong frontier economy. Annual growth averaged about 7 percent in the three years prior to the pandemic, helped by a decade of sound macroeconomic policies, including efforts to strengthen revenue administration and PFM. Despite these positive developments, the low level of revenue to GDP remains a challenge and the country is considered at a moderate risk of external debt distress. Moreover, the political situation was shaken by the sudden passing of Prime Minister Coulibaly in July 2020, ahead of the October 2020 presidential election, as well as having to tackle a challenging security situation at the northern border, which took up scarce

[12] This arrangement is described in an UNODC survey of COVID-19 Emergency Support Packages in West and Central Africa: "In Burkina Faso, a management unit, composed by Members of Parliament, government officials, several professional organizations as well as CSOs was created to monitor the use of emergency funds. The National Network for the Fight Against Corruption (REN-LAC), a national network of CSOs, publishes the results gathered on the use of the funds and ensures the monitoring with citizens to uphold accountability."

budget resources. Cote d'Ivoire ranks 124 of 167 in the CEO World Health Care index (2021). The corruption perceptions index of Transparency International for 2021 lists Cote d'Ivoire as number 105 of 180 countries, up seven ranks since 2012.

33. **Impact of COVID-19.** The pandemic had a broad economic impact on Cote d'Ivoire. Export and import growth slowed in line with the deceleration in global demand and bottlenecks in international trade. The authorities acted swiftly to put in place strong social distancing and containment measures, including declaring state of emergency, establishing curfews, banning international travels, prohibiting large public gatherings, and imposing restrictions on movements between regions. However, as infection rates remained lower than anticipated, and the authorities realized the sizeable economic spillover effects of lockdowns, these measures were eased earlier than in many other sub-Saharan countries in mid-2020. Nevertheless, economic activity fell from the projection of nearly 7 percent to under 2 percent in 2020 (Table 2), and with Cote d'Ivoire's high poverty rate, the slowdown was particularly hard on the poorer segments of the population. Activity rebounded in 2021.

Table 2. Cote d'Ivoire: Selected Economic Indicators

	2019	2020				2021
	Actual[2]	Projections Pre-COVID[1]	Projections COVID	June WEO	Actual[2]	Actual[2]
GDP growth (Percent)	6.2	6.7	2.7	1.8	2.0	6.5
Inflation (Percent)	0.8	1.2	1.2	1.2	2.4	4.2
Budget balance (Percent of GDP)	-2.3	-2.3	-5.2	-5.3	-5.6	-5.6
Government debt (Percent of GDP)	38.4	38.2	42.1	42.5	47.0	51.4
Current account balance (Percent of GDP)	-2.3	-2.5	-3.3	-3.4	-3.2	-3.7
External public debt (Percent of GDP)	38.4	28.6	31.3	39.7	32.0	34.6
Official reserves (USD billions)	3.6	N/A	N/A	2.8	4.2	5.2

Sources: IMF; IEO calculations.
[1] Staff Report for 2020 RCF-RFI Request (IMF, 2020c).
[2] IMF WEO Published.

34. **Fiscal response**. The authorities acted swiftly to put in place strong social distancing and containment measures after the first cases were identified in March 2020. Before announcing its pandemic policy response at the end of March 2020, the Minister of Finance held consultations with banks and employers' unions. The measures included, among others declaring a state of emergency and establishing curfew, banning international travel, prohibiting large public gatherings, closing schools, restaurants, and recreational facilities. With support from the World Health Organization (WHO), an emergency health response plan was put in place aiming at providing free care for infected people and equipping intensive care units and virus testing. The lockdown of economic activity in Abidjan was relatively short-lived, because the authorities quickly realized the sizeable economic spillover effects and impact on economic growth particularly for the informal sector and a great number of businesses. In addition, the infection rates of COVID-19 remained low. Consequently, the economy began opening again in mid-2020, including opening of schools and universities, at a pace faster than on average across sub-Saharan Africa, aiding the recovery of the economy.

35. In April 2020, the WAEMU's Heads of States suspended, on a temporary basis, the application of the convergence criteria, including the 3 percent of GDP deficit ceiling, to accommodate COVID-19 related fiscal measures. Cote d'Ivoire's fiscal deficit increased from a previously projected 2.3 percent of GDP to 5.6 percent of GDP in 2020 (Table 2), one-third of the increase resulting from reduced revenue. In addition, security spending also picked up in response to civil unrest related to the presidential elections in October 2020 and conflicts at the northern border.

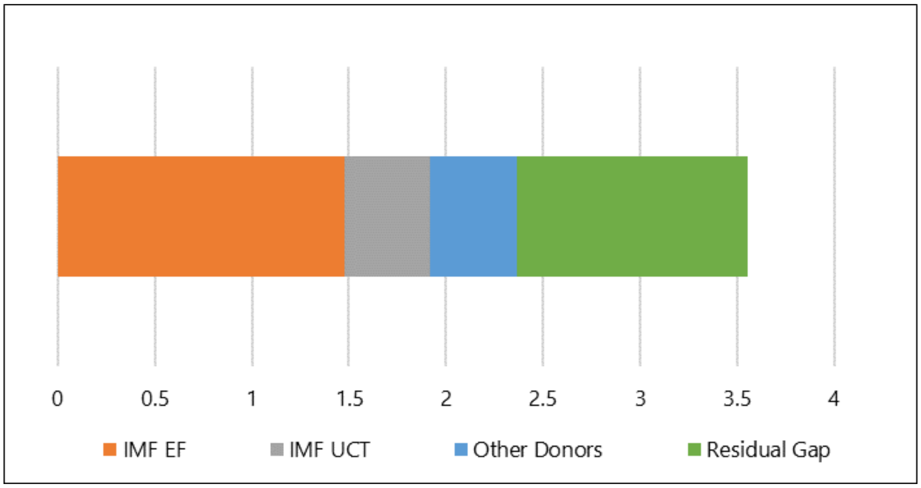
36. **Monetary Response.** The WAEMU's central bank BCEAO announced a series of measures to provide liquidity and help safeguard the stability of the financial sector of the member states. It provided for liquidity injection to banks, a 50-bps reduction in the policy rate, and a bank repayment moratorium (expired December 2020), which helped mitigate the effects of the pandemic on the banks. The banks' non-performing loans remained flat at about 8½ percent from March 2020 through March 2021, in part because of the loan repayment moratorium. The regional authorities did not relax the prudential and accounting requirements to avoid banks from excessive risk-taking. Inflation picked up temporarily to nearly 4 percent year-on-year by April 2021, in part because of closing of borders and supply chain disruptions for food products.

B. Engagement with the Fund

37. **IMF engagement.** The sixth review of the ECF and EFF-supported program, along with a one-year extension and augmentation, was approved in December 2019. With the COVID-19 pandemic, staff considered that it was not feasible to conduct the seventh review under the current arrangement and receive timely augmentation of access given the urgent nature of the BOP need, the high degree of uncertainty regarding the duration and scale of the pandemic, and the difficulties of holding comprehensive policy discussions with the authorities. Fund financial support through a blend RCF/RFI was thus preferred. In April 2020 Cote d'Ivoire received a total emergency financing disbursement of about US$885 million (100 percent of quota, and 1.5 percent of GDP), with one-third provided under the RCF and two-thirds under the RFI. Fund emergency financing covered around 40 percent of the balance of payments gap that staff estimated to be around 3.5 percent of GDP (Figure 2). The completion of the two final reviews under the existing ECF/EFF arrangements and disbursements of about US$278 million (30 percent of quota, 0.5 percent of GDP) in November 2020 brought the additional use of resources in 2020 to 130 percent of quota. Since the end of the ECF/EFF program in December 2020, staff have carried out an Article IV consultation in 2021 covering Post Financing Assessment, and an Article IV consultation in 2022.

38. **Authorities' appreciation**. Reflecting on the experience with IMF support during the pandemic in a discussion with the IMF's Managing Director in May 2021, President Ouattara of Cote d'Ivoire praised the quick support of the IMF. However, he also raised concerns about the overall scale of Fund financing, urging that "greater solidarity" is necessary from the IMF's main shareholders in terms of providing an increase in concessional financing to African countries when they face global exogenous shocks.

Figure 2. Cote d'Ivoire: Ex Ante Balance of Payments Gap
(In percent of GDP)



Sources: Staff Report for RCF-RFI Request (IMF, 2020c); IEO staff calculations.
Note: Following Kincaid, Cohen-Setton, and Li (2023), reserve drawdown is treated as financing.

39. **Catalytic effect of financing**. When the RCF/RFI disbursements were approved in April 2020, a residual balance of payments financing gap of 1.5 percent of GDP remained. IMF EF was followed by official support from the World Bank and the AfDB, although not enough to fill the projected gap. However, with growth picking up faster and stronger than expected, the financial gap narrowed, and Cote d'Ivoire managed to fill the bulk of its financing needs for 2020 and 2021 through private market borrowing, including the first post-pandemic Eurobond issuance by a sub-Saharan African country in the fall of 2020 followed by two further Eurobond issues in early 2021. The closure of the financing gap for 2020 as well as policy steps necessary for the completion of program reviews allowed further disbursements to take place at the end of 2020 under Cote d'Ivoire's ECF/EFF. The authorities felt that the absence of Fund support at this critical time would have created risks for the country.

40. **Governance safeguards.** As in the case of Burkina Faso, Cote d'Ivoire's Letter of Intent (LOI) did not include the governance commitments that would later be adopted by other countries using the emergency facilities. With a PFM framework already in place in the budget, staff considered there was no need to add a new layer specific for COVID-19. The authorities, however, created specific extra-budgetary funds to manage the support to large firms, SMEs, the informal sector, and humanitarian assistance. In their interviews with the evaluation team, the authorities explained that they used these accounts to avoid the delays associated with needing to approve a supplementary budget.[13] These funds were held at a public bank but were subject to ex post controls by the internal auditor. The list of beneficiaries was regularly published, and monthly activity reports were publicly available within a month on the funds' respective websites. The remainder of the emergency spending followed more standard budget

[13] A supplementary budget law regularizing appropriation of spending was eventually adopted in November 2021.

procedures (IMF, 2020j, Box 1). In the 2021 Article IV consultations (IMF, 2021d), staff urged the authorities to further increase fiscal transparency by publishing procurement contracts, beneficial ownership, and related audits. Staff interviewed noted that the IMF's messaging on emergency financing came across to authorities as "a bit schizophrenic" in initially emphasizing the light conditionality but subsequently scaling up governance commitments substantially. In particular, publish beneficiary ownership of contracts was a new commitment for which the need and applicability to the country's circumstances was not clearly explained initially. Moreover, staff expressed concern that governance commitments "overpromised" on what could be delivered in terms of safeguarding the effective use of the funds.

C. Assessment

41. **Overall assessment.** Cote d'Ivoire was hit hard by the pandemic, the reduction in global economic activity, and temporary loss of international capital market access. It also had to address the rising risk of terrorists from the Sahel region, which intensified during the pandemic similar to the situation in Burkina Faso. The authorities praised the timely support from the IMF, noting that staff handled the negotiation quickly and with flexibility and with due consideration for the urgency of getting resources to the country. Other IFIs followed disbursements of budget support with a delay. Pre-pandemic strengthening in the macroeconomic framework under successive macroeconomic programs supported by the IMF as well as improvements in the PFM systems acted as important safeguards for the effective use of budget resources. Against this background and the quick policy response by the authorities, the country was able to put in place remedial measures to address both the urgent health and social needs as well as the impact of the deceleration in economic growth. Buffered by this performance, the country was among the first in sub-Saharan countries to tap the Eurobond market towards the end of 2020.

42. **Ensuring efficient use of resources.**

- *Quality of PFM system.* As the special accounts used for safeguarding COVID-19-related spending covered a small part of IMF disbursements, the overall quality of the PFM system safeguarded the effective and transparent use of budget resources. According to the World Bank's Country Policy and Institutional Assessment (CPIA) for 2019, Cote d'Ivoire got a CPIA score of 3.5 (of 6 possible), which is higher than for SSA countries on average (3.1). For the quality of budgetary and financial management Cote d'Ivoire scored 4.0. against 3.0 for SSA on average reflecting the focus that the authorities had had in the preceding years on improving the quality of the PFM systems.

- *Targeted support.* The experience of the pandemic showed that it was difficult to target emergency programs and social transfers to the neediest groups, and that the effectiveness of such assistance would have benefitted from an earlier strengthening of social protection programs. According to reports by IMF staff, the development of a management information system that tracks the beneficiaries of the emergency program and the cash transfers would be a useful instrument to improve the coordination and effectiveness of social protection programs. Similarly, considering the high prevalence of informal workers among the poor, basic information tools are needed to better target support the informal sector.

V. MALAWI

A. Background and Economic Developments

43. **Initial conditions.** Malawi is a landlocked, low-income African country, whose heavy dependence on agriculture has made it prone to commodity price and weather shocks. Before the COVID-19 crisis, Malawi had experienced a long period of low GDP growth, negative per capita growth in real terms, characterized by chronic balance of payments and fiscal imbalances. Governance and accountability in the use of public resources have been recurring challenges in Malawi's political economy and have contributed to donor reluctance to provide budget support in the past decade.[14]

44. **Impact of the pandemic.** In early 2020, Malawi was in the midst of a drawn-out political transition as the results of the May 2019 presidential elections were annulled by the constitutional court in February 2020. Moreover, the economy was still recovering from the devastation caused by cyclones Idai and Kenneth in 2019, described by United Nations Children's Fund (UNICEF) as the worst natural disaster to hit Southern Africa in at least two decades. When the pandemic hit, the Malawian authorities declared a national state of disaster but stopped short of imposing a complete lockdown as infection rates remained lower than in neighboring countries. Nevertheless, the economy was severely affected by lower tourism receipts, private investment, and remittances (especially those from South Africa), and grew only 0.6 percent in 2020 (Table 3).

Table 3. Malawi: Selected Economic Indicators

	2019	2020					2021
	Actual[3]	Projections Pre-COVID[1]	Projections May[1]	June WEO	Projections October[2]	Actual[3]	Actual[3]
GDP growth (Percent)	4.5	5.1	1.0	1.0	0.6	0.6	2.2
Inflation (Percent)	9.4	8.7	14.0	14.0	9.1	8.6	9.5
Budget balance (Percent of GDP)	-6.5	-4.9	-7.3	-9.6	-13	-13.2	-12.5
Government debt (Percent of GDP)	59.5	60.0	66.5	71.4	69.1	67.3	76.8
Current account balance (Percent of GDP)	-17.1	-14.2	-18.1	-18	-20.5	-19.8	-20.7
External public debt (Percent of GDP)	32.7	29.5	31.4	34.6	31.8	32.9	35.7
Official reserves (USD billions)	0.8	1.0	0.9	0.9	0.9	0.9	0.9

Sources: IMF; IEO calculations.
[1] Staff Report for the first 2020 RCF Request (IMF, 2020e).
[2] Staff Report for the second 2020 RCF Request (IMF, 2020g).
[3] IMF July 2021 WEO (last WEO vintage before GDP rebasing).

[14] During 2013–19, the country's ranking on the Corruption Perception's Index was persistently in the last quartile of 177 countries.

45. **Health and fiscal response.** To respond to health and fiscal needs created by the pandemic, the authorities launched a multi-sectoral National COVID-19 Preparedness and Response Plan of over US$200 million (2 percent of GDP) funded partly through targeted appeals for donor funds, and also launched a donor-funded emergency cash transfer program to protect the country's most vulnerable households. In addition to these efforts, the government temporarily deferred actions against tax-delinquent firms; gave tax waivers for imports of materials and equipment for combating COVID-19; lowered fees and charges on mobile money transfers and fuel tariffs; introduced a program to boost farmers' access to fertilizer and other inputs; and boosted lending to SMEs. These wide-ranging efforts, combined with collapsing government revenues, pushed the 2020 fiscal deficit to over 13 percent of GDP compared with pre-pandemic projections of under 5 percent (see Table 3).

46. **Monetary Policy.** In April 2020, the Reserve Bank lowered the liquidity reserve requirement by 125 basis points to 3.75 percent, reduced the policy rate by 150 basis points to 12 percent, and lowered the rate charged for short-term collateralized loans to commercial banks. In turn, commercial banks selectively offered moratoriums on repayments of loans and debt service. Given the tightly managed exchange rate, the Reserve Bank responded to the pressure on the balance of payments by drawing down foreign exchange reserves, leaving import coverage at 2.1 months by the end of 2020 compared to an average of 3 months of import coverage in 2019.

B. Engagement with the Fund

47. **IMF engagement**. Malawi was among the first group of countries in SSA to receive Fund support during the pandemic.

- In April 2020, it received, along with 24 other members of the IMF, debt service relief under the revised Catastrophe Containment and Relief Trust (CCRT), amounting in total to US$46 million (0.5 percent of GDP).

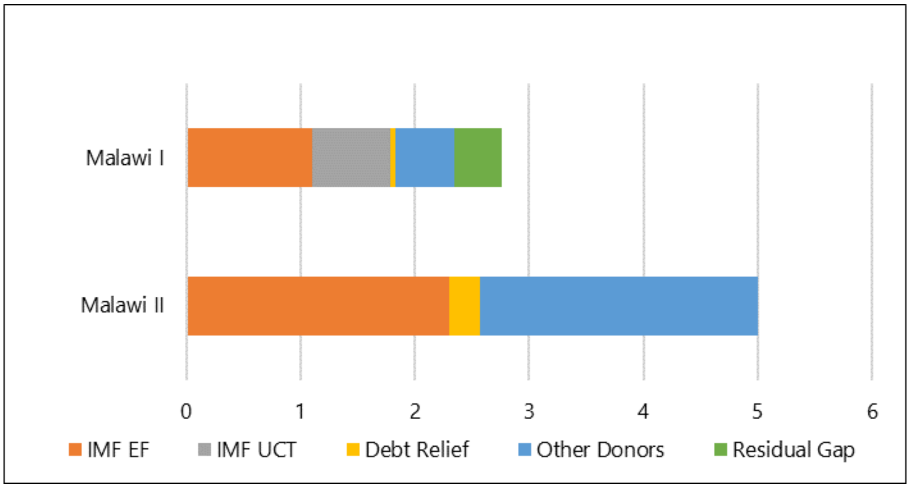
- In May 2020, Malawi received a disbursement under RCF of US$93 million (48 percent of quota; 1.1 percent of GDP) to meet urgent balance of payments needs stemming from the COVID-19 pandemic. Negotiations for the RCF were completed quickly, in about four weeks, since both parties were able to build on the macro framework for the existing ECF. Having a resident representative on the ground throughout the COVID-19 pandemic was characterized by the authorities as "very useful in informing us about the details of available financing instruments."

- However, since Malawi's BOP gap increased considerably in the next six months (Figure 3), in October 2020 it received an additional RCF disbursement of US$102 million (52 percent of quota; 1.2 percent of GDP) to address the external resource gap and catalyze other concessional financing. The existing ECF was canceled on September 24, 2020.

Since then, Fund staff carried out an Article IV Consultations (December 2021), including a Post Financing Assessment, and embarked on discussions on an ECF, which however was not concluded due, in part, to debt concerns. After that, Malawi received another RCF disbursement of US$88.3 million under the Food Shock Window in November 2022, and is now undertaking a Staff-Monitored Program (SMP) with Executive Board Involvement. With timely implementation of the program, the SMP would help the authorities establish a track record of policy implementation, possibly paving the way to an IMF-supported UCT program.

Figure 3. Malawi: Ex Ante Balance of Payments Gap

(In percent of GDP)



Sources: Staff reports; IEO calculations.
Note: Following Kincaid, Cohen-Setton, and Li (2023), reserve drawdown is treated as financing. Malawi I refers to the first RCF, and Malawi II refers to the second.

48. **Governance safeguards.** Given the checkered history of governance, Malawi´s LOI for the RCF request approved in May 2020 included governance commitments, well before Board´s formal endorsement of guidelines for such commitments in October 2020.[15] Moreover, after taking office in June 2020, the new government put anti-corruption efforts on top of its reform agenda.

C. Assessment

49. **Overall assessment.** Malawi's two RCF disbursements in 2020 under the exogenous shock window played an important role in helping the country cope with the pandemic. Despite the cancellation of existing ECF upon request of the second RCF, total disbursement of emergency financing (100 percent of quota) in 2020 helped the new government provide essential social services in its first few months and reduce the country's BOP pressures, while

[15] It included all four commitments typically included in later emergency financing requests: (i) to publish procurement contract information, (ii) to collect and publish beneficial ownership of contractual parties, (iii) to prepare report on COVID-19-related spending, or (iv) to publish ex-post audits of crisis-related spending.

maintaining foreign exchange reserves. Interviews with IMF staff show that staff were aware that providing financing with limited conditionality given the country's history of corruption, and just ahead of elections, involved considerable risks; however, they felt it would not have been appropriate to withhold financing given Malawi's need. In interviews with the IEO, the Malawian authorities stated that the IMF's emergency support to the country was well-timed and critical. Analyses done by the country's central bank suggested that the socio-economic effects of the shock would have been considerably larger without Fund support. While the authorities did cancel the pre-pandemic ECF before their second RCF request, the country did not seem to do so opportunistically; in fact, the authorities expressed strong interest for a successor ECF in 2021 but this did not materialized, partly due to the challenge of addressing the rising debt sustainability concerns.[16] The authorities are currently undertaking a SMP with Executive Board Involvement. With timely implementation of the program, the SMP would help the authorities establish a track record of policy implementation, possibly paving the way to an IMF-supported UCT program.

50. **Access**

- *Staff views on limited initial access.* The first RCF helped fill close to 40 percent of the estimated balance-of-payments gap (Figure 3). Total IMF financing amounted to around 65 percent, when pre-pandemic UCT financing was taken into account. Although there was an unidentified financing gap based on staff estimates, staff did not propose a higher access even though no access limit had been reached.[17] In the IEO interviews with staff, concerns over governance and the upcoming elections were cited as main reasons for limited access of emergency financing.

- *Further access.* With a higher external financing gap in October 2020, IMF provided a further RCF disbursement. Taken together, 46 percent of the BOP need in 2020 was filled by the IMF emergency financing, and along with traditional UCT financing and financing from other donors and debt relief initiatives, there was no unidentified financing gap based on staff estimates (Figure 3).

- *Authorities' views.* The authorities appreciated that the country had received the maximum permitted under the Fund's existing rules. Nevertheless, in interviews with the IEO, the authorities expressed the view that the country's IMF quota is so small that even the maximum permissible is often not enough relative to overall needs during severe crises, in an environment of uncertainty about the evolution of financing gaps. The Malawian authorities suggested that access should be determined on a case-by-case basis by evaluation of the situation of countries, as opposed to a blanket quota-based allocation.

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[16] By April 2021, Malawi external debt risk remained moderate. However, Malawi was one of the five PRGT-eligible countries reclassified from moderate risk to high risk by end 2021, due to a combination of large financing needs in the coming years and low level of international reserves. The Malawian authorities noted that Fund support will be critical in addressing the escalating external debt burden.

[17] The authority planned to drawdown reserve to fill any residual financing gap, absent additional support. (IMF, 2020e).

51. **Fund's catalytic role.** The Fund's rapid response is perceived by interviewees to have played an important catalytic role in Malawi, working closely with the World Bank, as well as the European Union (EU) and United Nations (UN) system. An assessment letter for Malawi was provided in May 2020 to the AfDB, one of only four such letters that the Fund provided to the AfDB during 2020. While donors were encouraged by the Fund's substantial commitment to Malawi, there were also concerns. Having witnessed previous governance policy lapses (notably the "cash-gate scandal" eight years previously), some were concerned about the RCF's absence of ex post conditionality, noting that though governance safeguards were included, this was at a time when policy commitment was quite weak due to political turmoil.

52. **Governance safeguards.** The inclusion of governance safeguards commitments in Malawi's RCF request in May 2020 at a time when this was not being required of other countries seems appropriate given the country's historical governance concerns. It should be noted that, to the authorities, the application of governance safeguards in their case and not others seemed uneven, as they felt that the concerns were common in the region. Nevertheless, staff's emphasis on governance in the case of Malawi appears to have been justified by events. In early 2021, the country's Auditor General revealed wide-spread malfeasance and corruption in the use of the RCF resources, pointing to unprocedural procurement, irregular allowances, improper accounting, and wasteful expenditure, which suggest that governance issues have persisted and need to be addressed, including in any subsequent UCT program. Fund staff noted in interviews that the Malawi example illustrates that, under political and economic pressures, authorities can commit to safeguards that they are unable to implement for lack of capacity (or political will). Staff noted that building up the capacity to implement governance safeguards takes time, and despite the increased political will in Malawi, implementation has been very weak as of May 2022.[18]

VI. NIGERIA

A. Background and Economic Developments

53. **Initial conditions.** Nigeria is a middle-income country, a major oil producer, and Africa's largest economy, with systemic importance in trade, remittances, and banking for both the region and the continent. Despite its strides to reach middle-income status, the country's social safety net and the health system still suffer from serious weaknesses (reflecting limited government revenues), the poverty rate is 40 percent, and governance is widely considered to be weak—Transparency International ranked Nigeria 154 of 180 in its Corruption Perceptions Index (2021). In contrast to many African countries, Nigeria has long pursued inward-looking policies through import restrictions, administrative control of foreign exchange, and capital controls. While Nigeria's public debt is relatively small in percent of GDP compared to other sub-Saharan countries, Nigeria is considered highly vulnerable to shocks due to its low debt service capacity—

[18] See "Implementation of Governance Measures in Pandemic-Related Spending," available at https://www.imf.org/en/Topics/governance-and-anti-corruption/implementation-of-governance-measures-in-pandemic-related-spending-may-2022.

with federal (or consolidated) revenue to GDP ratio among the lowest in the world. Gross international reserves before the pandemic (US$38 billion at end-2019) were also considered well below adequate levels (Table 4).[19]

Table 4. Nigeria: Selected Economic Indicators

	2019		2020			2021
	Actual[3]	Projections Pre-COVID[1]	Projections COVID[2]	June WEO	Actual[3]	Actual[3]
GDP growth (Percent)	2.2	2.5	-3.4	-5.4	-1.8	3.6
Inflation (Percent)	11.4	13.4	13.4	13.0	13.2	17.0
Budget balance (Percent of GDP)	-4.7	-4.6	-6.8	-7.3	-5.7	-6.0
Government debt (Percent of GDP)	29.2	31.3	34.8	36.5	34.5	37.0
Current account balance (Percent of GDP)	-3.3	-1.5	-3.3	-3.9	-4.0	-0.8
External public debt (Percent of GDP)	N/A	N/A	16.8	N/A	N/A	N/A
Official reserves (USD billions)	38.1	35.6	25.3	23.8	36.5	40.2

Sources: IMF; IEO calculations.
[1] January 2020 WEO.
[2] Staff Report for 2020 RFI Request (IMF, 2020d).
[3] IMF WEO Published.

54. **COVID-19 impact.** The pandemic had direct effects on domestic activity and health, and an immediate impact on the balance of payments as the collapse in international oil prices sharply lowered export revenues. Nigeria's access to international capital markets, which had already weakened in 2019, was further diminished.[20] In addition, inward remittances—half the population lives in a household that receives remittances—fell sharply. Altogether, the current account deficit ended up at 4 percent deficit compared to a 1.5 percent pre-COVID projection (Table 4). These factors, as well as supply and distribution disruptions and border closures, caused the unemployment rate to surge to 27 percent. Despite this, the 2020 GDP contraction of about 2 percent ended up much less severe than feared, aided in part by the turnaround of oil prices in the second half of 2020. The economy recovered further as global conditions improved in 2021.

55. **Fiscal response.** The authorities responded to the COVID-19 pandemic with a strict lockdown in the second quarter of 2020—leading to real GDP contracting by 6 percent year-on-year that quarter—but eased it later in the year. A revised budget was adopted in July 2020, which removed fuel subsides, prioritized spending, and included a 0.3 percent of GDP fiscal support package to help mitigate the effects of the pandemic. Reflecting the limited fiscal space, the fiscal package was considerably smaller than those of other sub-Saharan countries and a

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[19] The reserves accounted for 64 percent of the Assessment of Reserve Adequacy (ARA) metric, including the oil buffer (IMF, 2021a).

[20] Nigeria recorded net capital outflows of US$10 billion in 2020 against inflows of US$9 billion in 2019.

peer group of emerging market economies.[21] Revenues (including oil revenues) amounted to only 6 percent of GDP in 2020 and federal government interest payments skyrocketed to 93 percent of federal revenue, which severely limited fiscal space. Later in the year, the authorities re-introduced fuel subsidies and the automatic market-based fuel price formula (committed to in the LOI as discussed later) was not implemented.

56. **Monetary policies and quasi-fiscal support**. The Central Bank of Nigeria (CBN) eased monetary policy, including by lowering the key policy rate by a cumulative 200 basis points in 2020. The CBN also stepped up its direct credit to the private sector and quasi-fiscal support. The CBN injected liquidity to the private sector, both through direct lending and on-lending through banks accounting for nearly half of credit growth during 2020–21. The CBN also provided quasi-fiscal support for the healthcare sector among others, including subsidies on the Central Bank of Nigeria's (CBN) credit intervention facilities and regulatory forbearance measures to ease debt service. It also created a Targeted Credit Facility (TCF) for households and small and medium-sized enterprises affected by the pandemic and TCF provided loans to boost local manufacturing and production across critical sectors.

57. **Exchange rate policies.** The RFI's letter of Intent emphasized the steps taken by the central bank to strengthen "monetary and exchange rate policies with a view to move towards full exchange rate unification and greater exchange rate flexibility, which would help preserve foreign exchange reserves and avoid economic dislocation" (IMF, 2020d). Prior to the approval of the RFI, the official exchange rate had been depreciated by 18 percent in March to bring it closer to the CBN's other exchange rates. In the end, after the disbursements of the RFI the differences between the official and parallel exchange rates again increased,[22] as the balance of payments came under pressure, and the official exchange rate was not depreciated in line with the other exchange rates (it was depreciated by only 6 percent in August 2020). The pressure on reserves led to intensification of administrative controls on imports (without prior consultation with IMF staff), a trade restriction introduced for import of sugar (inconsistent with Article VIII of the IMF's Articles of Agreement) and a US$2 billion backlog of requests for foreign exchange from divestment by foreign portfolio investors of naira denominated assets, which were being gradually cleared by the CBN. The authorities have argued that Nigeria's stable exchange rate policy has contributed significantly to price stability and that the pressures they faced were not related to the exchange rate per se but reflective of global economic developments which adversely affected investor sentiment (IMF, 2021a).

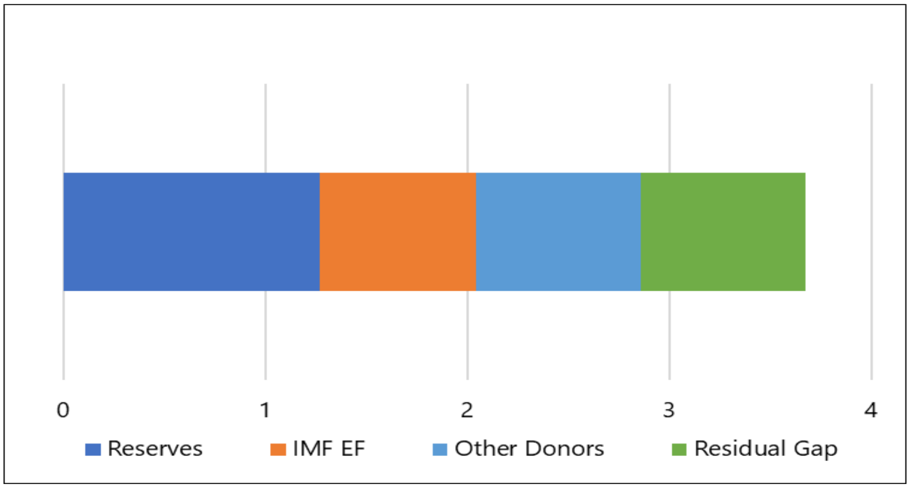
[21] In the RFI's Letter of Intent the government committed itself to revert to the government's planned medium-term fiscal consolidation path—which includes increasing revenue to 15 percent of GDP through further VAT reforms, a rise in excises, and removal of tax exemptions—once the crisis passed. It would allow the government to reduce the federal government deficit to under 3 percent of GDP and eliminate recourse to central bank financing by 2025 (IMF, 2021a).

[22] In the Article IV consultation report in February 2021 (IMF, 2021a) the staff reported that premiums relative to the official exchange rate had ranged between 13–31 percent since April 2020.

B. Engagement with the Fund

58. **IMF engagement.** Though Nigeria's political environment has long made the country reluctant to seek IMF financing,[23] in response to the pandemic the country approached the Fund for emergency financing. The financing was negotiated in a few weeks. In April 2020, Nigeria received RFI financing in the amount of US$ 3.4 billion (100 percent of quota; 0.8 percent of GDP) (Figure 4). The RFI with Nigeria had no prior actions, although these are permitted "where warranted" under the instrument.

Figure 4. Nigeria: Ex Ante Balance of Payments Gap
(In percent of GDP)



Sources: Staff reports; IEO calculations.
Note: Following Kincaid, Cohen-Setton, and Li (2023), reserve drawdown is treated as financing.

59. **Consideration of prior actions on exchange rate policy**. A key issue debated within the Fund was whether to require exchange rate unification as a prior action for the RFI in April 2021. In interviews with the IEO, staff indicated that while the exchange rate framework had been the subject of debates between the Fund and the authorities prior to the pandemic, asking for a prior action seemed inconsistent with the RFI's goal to provide timely emergency assistance rather than to use the occasion to resolve a longer-term issue, even if progress on unification might have helped the authorities' pandemic response. They noted that it was unlikely that the Nigerian authorities would have agreed to an RFI with such a prior action. Hence, the Fund took the softer approach of welcoming the authorities' intent at the time of the April 2020 RFI "to make progress" on unification of exchange rates and avoid foreign exchange rationing

[23] Nigeria's most recent financial arrangements with the IMF were three stand-by arrangements (1989, 1992, and 2000) totaling US$2 billion, under which the country never used the funds. In 2005 Nigeria received a two-year Policy Support Instrument (PSI), which was used as a basis for Paris Club rescheduling.

(IMF, 2020d).[24] This differed from the World Bank's approach of asking for actions on exchange rate unification and elimination of fuel subsidies before its 2020 disbursements of its budget support. IMF staff noted in interviews that this should not be interpreted as the IMF and the World Bank having a difference of views on exchange rate advice. Rather, the different lending decisions reflected the different nature of the respective instruments: the Bank budget support required a judgment on the adequacy of the macroeconomic framework, including of the exchange rate policy, a requirement that the IMF emergency support did not have.

60. **Access.** When Nigeria's RFI was approved, the remaining balance of payments financing gap was estimated at about US$10.7 billion, part of which was anticipated to be filled by the World Bank (US$2.5 billion), the African Development Bank and other sources.[25] Interviews with the authorities suggested that they were pleased with the quick response of the IMF to support the country with financial assistance but that they felt that Nigeria could have used a larger amount of access. Fund staff agreed but also indicated that it would have depended on a more comprehensive economic program that could have justified UCT financing.

61. **Fund's catalytic role**. In the end, the Bank's budget support did not materialize by end 2021 because of conditions related to changes in the exchange rate policy and the publication of a template for fuel prices; Bank disbursements were related to specific health sectors. The African Development Bank also disbursed a much smaller amount than foreseen due to very high macroeconomic risks. Turning to private market access, foreign capital inflows in 2020 Q2 through Q4 into domestic markets remained limited reflecting slow foreign exchange (FX) reforms, uncertainties regarding the ability to repatriate funds and negative real interest rates (IMF, 2021a). Hence, the hope that Fund would unlock support from private and other official sources was not realized in this instance.

62. **Safeguards assessment and governance safeguards.** Consistent with policies on use of IMF resources, the authorities committed to undergo a new safeguards assessment of the CBN's governance and control framework, the first since 2001. The assessment was completed in 2021 and reconfirmed the need to modernize the legal framework. It also encouraged full alignment of financial reporting practices with International Financing Reporting Standards (IFRS) and resumption of publication of annual financial statements, which had not been done since 2016 (IMF, 2021a).

[24] After the reversal of the initial progress toward exchange rate unification, the authorities argued that Nigeria's stable exchange rate policy had contributed significantly to price stability, that the pressures reflected global economic developments rather than a misalignment of the exchange rate, and that investor confidence would be restored only when the public health crisis had waned, and global economic activity picked up. Thus, in the end, the divergence in views between the authorities and the Fund on exchange rate policies continued.

[25] The remaining gap of US$7 billion was to be covered by a drawdown of reserves and possibly import compression from a further depreciation of the currency.

63. Though Nigeria's RFI request carried the typical governance safeguards, only one (contract publication) had been fully implemented by May 2022.[26] Progress was limited on the other three governance safeguards. The 2021 Article IV staff report noted that the independent audit of the emergency response expenditures and related procurement processes had been delayed and that "given decentralized auditing authority due to Nigeria's federal structure, a single national audit report is deemed infeasible." CSOs who have reviewed implementation of governance safeguards, including in Nigeria, have urged that the IMF to remain actively engaged to ensure robust implementation by governments, including through surveillance and any future lending programs.[27] IMF staff commented in interviews that it would have been better for safeguards to have focused on whether the country had a strong overall PFM instead of very specific beneficial ownership and auditing requirements for selected accounts.

C. Assessment

64. **Overall assessment.** In 2020, Nigeria faced a perfect storm of collapsing global oil prices, huge demands on its health and social systems, large capital outflows, insufficient fiscal revenues, and sharply diminished remittances. Even with IMF emergency support, the fiscal space for additional COVID-related health and social spending was small, requiring the Central Bank of Nigeria to step up its quasi-fiscal measures. Nigeria attempted to track and report transparently on its use of its emergency support, but the audits of the COVID-19 spending were delayed, and the publication of the procurement contracts receipts incomplete. Broader consideration of the effectiveness of the public management system would have provided a better picture of the effectiveness of IMF disbursements rather than spending tracking of specific accounts. The authorities have not moved away from multiple currency practices despite committing to do so in the RFI.

65. **Catalytic role.** At the time of Fund disbursement, it was expected that the World Bank, African Development Bank, and some other MDBs would disburse loans of similar scale. However, the World Bank made the exchange rate unification a pre-condition owing to concerns that the disbursement would be converted into Naira at the elevated official exchange rate. Thus, the unwillingness to commit to exchange rate unification undermined foreign investor confidence, deterred budget support from the World Bank, and made the AfDB downscale its budget support as well. This resulted in underfinancing of the program, intensification of exchange restrictions, and reduced private inflows, thus impeding the overall effectiveness of the program. Although the IMF's support was appreciated by the authorities, they felt that the program would have benefitted from higher disbursements from the Fund. The authorities

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[26] See "Implementation of Governance Measures in Pandemic-Related Spending," available at https://www.imf.org/en/Topics/governance-and-anti-corruption/implementation-of-governance-measures-in-pandemic-related-spending-may-2022.

[27] See "Transparency International, IMF: Scant Transparency for COVID-19 Emergency Loans," available at https://www.hrw.org/news/2021/03/30/imf-scant-transparency-covid-19-emergency-loans.

indicated to IEO staff that the provision of emergency assistance had improved relations with the IMF and could set the basis for a more productive engagement in the future, though in the context of surveillance and technical assistance rather than UCT program financing.

VII. SOUTH AFRICA

A. Background and Economic Developments

66. **Initial conditions.** Although South Africa is one of the most diversified economies in SSA, it was on the verge of a recession before the COVID-19 crisis of 2020, following a decade of negative per capita growth, chronic fiscal imbalances, and a large debt burden. Severe underlying structural issues were also present, including a paucity of social services, persistent disruptions in access to electricity, and high unemployment and poverty levels. These factors led to significant social discontent and a rise in insecurity.[28]

67. **Impact of COVID-19.** South Africa had among the highest infection and fatality rates in SSA during the initial phases of the pandemic. Within two weeks of the first confirmed cases, the authorities declared a national state of disaster and imposed a 21-day lockdown of the economy. By the end of the first quarter of 2020, the government imposed several containment measures which included travel restrictions, closures of businesses and health protocols. Though the authorities eventually opted for less economically intrusive measures as conditions improved, the pandemic nevertheless took a heavy toll on the economy, with GDP ending up contracting by over 6 percent in 2020, before recovering in 2021 (Table 5). The financial markets also experienced high volatility as large capital outflows and asset selloffs prompted the rand to depreciate by 30 percent relative to the US dollar. South Africa's sovereign credit rating was downgraded to a sub-investment grade, the lowest level since 1994.

Table 5. South Africa: Selected Economic Indicators

	2019	2020				2021
	Actual[3]	Projections Pre-COVID[1]	Projections COVID[2]	June WEO	Actual[3]	Actual[3]
GDP growth (Percent)	0.1	0.8	-7.2	-8.0	-6.4	4.9
Inflation (Percent)	4.1	5.2	3.0	3.1	3.3	4.5
Overall balance (Percent of GDP)	-5.5	-7.0	-13.7	-13.6	-10.1	-5.9
Government debt (Percent of GDP)	56.3	65.3	78.1	79.9	69.4	69.1
Current account balance (Percent of GDP)	-2.6	-3.7	-1.8	-1.3	2.0	3.7
External debt (Percent of GDP)	46.4	51.6	55.3	54.4	45.3	41.4
Official reserves (USD billions)	55.1	51.5	52.1	52.0	55.5	58.1

Sources: IMF; IEO calculations.
[1] January 2020 WEO.
[2] Staff Report of Request for RCF (IMF, 2020f).
[3] IMF WEO Published.

[28] Despite South Africa's middle-income status, sophisticated financial and industrial sectors, and high score on the Human Development Index (HDI) of the UNDP, its governance and accountability indices, as measured by Transparency International, are comparable to those of its less affluent neighbors. It also has relatively high rates of income inequality and poverty.

68. **Policy response.** In April 2020, the authorities launched a R500 billion economic and social relief package (approximately 10 percent of GDP, much larger than the typical package in the region), focused on social restitution, job protection and creation, and sustaining micro-, small- and medium-scale enterprises, which generate a large portion of employment in the country. The package cushioned the negative social and economic impacts of COVID-19 but boosted the 2020 fiscal deficit to over 10 percent of GDP compared with the pre-pandemic estimate of 7 percent (see Table 5). On the monetary policy side, the South African Reserve Bank (SARB) lowered the policy rate, and introduced other measures to support the financial system, where Non-Performing Loans (NPLs) had increased substantially in the first half of 2020. By July 2020, the Reserve Bank of South Africa had cut the policy rate by a total of 300 basis points, lowering the repo rate to 3.5 percent and the prime lending rate to 10 percent.

B. Engagement with the Fund

69. **IMF engagement.** During interviews with the IEO team, staff noted the political environment in South Africa had discouraged the authorities from approaching the Fund for financing, but the pandemic represented a break with tradition. However, the negotiations took 12 weeks to complete, compared to 3–4 weeks for some countries in the region, for three main reasons: first, engaging with the IMF was a new process for the authorities; second, staff felt it was important to let the authorities seek out support in Parliament and among other stakeholders in the country; and third, additional fiscal policy commitments were necessary for South Africa to meet the debt sustainability analysis (DSA) risk assessment provisions. The discussions culminated in the approval of RFI in July 2020 for US$ 4.3 billion (100 percent of quota), providing South Africa with financing at a much lower rate (1.1 percent) than the market rate at the time (7 percent) and covering almost 60 percent of the financing gap expected at the time (Figure 5). The remainder of the funding was to be provided by a drawdown in foreign exchange reserves and by other IFIs, including the African Development Bank, the New Development Bank, and the World Bank.

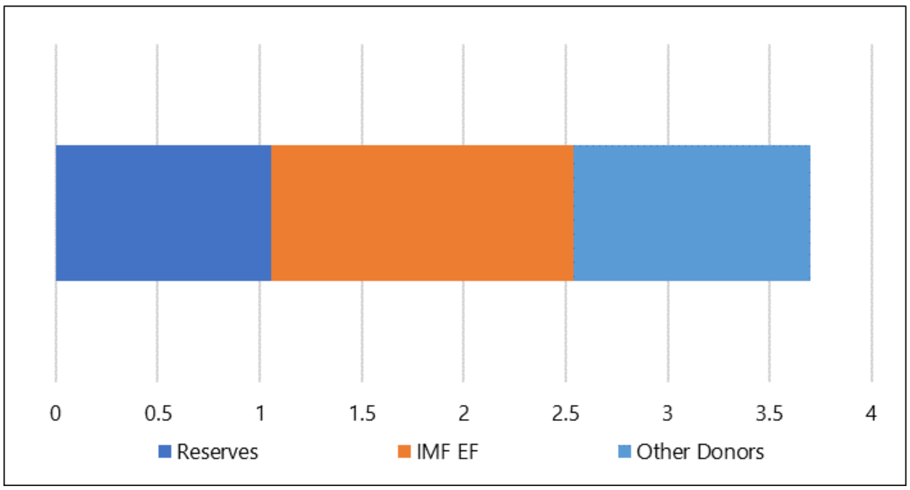
70. **Governance safeguards.** South Africa RFI's Letter of Intent included all four governance commitments that had become standard practice, namely commitments to publish procurement contract information, collect and publish beneficial ownership of contracting parties, prepare a report on COVID-19-related spending, and conduct and publish an ex post audit on crisis-related spending. In addition, the full amount of the RFI would have to be deposited in the National Revenue Fund and subjected to the provisions of the Public Financial Management Act.

71. **Debt sustainability and additional policy commitments.** Based on the DSA risk assessment, staff considered that additional policy commitments were required to establish a fiscal path that would keep debt sustainable. After long and challenging discussions, staff agreed that the authorities would present to Parliament in June 2020 both a "passive scenario" projection, which showed that in the absence of corrective actions the debt ratio would grow to 140 percent of GDP, and an "active scenario" projection, which showed that debt would stabilize at around 90 percent of GDP with corrective actions. Staff also asked that the authorities signal

that the corrective actions outlined would be included in the October budget. According to staff, this "de-facto prior action" allowed them to have a "good framework to base the RFI request on." These commitments were then reflected in the LOI with the government committing to "take action to reverse the upward trajectory of the public debt-to-GDP ratio." To facilitate this effort, the authorities further noted that they were "open to introducing a debt ceiling" and that they would propose in the next budget "fiscal consolidation measures that would allow public debt to decline after peaking" in FY2023/24." The authorities also recognized that "debt stabilization will require removing structural constraints to growth" and committed to implement reforms that focused on modernizing network industries, re-orienting trade policies, lowering barriers to entry for firms, and supporting labor-intensive sectors.

Figure 5. South Africa: Ex Ante Balance of Payments Gap

(In percent of GDP)



Sources: Staff reports; IEO calculations.

Note: Following Kincaid, Cohen-Setton, and Li (2023), reserve drawdown is treated as financing.

C. Assessment

72. **Overall assessment.** Although the authorities sought quick financing, discussions with the Fund proved to be relatively protracted. In interviews with the IEO, staff and authorities stated that that this was partly because of the country's lack of recent experience in dealing with the Fund on financing operations (the country had not borrowed from the Fund in three decades), the need to build political support within the country for the recourse to Fund financing, and the need to introduce additional policy commitments to fulfil the Fund's debt sustainability assessment. The authorities noted that their perceptions of the Fund had improved as staff did not come to the RFI discussions with set policy lines but were willing to engage in a dialogue to deal with the exigencies of the pandemic; they also noted that having a trusted resident representative (who was in the fourth year of his assignment to the country) had considerably helped matters. In the end, they felt the process, while protracted, had helped start a fruitful discussion within South Africa on economic policy and the role of the IMF in the country.

73. **Building consensus on adequate macro policies,** The LOI, which included medium-term policy commitments to stabilize South Africa's debt, signed by both the Minister of Finance and the Governor of the Reserve Bank in July 2020, provided a useful foundation for a political consensus on macro policies. These measures are in progress, and the recent Article IV report highlighted the need to contain potential risks arising from expenditure pressures that could derail the fiscal consolidation efforts. Discussions with the IMF also helped the authorities to benchmark their economic projections more realistically. The amount agreed under the RFI met their expectations and helped them avoid potentially damaging cuts in social spending and recourse to higher cost market borrowing. Despite this, the authorities stated their reluctance to pursue a follow-up UCT program, especially as the associated conditionality might be difficult in the political environment but felt that their engagement with the Fund through surveillance and capacity development would end up "strengthened by their positive experience" with the RFI.

74. **Collaboration with partners.** The IMF collaborated closely with the World Bank, the New Development Bank, the African Development Bank, and the European Union in delivering South Africa's emergency COVID-19 support. Such close collaboration was unusual as South Africa does not have a formal donor group unlike most other SSA countries. Despite initial resistance by some institutions, all the IFIs ended up using the macroeconomic framework that the Fund had crafted for their own financing initiatives. To the extent possible, they also agreed that they would try to base their conditionality on actions that the Government had already committed to speed up disbursements.

75. **Catalytic effect of financing.** The RFI spurred financial support from other IFIs, including US$1 billion from the New Development Bank, around US$ 290 million from the African Development Bank's (AfDB), and around €1 billion from European partners (€300 million AFD; €300 million KfW; €150 million Italy; €50 million EU Commission in budget support, and €200 million in projects from EIB). The US$2 billion loan initially envisioned in April 2020 by the World Bank was, however, reduced to US$750 million. Protracted negotiations on the conditionality to be attached to the loan substantially delayed agreement between the World Bank and the authorities to January 2022.[29]

76. **Governance safeguards.** South Africa's 2021 Article IV reported that some progress has been made in meeting the governance and transparency commitments accompanying the RFI request, but there were delays. According to the Fund's implementation matrix of governance commitments,[30] a dashboard with information on procurement contracts and allocation was published, but the database remains incomplete because some government departments are not reporting COVID-related procurement to the National Treasury. The Auditor General has

[29] The World Bank eventually approved US$750 million in January 2022 "to protect the poor and vulnerable from the adverse socio-economic impacts of the COVID-19 pandemic, and to pave the way for a resilient sustainable recovery" (P174246) and US$480 million in June 2022 "to increase COVID-19 vaccination coverage" (P174259).

[30] See https://www.imf.org/en/Topics/governance-and-anti-corruption/implementation-of-governance-measures-in-pandemic-related-spending-may-2022.

published three special audit reports on the COVID-19 relief package, which found some irregularities leading to overpricing, unfair practices, and potential fraud. Corrective actions were put in place and some fraudulent transactions were reversed. The names of the awarded companies and the names of their directors (rather than beneficial owners) are listed on the Treasury's website mentioned above. Draft legislation, aimed at consolidating rules and management of the public procurement system, is facing procedural delays, and is expected to be presented to parliament in 2022. Interviewed staff noted that they "may not have taken into account sufficiently" the ability of the PFM system, and the experience underscores the fact that "PFM systems take time to build up."[31]

VIII. ZAMBIA

A. Background and Economic Developments

77. **Initial conditions**. In the first half of the 2010s, Zambia enjoyed high growth fueled by high prices for its copper exports and strong private investment in the mining sector. However, since then, fiscal profligacy and poor governance have held back economic performance. Well before the pandemic there were rising concerns among the donors and creditors over Zambia's escalating debt level which eroded the country's fiscal buffers and financing options. The last full DSA (completed and published in July 2019) assessed Zambia's debt as at high risk of debt distress, unsustainable on current policies, and "that a large upfront and sustained fiscal adjustment is essential to begin reducing debt vulnerabilities" (IMF, 2019c). Since then, the outlook had materially deteriorated as the planned fiscal adjustment in 2019 did not materialize, the 2019 drought was deeper than anticipated, and COVID-19 hit. Amidst severe liquidity shortages and growing domestic payments arrears, the Zambian authorities indicated to staff in February 2020 their intention to approach external creditors to restructure their debt. As a result, the (unpublished) DSA prepared by staff classified Zambia as "in debt distress." In early June, Zambia's Eurobonds spreads widened to around 1,575 basis points, placing the country among the worst performing frontier markets.

78. **Impact of COVID-19.** The Zambian government instituted a state of national disaster in mid-March 2020 when the pandemic hit, at a time when Zambia's food stocks had declined noticeably because of earlier weather shocks. Unlike South Africa, Zambia did not declare a total lockdown of the economy. Nevertheless, the containment measures that were taken took their toll on economic activity, which ended up declining by nearly 3 percent in 2020, albeit less than was feared in the June 2020 WEO (Table 6). Fiscal deficits in 2020 ended up being much higher than pre-COVID projections, and the public debt level increased to around 150 percent of GDP compared to 103 percent of GDP in 2019.

[31] The authorities have since introduced stronger deterrence measures, including a special investigating unit and a tribunal to try cases on an expeditious basis (www.sassa.gov.za/news/Documents).

Table 6. Zambia: Selected Economic Indicators

	2019	2020			2021
	Actual[3]	Projections Pre-COVID[1]	Projections COVID[2]	Actual[3]	Actual[3]
GDP growth (Percent)	1.4	1.7	-5.1	-2.8	3.6
Inflation (Percent)	9.2	10.0	14.7	15.7	22.0
Overall balance (Percent of GDP)	-9.4	-5.1	-1.6	-13.8	-8.5
Public debt (Percent of GDP)	103.3	N/A	N/A	150.3	126.0
Current account balance (Percent of GDP)	1.4	-3.4	-1.6	12.0	7.6
Official reserves (USD billions)	1.5	0.8	0.3	1.2	2.8

Sources: IMF, and IEO calculations.
[1] January 2020 WEO.
[2] June 2020 WEO.
[3] Staff Report of Request for ECF (IMF, 2022b).

79. **Policy response.**

- *Fiscal policies.* To deal with the food insecurity, which had been made worse by the pandemic, the government created a US$50 million facility (0.2 percent of GDP) for the Food Reserve Agency and experimented with cash handouts in parts of the country, in collaboration with the World Food Program and World Vision. In addition, the Bank of Zambia created a Targeted Medium-Term Refinancing Facility of US$550 million (2.3 percent of GDP) for the business sector, with an expected repayment duration of 3–5 years.[32] There were also tax relief measures which included removing value-added taxes (VAT) on certain imported goods and elimination of trade duties on several products.

- *Monetary policies.* The Bank of Zambia reduced its benchmark rate from 11.5 percent to 9.25 percent in April 2020, scaled up provision of short-term liquidity to firms, and granted some moratoriums and tenor extensions on loans coming due.

B. Engagement with the Fund

80. **The case for emergency financing.** Zambia has not had an IMF-supported program since 2011. Discussions on an ECF arrangement were underway prior to the COVID-19 shock. After the pandemic hit, the prospect of reaching agreement on a UCT program was considered unlikely as economic reforms were not feasible, but the possibility of Zambia receiving emergency assistance was discussed internally at the Fund in response to a request from the authorities.

- **AFR views.** Given Zambia's unsustainable public debt, AFR considered that an RCF should only be considered based on five prior actions: (i) initiation of debt restructuring discussions with private sector creditors; (ii) a commitment by official creditors to

[32] However, the facility received a lukewarm reception among the business community as they deemed it to be overly bureaucratic.

participate in a future debt restructuring; (iii) the introduction of CFMs to prevent capital flight; (iv) strong steps on governance/transparency in the use of funds; and (v) commitments to undertake needed fiscal adjustment. AFR proposed to initiate discussions on a 50 percent of quota RCF disbursement that would provide Zambia with US$660 million (3.6 percent of GDP).

- **Views of review departments.** Review departments noted that since Zambia's debt was assessed to be unsustainable, the Fund could only provide financing under adequate assurances that the country was on track to restore sustainability, and that AFR's proposal to obtain assurances from official creditors fell short of Fund policies and practice.[33] Review departments also questioned the feasibility of the proposed strategy in terms of the prospects for debt sustainability and planned fiscal adjustments and stressed that the unsatisfactory fiscal track record of Zambia would complicate any UFR engagement.

- **AFR proposal.** Given past policy slippages and taking into account comments by review departments, AFR eventually proposed that the Fund's financial assistance be tranched in two disbursements of 25 percent of quota and that critical policy commitments be secured through asking for: (i) the adoption by the cabinet of a medium-term fiscal plan that would achieve a fiscal surplus of 2 percent of GDP by 2024 relative to a fiscal deficit of 5.5 percent in 2019; (ii) the communication of a list of investment projects to be cancelled or rescoped; and (iii) the adoption of a moratorium on the signing of new non-concessional loans.

81. **Outcome of 2020 RCF request.** In the end, staff was not able to conclude discussions with the Zambian authorities on their RCF request because of concerns about credibly securing the required assurances on the composition and transparency of spending ahead of a general election. There were also concerns about debt transparency with the discovery of previously undisclosed external arrears, and about the extent of central bank independence with the abrupt firing of the Bank of Zambia Governor.

82. **Authorities' views.** Despite their disappointment with the inability to access emergency financing, the Zambian authorities we interviewed were not overly critical of the staff as they recognized the constraints under which the staff were operating. They did opine that the IMF's "messaging [on Zambia] could have been more on the endangerment to human lives" from the lack of financing than on the economic risks of the immediate debt situation. That said, they acknowledged that the IMF played a critical role in helping the country deal with its creditors and become one of the first countries to apply to the G20 DSSI and the Common Framework.

[33] For details on Fund policies and practice on emergency financing, see Kincaid, Cohen-Setton, and Li (2023).

83. **2022 ECF.** Eventually, in December 2021, following a change of government, staff level agreement was announced on a three-year Extended Credit Facility (ECF), with the underpinning macroeconomic framework updated during a June 2022 virtual staff visit.[34] After appointing financial and legal advisors in mid-2020 and engaging all creditors in dialogue to lay the foundations for an orderly restructuring, the authorities requested a debt treatment under the G20 Common Framework (CF) in January 2021 and wrote to all private creditors announcing the need for a debt treatment. The ECF request was approved on August 31, 2022.

C. Assessment

84. **Application of Fund's emergency financing.** It is not difficult to be sympathetic to the positions of both the Fund and the Zambian authorities. Staff were in a bind given the determination of unsustainability of Zambia's debt and its complex structure, which made it difficult to establish a credible debt resolution strategy supported by all creditors. Moreover, the political situation was volatile, with tensions between the President and the central bank governor resulting in the latter's dismissal in August 2020 and the upcoming general elections of August 2021. One can also sympathize with the authorities' view that debt difficulties and political turmoil were not limited to Zambia, and that they felt that the Fund had found a way to make finely-honed judgments about debt sustainability in several other cases that permitted access to emergency financing. In our view, the experience shows the difficulties that can sometimes arise from the current framework for Fund emergency financing. In a framework that allowed somewhat greater flexibility, one could have envisaged Zambia getting at least a low level of access to emergency financing—which would have helped ameliorate the humanitarian and economic situation to some degree—with the possibility of future access at higher levels not ruled out had the debt and political situations improved. Nonetheless, at the time of the RCF request, staff assessed that there would be large downside risks to Zambia's capacity to repay the Fund given its low level of reserves and debt uncertainties, and that allowing more flexibility to the current framework could lead to reputational risks.

85. **IMF's catalytic role.** The AfDB and the World Bank had indicated that they would provide budget support conditional on progress on debt sustainability and Fund disbursement. In the absence of Fund financing, the World Bank was only able to provide project financing of under US$50 million by mid-2021 in lieu of the US$800 million budget support initially proposed in June 2020.[35] AfDB was also limited in the amount of support that it could provide and only restructured an existing project for US$1.4 million. Donors continued to support Zambia throughout the pandemic on the basis of the IMF's ongoing discussions with the authorities even in the absence of formal assessment letters.

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[34] On June 14, 2022, Zambia received an invitation to participate in the first meeting between Zambia's Creditor Committee and the IMF, organized under the G20 Common Framework.

[35] Zambia's COVID-19 Emergency Response and Health Systems Preparedness Project (P174185) for US$25 million was approved in October 2020, but disbursements only started in June 2021. Additional financing of US$24 million was approved in June 2021 (PL176400).

IX. CONCLUSIONS

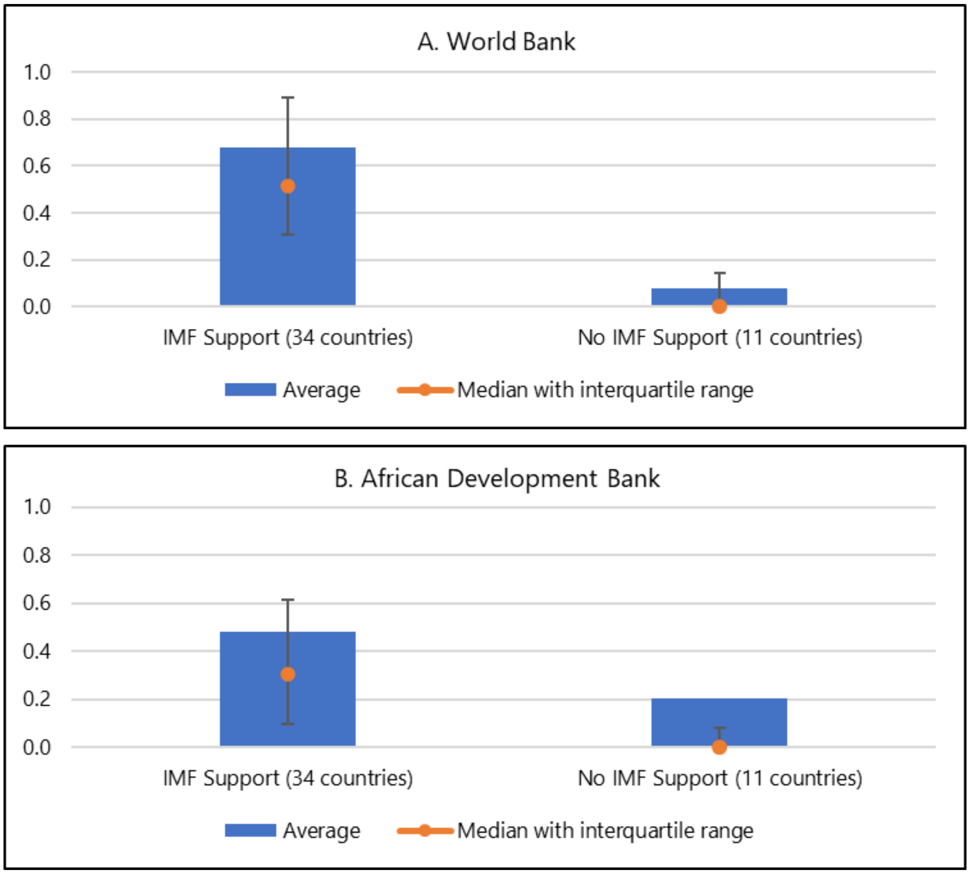
86. **Timely and well-appreciated help.** The Fund came to the aid of SSA at a time of critical need with financing instruments and policy advice well suited to the situation of the pandemic. Altogether, IMF support helped secure additional fiscal space, allowing the African economies to increase spending by about 1.2 percent of GDP (Gaspar and Gopinath, 2021). Interviews with staff reveal that they were fully aware that provision of financing and the policy advice to relax the fiscal stance as much as possible could complicate matters down the road given the precarious positions from which many countries were starting prior to the pandemic. However, staff gave primacy—appropriately in our view—to the immediate needs of saving lives and maintaining livelihoods. The Fund's timely assistance was deeply appreciated by the region's leaders as noted in many public statements and confirmed in the interviews we conducted for the six country cases—in the words of one, "The Fund approved our financing request even before we had received official parliamentary approval to accept Fund financing."

87. **Catalytic role.** In the cases where the Fund provided financing, the authorities felt that the Fund's support had played a very useful catalytic role in their ability to tap additional financing, particularly from other official sector sources. Evidence from the lending portfolios of the World Bank and the African Development Bank shows that the positive catalytic effect on official sources of financing is not limited to the six country cases covered here. In fact, Figure 6 shows that financial support approved by the World Bank to fight the health and economic consequences of COVID-19 was on average six times higher for AFR countries with Fund financial support (Panel A) than for those without. Similarly, African Development Bank COVID-19 financial support was on average twice as high for AFR countries receiving Fund financial support than for those without (Panel B).[36] However, in some cases, there were differences; in both Nigeria and South Africa, even though the Fund was ready to proceed, the World Bank was reluctant to respond quickly because of latent policy concerns.

88. **Scale could have been larger.** While expressing appreciation for the Fund's help and for its catalytic role, authorities expressed the wish in all cases but one (South Africa) that the level of financing from the Fund had been higher and more commensurate with their expected needs in 2020. The case for this is clearest for Cote d'Ivoire, a country with moderate risks of debt sustainability and a solid macro policy framework and governance, but less so where risks were higher and the policy framework more problematic. Nevertheless, in the end all our case studies were able to meet financing needs without drawing down reserves, in part because of stronger than anticipated current accounts. In a more difficult world, countries would have been able to come back for additional financing—but with more stringent UCT conditions.

[36] Controlling for the Batini and Li (2023) measure of ex ante BOP needs does not materially affect the size of the effect.

Figure 6. IFI COVID-19 Financial Support Approved to AFR countries
(In percent of GDP)



Sources: WB, AfDB, IMF; IEO calculations.
Note: World Bank COVID-19-related lending projects are identified following the approach of Ocampo and others (2023). AfDB COVID-19-related projects were tagged by the AfDB evaluation office.

89. **Perceptions of lack of even-handedness.** Another issue that surfaced in interviews with the authorities was that they did not fully understand cross-country differences in the Fund's decisions on the provision of emergency financing— "when I saw who around us was getting money and how much, I was left scratching my head" in the words of one official. Indeed, it is difficult to see a clear correlation between access levels and several relevant external indicators in our six case studies (Table 7). Fund staff working on the country cases—as well as other staff in AFR, FAD and SPR—noted that these decisions rested on a number of considerations:

- *The relationship between quota and GDP*: Although 100 percent of quota typically translates to a level of financial support of between 1.5 and 2 percent of GDP, in some cases it would have meant support between 4 and 10 percent of GDP (Kincaid, Cohen-Setton, and Li, 2023)—among AFR recipients of emergency financing this was the case for Lesotho, Sao Tome & Principe, The Gambia, Central African Republic, Sierra Leone, South Sudan, and Liberia.

- *Governance issues:* In addition to looking at external indicators, staff used internal assessments of governance issues (based on perceptions of previous mission chiefs, views of technical assistance missions that had visited the country, and other sources).

- *Judgments about debt sustainability*: Deciding whether a country's debt is unsustainable was based on well-established frameworks[37] but still required staff making assumptions about future economic developments and economic policies, which are inherently difficult to do.

- *Political situation:* Though staff stay away from a country's domestic politics, they nevertheless had to make judgments about whether the political situation posed risks to the Fund by influencing policy choices and thus impinging on the country's ability to repay the Fund.

- *Quality of prior engagement with authorities:* Prior engagement, including an existing program, made it possible for the Fund to move faster. Another "intangible" that staff noted was the quality of engagement with the authorities, which was better in some cases than others due to several factors, including when the country had last been in program discussions with the IMF, the track record of previous IMF programs, and the presence of a resident representative on the ground.

It is not surprising that decisions arising from this complex process fed authorities' perceptions of lack of even-handedness, particularly since staff could not speak openly about their internal assessments of governance problems or their judgment about how the domestic political situation posed risks to the ability to repay the Fund.

Table 7. Access and External Indicators

Member	Instrument Type	Amount of Emergency Financing/Debt Relief Received			Rank on Transparency International CPI, 2019	Overall Risk of Debt Distress, 2019	Global Health Security Index, 2019[1]
		USD millions	Percent of GDP	Percent of quota			
Burkina Faso	CCRT	55.5	0.3	N/A	85	Moderate	34.4
	RCF	91.0	0.7	70.0			
Côte d'Ivoire	RCF-RFI (April 2020)	886.2	1.5	100.0	106	Moderate	32.9
Malawi	CCRT	46.0	0.4	N/A	123	High	27.8
	RCF (May 2020)	91.0	0.8	47.9			
	RCF (October 2020)	102.0	0.9	52.1			
Nigeria	RFI (April 2020)	3400.0	0.8	100.0	146	N/A	37.0
South Africa	RFI (July 2020)	4286.5	1.1	100.0	70	N/A	47.5
Zambia	N/A	N/A	N/A	N/A	113	High	28

Sources: IMF; Transparency International (2019); Global Health Security (GHS) Index.
[1] Score is based on a scale of 0 to 100, where 100 = best health security conditions.

[37] Debt Sustainability Framework for Low-Income Countries (LIC-DSF) and Debt Sustainability Analysis of Market-Access Countries (MAC-DSA).

90. **Lessons**

- *Tiered access.* The main lesson we draw from our study of IMF engagement with SSA countries is that the framework of provision of emergency financing worked quite well, but some consideration should be given to reviewing it to improve the Fund's ability to help member countries during future emergency situations. One possibility would be to have more tiered access, allowing some access even in very difficult cases (e.g., Malawi, Zambia) and much higher access levels in countries where policy frameworks are stronger and governance and political concerns less prevalent, and balance of payments needs justify it. Such an approach would cater for humanitarian concerns while preserving incentives for good performance.

- *Quality of PFM system.* The second lesson is that it is difficult to strengthen governance safeguards in the midst of an ongoing crisis. Governance safeguards are of course critical—timely help is useful if the assistance ends up in the right hands. And as noted in Kincaid, Cohen-Setton, and Li (2023), the use of governance safeguards was strengthened over time. But AFR staff expressed concerns that in the absence of domestic capacity to implement the safeguards, their incorporation can become a "checklist exercise." Country teams also expressed concerns about the Fund's ability to monitor implementation of safeguards, a view also expressed by some in civil society.[38] Hence, it is the strengthening of PFM systems during normal times that provides more reliable assurance of governance safeguards.

- *Staff welfare.* The third lesson is the need to pay more attention to ensuring that staff on the front lines during a crisis, such as those in AFR in this instance, receive more support. Fund staff take pride in being able to help countries in times of need and understand that this sometimes requires a sustained period of long working hours. While most country teams among our six cases reported having adequate staff resources to carry out the work of the team, some interviewees also reported instances where they or their colleagues eventually had to take time off work due to stress or burnout from working relentlessly for several months. As reported in Batini and Wojnilower (2023), despite AFR receiving additional allocation of staffing, normal turnover of staff continued within AFR and the Fund during the pandemic, which meant that AFR lost several seasoned mission chiefs to other departments and country teams saw a rotation of mission chiefs.

[38] After a review of four cases, including Nigeria, Transparency International concluded that "The IMF's approach to stemming corruption for its emergency lending relies heavily on public oversight, particularly from civil society groups and the media. To facilitate oversight, the data needs to be accessible and sufficiently detailed to assess and track spending, and conditions need to be in place to ensure that concerns can be raised safely" (March 2021).

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