THE AFRICAN DEVELOPMENT BANK GROUP’S COVID-19 RAPID RESPONSE FACILITY (CRF)

AN INNOVATIVE, SCALABLE AND DEBT-SENSITIVE APPROACH TO ASSISTING REGIONAL MEMBER COUNTRIES DEAL WITH THE CRISIS

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FOR PUBLICATION
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1. **Summary of Proposed Actions**

1.1 The impact of the COVID-19 pandemic on Africa is likely to be unprecedented in nature and scale. Based on the experience of other regions facing more advanced epidemics, Africa’s public health systems are expected to come under severe stress in dealing with the sharp rise in critical care needs. The preventive measures the World Health Organization (WHO) is urging African countries to implement are likely to impact heavily on trade and business, leading to many workers – particularly those in insecure and informal employment – being unable to pursue their livelihoods, and placing national social protection systems under great pressure. The economic effects of the global crisis will be felt through multiple channels, including reduced trade, financial flows, tourism and declining prices of oil, gas and other commodities. Many African countries — particularly those already dealing with high levels of debt – may face sharp increases in their fiscal and current account deficits, constraining their ability to respond to the COVID-19 crisis and manage its wider economic impacts.

1.2 The African Development Bank Group is ready to provide fast, flexible and effective responses to lessen the severe economic and social impact of the COVID-19 on its regional member countries including the private sector. The response outlined in this paper can be summarised as follows:

- The Bank Group has identified up to UA 7.4 billion (USD 10 billion) in resources that can be made available in 2020 to help Regional Member Countries (RMC) and their private sector enterprises respond to the COVID-19 crisis. These resources come from the sovereign and non-sovereign windows of the Bank Group, unutilized ADF-14 resources, frontloaded ADF-15 resources, and the repurposed resources of cancellable loans. The last three sources of funds contribute to the difference between the 2020 Bank Group lending program and resources under the CRF.

- As the primary channel for its efforts to combat the crisis, the Bank is proposing a COVID-19 Rapid Response Facility (CRF) that will provide a flexible range of support within the UA 7.4 billion envelope, including:
  - Up to UA 4.1 billion for sovereign operations for ADB countries;
  - Up to UA 2.3 billion for sovereign and regional operations for ADF countries; and
  - Up to UA 1 billion for ADB non-sovereign operations in all African countries.

- The 2020 ADB and ADF lending programmes will be repurposed with the objective of identifying operations that best support client countries and their private sectors’ most pressing priorities while remaining within our respective prudential limits. Given the urgency, CRF operations will be subject to streamlined appraisal reports and fast-track approval.

1.3 The CRF will provide UA 6.4 billion of financing directly to RMCs in 2020. This is almost four times the expected annual debt service payments from RMCs to the Bank Group and will ensure substantial positive net transfers for all eligible countries in 2020 to address the crisis. [...] The CRF will allow RMCs to apply for the support that best meets their needs, including funding COVID-19 response measures and maintaining essential government operations through the crisis period. It gives due consideration to the growing risk of debt distress in many African countries [...]. The proposed Facility is expected to attract support from other multilateral, bilateral and commercial lenders, as an effective way of supporting African governments, communities and economies through the unprecedented crisis.

1.4 As the African Development Bank Group responds to the COVID-19 crisis and implements the Facility, it is guided by three principles — flexibility, speed and responsiveness. In pursuing these objectives, Management will provide the Board of Directors with 100% transparency on the activities...
funded under the CRF. As the Bank gradually scales up its response to the crisis, every quarter, Management will take stock of the situation with the Board of Directors on emerging priorities and challenges. In addition, Management will provide the Board of Directors with a monthly update on the CRF lending program and an update on its prudential financial ratios through the quarterly financial statements of the Bank.

1.5  The framework presented in this paper is intended to apply until the end of 2020. Any extension of the CRF will be subject to a decision of the Board of Directors.

1.6  As Milton Friedman once said, “Only a crisis — actual or perceived — produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.”

2.  Context for Bank Group Action

2.1  The impact of the COVID-19 pandemic on the African continent remains uncertain but is likely to be unprecedented in nature and scale. While African countries are yet to experience the rates of infection seen in other parts of the world, it is difficult to argue based on available evidence that Africa will emerge unscathed and it is only a matter of time before the virus spreads rapidly. If it mirrors the epidemic currently unfolding in Europe and North America, it will place enormous strain on national health systems, which will face rapidly escalating critical care needs, leading to shortages of hospital beds, staff, equipment and critical supplies.

2.2  Drawing on experience from other parts of the world, the World Health Organization has urged African countries to take early and decisive preventive action to flatten the exponential spread of the virus. The public health measures needed to accomplish this are necessarily intrusive in nature and are likely to prevent large numbers of people from pursuing their jobs and livelihoods. National social protection systems will therefore also come under severe strain.

2.3  The economic impact on Africa is impossible at this stage to quantify but is likely to place at risk many of the development gains of recent years. Around the world, countries at more advanced stages of the outbreak are announcing liquidity relief, debt restructuring, forbearance on loan repayments and initiatives in the order of 10%-15% of GDP. In the United States, packages of more than USD 2 trillion have already been announced, together with reduction in Federal Reserve lending rates and liquidity support to keep financial markets operating. In Europe, the larger economies have announced stimulus measures in excess of EUR 1 trillion, and additional, even larger packages are expected.

| Table 1 — Estimated Economic Stimulus in Response to the COVID-19 Pandemic in Select Countries (as of March 20, 2020) |
|--------------------------------------------------|-----------------|-----------------|
| Estimated Stimulus | 2018 GDP | Stimulus as a % of GDP |
| USA | Over USD 2 trillion | USD 20.5 trillion | 10% |
| United Kingdom | USD 439 billion | USD 2.9 trillion | 15% |
| Germany | USD 610 billion* | USD 3.9 trillion | 15% |
| France | USD 376 billion** | USD 2.8 trillion | 13% |

*Including KfW lending **Including USD328 billion in bank loan guarantees
2.4 For African countries, the direct costs of responding to the COVID-19 crisis will be accompanied by a wide range of adverse economic impacts, brought about by reduced commodity prices and exports, worsening current account deficits, corresponding declines in foreign exchange reserves, suppressed business and trading activity, foregone tax revenue, large capital outflows, and reduced foreign direct investments and workers remittances. The impact has been immediate in the oil and gas sector, particularly affecting eight countries — Algeria, Angola, Chad, Egypt, Equatorial Guinea, Gabon, Nigeria and the Republic of Congo — that between them generate nearly half of Africa’s GDP.

2.5 These effects are already being felt in all regions of the continent:

- In North Africa, countries are being hit by the rapid decline in oil and gas prices and decreased tourism.
- In West Africa, declining commodity price have dramatically reduced export revenues across the coast, while several countries (coastal and inland) face a high risk of debt distress.
- In Central Africa, decline in oil and gas and other commodities in the mining sector have worsened economic growth and fundamentals.
- In East Africa, tourism and a broad range of economic sectors have proven vulnerable to global instability, with effects shown through reduced levels of trade.
- In Southern Africa, a range of oil and gas and mining-dependent countries are experiencing adverse effects from commodity price decline, and this is also having a negative effect on regional remittances.

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**Box. Potential Impact of COVID-19 on Sahelian Countries Combined with the Deteriorating Security Situation: The Case of Burkina Faso, Mali and Niger**

Already severely affected by drought, humanitarian crisis and a deteriorating security situation, these three G5 Sahelian countries face the economic, social and health consequences of the COVID-19 pandemic. Like other African countries, the pandemic will significantly affect the economies of Burkina Faso, Mali and Niger. Specifically, COVID-19 will have the following economic and social impacts on these countries: i) decline in growth in 2020 estimated at between 1.1 and 2.8 percentage points (optimistic scenario); ii) deterioration of the budget deficit which would vary between 0.1 and 1.1 percentage points due to tax revenue losses linked to the contraction of economic activity and the increase in public expenditure (health and social) within the framework of contingency plans; iii) deterioration of the current account deficit by 0.27 percentage points on average; and iv) risk of reversal of the gains made in recent years in terms of poverty reduction and improved social indicators, with a possible collapse of mainly informal economic activities and job losses in the private sector, combined with a humanitarian crisis (more than 9.8 million people need immediate food assistance).

*Implications of the negative economic impacts of COVID-19 on the overall security of these three G5 Sahel countries.* The deterioration of the economic and financial situation of Burkina Faso, Mali and Niger could also undermine their strategy to combat insecurity and terrorism. Weakened by the latest terrorist attacks between late 2019 and early 2020, the Governments of these three countries had already been forced to allocate between 18% and 22% of their budgets to the security sector, to the detriment of social sectors such as health. The negative impacts and financial strains resulting from the COVID-19 pandemic will reduce the ability of these countries to respond to their security challenges.
2.6 The Bank’s projections show that the African economies imminently face losses of tens of billions of dollars in foregone GDP, and potentially hundreds of billions over the longer term. The Bank has developed some initial scenarios:

- Quantitative model-based estimates of the impact of COVID-19 indicate that it would cost Africa GDP losses between USD 22.1 billion, in the base case scenario, to USD 88.3 billion in the worst-case scenario, equivalent to a contraction of projected GDP growth for 2020 of between 0.7 and 2.8 percentage points.
- The COVID-19 shock would further squeeze fiscal space in the continent as fiscal deficits are estimated to widen by 3.5 to 4.9 percentage points, increasing Africa’s financing gap by an additional USD 110 to USD 154 billion in 2020.
- Beyond the health effects, the spread of the virus has threatened global growth prospects, with the IMF downgrading global growth forecasts for 2020 by more than 0.4 percentage points. The principal channels of transmission of this global economic shock to African economies are through reductions to trade, financial flows and tourism (see Annex 1 for more context analysis). Companies are likely to defer significant investment decisions, and lower FDI inflows will reduce foreign exchange availability/reserves and countries’ ability to finance their external current account. This will compound the debt management challenge. Moreover, as imports decline, product scarcity will create inflationary pressures. Over the longer term, lower FDI will adversely affect productivity and growth prospects.

2.7 From a fiscal and debt management perspective, African economies offer different levels of resilience to the shocks ahead. Some have strong macroeconomic and fiscal fundamentals. However, eight African countries are in debt distress while nine others are at high risk of debt distress. Countries with high debt-to-GDP ratios and large fiscal deficits have little fiscal room to address the direct and indirect effects of the pandemic. In addition, falling commodity prices, including oil and gas and most minerals, will widen fiscal deficits in commodity exporting countries, which could further elevate debt levels. Bank’s model-based estimates indicate that Africa’s total public debt could increase, under the base case scenario, from USD 1,863 billion (or 61% of GDP) at the end of 2019 to USD 2,018 billion (or 64% of GDP) in 2020, compared to USD 1,907 billion (or 61% of GDP) projected in a no-outbreak scenario. These figures would reach USD 2,062 billion (or 65% of GDP) in 2020 under the worse-case scenario.

Box. Impact of COVID-19 on Zambia’s Fiscal Situation

COVID-19 is expected to strongly amplify Zambia’s current fiscal imbalances as the economy is expected to register negative growth in 2020. The country is at high risk of not meeting its financial obligations including commercial debt service and payment of goods and services. Currently 91% of the government’s expenditure is absorbed by debt service and the wage bill, while the reserve position is at 1.4 months of import cover. The fiscal deficit in 2019 widened due to higher external debt service costs linked to the depreciation of the Kwacha, and increased spending on capital projects, and agricultural input distribution.

Project savings to the tune of USD 31.7 million have already been identified from ADF, ADB and a small amount from the Africa Water Facility to assist Zambia urgently. In addition to these, unutilized resources

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From ADF-14 of about USD 15 million can be reprogrammed to augment ADF-15 resources for possible crisis budget support.

2.8 From a gender perspective, women are likely to be worse affected by the COVID-19 induced economic crisis. Indeed, pandemics are known to disproportionately impact their health, livelihoods and safety. Women, who are highly represented in the informal sector in Africa, are most at risk of losing their livelihoods and wages. In addition, as the elderly are at higher risk of acquiring COVID-19 and women typically care for sick elders in the household, their burden of work as caregivers will increase and put them at greater risk of contracting the infection themselves. Moreover, women will be expected to take on roles as breadwinners and care for children and family members. In the absence of social protection measures, the dual burden of income generation and domestic responsibilities will fall solely on women.

2.9 From a credit risk perspective, the Bank has identified 26 countries that demonstrate moderate vulnerability, 16 that demonstrate high vulnerability and 12 that show severe vulnerability to the COVID-19 crisis and the accompanying commodity price shock. These countries are dispersed across the regions, attesting to the broad-based nature of the crisis. They include both ADB and ADF countries, indicating the need for an equitable allocation of Bank resources to ensure that needs are met across the board. These vulnerabilities are further highlighted in sector distributions, with financial services, agro-industries and power showing high vulnerability and oil and gas, mining, tourism and transportation showing severe vulnerability. Countries with high levels of exposure in these last four sectors are therefore among the most vulnerable in terms of economic shock.

Mitigating debt issues through the CRF

2.10 All CRF operations will comply with RMCs debt absorptive capacity and ceiling and abide by the Non-Concessional Borrowing Policy. In line with ADF-15 and GCI-VII commitments, the Bank Group will work within the context of agreed international principles and arrangements in particular the Debt Sustainability Assessment (DSA) framework and the G20 Operational Guidelines for Sustainable Financing. In the poorest countries, the choice of ADF instrument (loan or/and grant) will be as agreed in the ADF 15 Deputies Report and ADF Guidelines. The Bank Group will continue to collaborate with all development partners for sustainable debt management through ongoing collaboration and information sharing on debt management, transparency, and sustainability. To the extent possible bearing in mind the urgent nature of the assistance, the CRF will contribute to assist RMCs in public finance management and debt sustainability, strengthen capacity on sustainable debt management and transparency, and enhancing domestic resource mobilization. The CRF’s comprehensive and coordinated effort is expected to limit potential negative spillover effects on RMCs’ debt profiles and prevent debt levels from becoming a more difficult and threatening challenge than existed prior to the COVID-19 crisis. [...]
needs to be bold in providing support that sustains and build on the resilience achieved in recent years, while recognising the unprecedented nature of the current crisis.

3.2 The Bank has built up relevant experience from a range of emergency operations for natural disasters and disease epidemics. It was among the first development partners to approve an emergency operation in response to the Ebola epidemic in April 2014, and therefore has been able to deepen its capacity to work with key partners such as the WHO and the West African Health Organization (WAHO). In general, the Bank’s comparative advantage has been in providing budget support to affected countries. Budget support has advantages in terms of flexibility – helping Regional Member Countries to meet both the direct costs of their COVID-19 response and to manage the wider economic impacts – and speed of response.

3.3 The Bank’s proposed package follows the following principles:

- It provides rapid, cost-effective and targeted emergency budget support through a fast-tracked approval process to provide immediate relief to countries to address the crisis, providing them with additional resources for public health interventions, social protection programmes and to protect their economies at a time of global volatility and uncertainty.
- It offers liquidity to countries facing fiscal and balance of payment stresses, to provide stability and allow for the maintenance of core public services and social infrastructure during the emergency period. It considers the needs of the private sector.
- It offers support in a sustainable way that avoids deepening the debt burden, building on the gains in resilience achieved in recent years.
- It offers a range of options to Regional Member Countries and private sector enterprises, taking account of the diversity of circumstances they face and allowing them to choose the package of support that best suits their needs.

4. The COVID-19 Rapid Response Facility

4.1 The African Development Bank Group will create a dedicated facility, the COVID-19 Rapid Response Facility (CRF), to protect its RMCs and their private sector enterprises from the economic and social impact of the COVID-19. In 2020, the CRF will utilize up to UA 7.4 billion (USD 10 billion) of resources from the African Development Bank and the African Development Fund.

4.2 Table 1 below presents an overview of the proposed use of Bank Group resources for the CRF and for other development operations by Bank Group institutions. More detailed descriptions of the proposed resources for sovereign and non-sovereign operations are presented later. The planned allocation of CRF resources can be summarized as:

- From the African Development Bank, UA 5.1 billion of the UA 6.6 billion total resources available in 2020 will be dedicated to fighting the COVID-19 crisis through the CRF. This represents 77% of available ADB resources.
- Of the UA 5.1 billion of ADB resources allocated for the CRF, UA 4.1 billion will be dedicated to support sovereign operations for eligible ADB countries. UA 1 billion will be allocated for the CRF to support non-sovereign operations in all African countries.
- From the African Development Fund, UA 2.3 billion of the UA 4.1 billion total resources available in 2020 will be dedicated to fighting the COVID-19 crisis through the CRF. This represents 57% of
available ADF resources. This entire amount will be available to support sovereign operations for eligible ADF countries.

- From the combined Bank Group perspective, UA 7.4 billion of the UA 10.7 billion total resources available in 2020 will be dedicated to fighting the COVID-19 crisis through the CRF. This represents 69% of available Bank Group resources. UA 6.4 billion of the resources allocated to the CRF will be used to support sovereign operations and UA 1 billion for non-sovereign operations.

- UA 3.3 billion (31%) of Bank Group resources will be available to support other development projects not directly linked to the CRF.

### Table 1 – Uses of Bank Group Funds for CRF

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>Total</th>
<th>CRF</th>
<th>Non-CRF</th>
<th>Share CRF</th>
<th>Share Non-CRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB Sovereign Operations</td>
<td>5,100</td>
<td>4,100</td>
<td>1,000</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Non-Sovereign Operations</td>
<td>1,500</td>
<td>1,000</td>
<td>500</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Total</td>
<td>6,600</td>
<td>5,100</td>
<td>1,500</td>
<td>77%</td>
<td>23%</td>
</tr>
<tr>
<td>ADF Sovereign Operations</td>
<td>4,093</td>
<td>2,326</td>
<td>1,767</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Total</td>
<td>4,093</td>
<td>2,326</td>
<td>1,767</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>ADBG Sovereign Operations</td>
<td>9,193</td>
<td>6,426</td>
<td>2,767</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Non-Sovereign Operations</td>
<td>1,500</td>
<td>1,000</td>
<td>500</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Total</td>
<td>10,693</td>
<td>7,426</td>
<td>3,267</td>
<td>69%</td>
<td>31%</td>
</tr>
</tbody>
</table>

**Sovereign operations**

4.3 Table 2 below presents a more granular view of the proposed uses of Bank Group resources for CRF sovereign operations. This planned allocation can be summarized as:

- From the African Development Bank, UA 2.75 billion of the UA 4.1 billion total sovereign resources available in 2020 will be used as budget support dedicated to fighting the COVID-19 crisis through the CRF. This represents 100% of available ADB budget support resources.

- UA 1.35 billion of the UA 4.1 billion total ADB sovereign resources available in 2020 will be used for regular operations dedicated to fighting the COVID-19 crisis through the CRF. This represents 57% of available ADB resources for regular operations.

- From the African Development Fund, UA 2.0 billion of the UA 2.3 billion total sovereign resources available in 2020 will be used as budget support dedicated to fighting the COVID-19 crisis through the CRF. This represents 100% of available ADF budget support resources.

- UA 0.33 billion of the UA 2.3 billion total ADF sovereign resources available in 2020 will be used for regular operations dedicated to fighting the COVID-19 crisis through the CRF. This represents 16% of available ADF resources for regular operations.

- From the Bank Group perspective, UA 4.75 billion of the UA 6.4 billion total resources available in 2020 will be used as budget support dedicated to fighting the COVID-19 crisis through the CRF.

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3 These figures are indicative.
This represents 100% of available Bank Group budget support resources. UA 1.7 billion of the resources allocated to the CRF will be used to support other regular sovereign operations.

**Table 2 – Sovereign Operations for CRF**

<table>
<thead>
<tr>
<th>Sovereign Operations</th>
<th>Total</th>
<th>CRF</th>
<th>Non-CRF</th>
<th>Share CRF</th>
<th>Share Non-CRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB Budget Support</td>
<td>2,750</td>
<td>2,750</td>
<td>-</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Other Regular Operations</td>
<td>2,350</td>
<td>1,350</td>
<td>1,000</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Total</td>
<td>5,100</td>
<td>4,100</td>
<td>1,000</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>ADF Budget Support</td>
<td>2,000</td>
<td>2,000</td>
<td>-</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Other Regular Operations</td>
<td>2,093</td>
<td>326</td>
<td>1,767</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Total</td>
<td>4,093</td>
<td>2,326</td>
<td>1,767</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>ADBG Budget Support</td>
<td>4,750</td>
<td>4,750</td>
<td>-</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Other Regular Operations</td>
<td>4,443</td>
<td>1,676</td>
<td>2,767</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Total</td>
<td>9,193</td>
<td>6,426</td>
<td>2,767</td>
<td>70%</td>
<td>30%</td>
</tr>
</tbody>
</table>

* These figures are indicative

**Sovereign budget support operations**

4.4 *Priorities* — While the Bank Group will use its full range of instruments to support RMCs, it is expected that the bulk of resources for fighting the COVID-19 crisis through the CRF will be in the form of Crisis Response Budget Support (CRBS). CRBS operations, for both ADB and ADF, will be designed in line with relevant policies and guidelines, in particular the provision for Crisis Response Budget Support as made in the 2012 Bank Group Policy on Program-Based Operations. Management will consult development partners, in particular the International Monetary Fund and the World Bank Group regarding debt sustainability analysis and compliance with countries’ debt limits, in providing PBOs. The use of budget support will ensure the Bank Group responds in a timely manner towards mitigating the adverse impact of the pandemic, and protecting the poor and vulnerable groups, through financing part of the fiscal deficit.

4.5 *Alignment with policies and strategies* — As provided for by the 2012 PBO Policy, Management will ensure that budget support under the CRF will: 1) enhance each RMC’s capacity to absorb the fiscal impact of COVID-19 economic downturn; and 2) ensure governments are able to maintain core public expenditures. Quick action by the Bank Group through the CRF will ultimately ensure that the adverse impacts of COVID-19 on poverty and living standards are mitigated. CRF resources provided through budget support will be disbursed quickly to provide RMCs with sufficient fiscal space to address the economic effects of the COVID-19 crisis. It will also help them with the purchase of critical imports and medical supplies necessary to fight the virus.

4.6 *Prioritizing budget support operations* — In order to prioritize budget support operations where they are most needed and are most useful, Management has defined a small set of criteria that will guide decision-making and coordinate the proposed interventions with other development partners. These criteria will include:
• **The demand and needs of the RMCs.** And more specifically the budgetary requirements and whether the budget support eligibility criteria are met in line with the Bank Group’s Policy of Program-Based Operations (2012).

• **Regional balance.** Management will ensure regional balance, aiming to respond to the needs of all its RMCs in a timely manner; and considering the financial aspects that govern financing — such as the headroom for ADB countries, and ADF allocations in ADF countries.

• **Net positive inflows.** Specific attention during COVID-19 crisis will be given to assuring that the amount provided through new budget support loans to ADB countries as a minimum ensures a net positive inflow vis-a-vis loan repayments.

4.7 Management will provide the Board of Directors with quarterly updates on the prioritization of budget support operations.

4.8 **Multi-country approach to budget support operations** — This approach is proposed for countries receiving budget support of less than or equal to UA 50 million. The Bank’s appropriate instrument to respond to countries’ needs during periods of crisis is “Crisis Budget Response Support”. The COVID-19 pandemic has created very similar needs and impacts across several RMCs, with similar policy responses being taken and required. In order to reduce transaction costs and allow the Bank to respond quickly and adequately to our RMCs, the Bank will prepare for a group of countries a multi-country crisis response budget support to respond to the pandemic. One main report would be prepared for a small group of countries within the same region and by financing window, the budgetary needs may vary, but the critical policy responses outlined in the project appraisal report to COVID-19 would be the same, although there may be specific policy actions proposed per country. For implementation, separate grant/loan resolutions and separate loan/grant agreements will be prepared for each country. The disbursement conditions will be specified for each individual country and may vary. If one country does not fulfil its disbursement conditions, other countries would not be penalized, as there will be separate disbursements conditions and loan/grant agreements for each country.

4.9 For a number of RMCs, the Bank has already significantly advanced on preparing PBOs, including phase II operations of programmatic budget support operations, and where revising the operation to better address the emergency needs will be a more effective way for the Bank to provide timely response, while also continuing to engage policy dialogue on broader reform programs.

4.10 **Bank Group experience in times of crisis** — This is not the first time that the Bank responds to emergency or crisis situations using fast disbursing instruments. The Bank Group has extensive experience in providing support to RMCs during crisis. One recent example is the commodity crisis in 2016. The fall in commodity prices in 2016 was a significant adverse shock for resource-rich RMCs. Indeed, fuels, ore and metals account for more than 60% of the region’s exports. Consequently, these countries experienced an economic slowdown. The economic headwinds and commodity crisis led to increased demand from countries for budget support/program-based operations as a fast disbursing fiscal stimulus to mitigate the adverse effects of the crisis and to address some key reforms in the short term. The Bank responded by providing budget support to bolster macro-economic stability and foster economic recovery. The Bank Group response to the Ebola Epidemic in 2014, provides another example of how the Bank has supported

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its RMCs in times of dire need, especially low-income African countries. ADF resources were used in a very timely and efficient manner to support the most vulnerable countries (see box).

4.11 **Collaboration** — Recognizing the importance of collaboration and harmonization in the context of PBOs, the Bank will ensure a high level of collaboration and harmonization with sister institutions such as the IMF and World Bank in the preparation and implementation of its PBOs. This is even more critical in the current situation of the COVID-19, which elicited urgent and multi-dimensional emergency requirements in regional member countries. The Bank will therefore scale up its collaboration with other development partners and ensure that its COVID-19 interventions are closely harmonized with other DPs, including the IMF and WB, in line with the G20 Principles for Effective Coordination between the IMF and MDBs. The collaboration, which has already started with the process of determining the fiscal needs of RMCs and the level of support the Bank could provide, would be scaled up in the design and implementation of our interventions to ensure synergies and complementarity between our operations and those of other development partners.

4.12 **The situation in the G5 Sahel** — The security situation in the G5 Sahel countries poses unique challenges for the response to COVID-19 pandemic. In parts of those countries classical public health approaches do not work well. Cases and contact tracing, for instance, require strong community engagement that need to be tailored to the security situation. Drawing on our experience with other outbreaks, such as Ebola as well as our long history of working with both the private and public sectors, the Bank Group will assist G5 Sahel countries in responding to COVID-19. The Bank Group will focus on three immediate priorities: supporting the health response, strengthening crisis management and response, and addressing social and economic impacts. The Bank Group will work in strong partnership with other MDBs, UNHCR and OCHAS to ensure inclusion of the most vulnerable, including women youth and refugees.

**Box: Ebola Crisis West Africa- Bank’s Response**

In 2014 West Africa experienced the largest, and most severe Ebola epidemic in history. More than 28,000 people were affected and 11,000 died. The three countries most impacted were Guinea, Liberia and Sierra Leone. The Bank responded swiftly to support the countries in the region. It was the first Multilateral Development Bank to respond to the Ebola crisis with a first grant of USD 3 million in April 2014. By December 2014, the Bank approved a total of USD 223 million for nine operations to fight the epidemic, covering the three most affected and at-risk countries (Guinea, Liberia and Sierra Leone), and Côte d’Ivoire, Nigeria, Senegal, Mali and DRC.

This support included a multi-national program-based operation totalling UA 100 million, in support of Cote d’Ivoire, Guinea, Liberia and Sierra Leone. The Bank used a combination of financing instruments including ADF and TSF, loans and grants, as well as the Regional Operations envelope. The PBO contributed towards addressing the urgent financial needs of the four countries. In particular, the three worst affected countries had experienced major shocks affecting economic growth, fiscal revenues and the overall socio-economic environment.

The Bank aimed to strengthen West Africa’s public health systems, provide crisis response technical assistance, as well as multinational and national emergency assistance operations. The funds were channelled through the WHO and through the beneficiary governments. The crisis response technical

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5 The G20 Principles for Effective Coordination between the IMF and MDBs were adopted in March 2017, to promote coordination between IFIs in the provision of budget support, particularly in countries facing macro-economic vulnerabilities.
assistance component was carried out in association with the African Union and ECOWAS to deploy medical teams and provide training to local health workers.

4.13  **Policy dialogue in times of crisis** — The Bank Group enjoys a unique comparative advantage, based on its legitimacy as an African institution, to facilitate effective policy dialogue with RMCs especially. This dialogue becomes more important and meaningful in times of crisis including through advice to RMCs on their policy response. The Bank Group, through senior management and country managers, will remain engaged in policy dialogue with RMC governments on their response to COVID-19 and policy measures to mitigate the economic and social consequences. However, in line with the 2012 Policy Based Operations Policy, long or medium-term policy reform should not be the focus of a Crisis Response Budget Support (CRBS). The focus is on stabilisation or averting catastrophe. Nevertheless, the tool can be used effectively to support short-term policy actions designed to support macro-economic stabilisation and also protect the most vulnerable. Through the use of single tranche CRBS, policy dialogue will focus on the short-term policy responses needed to deal with the emergency. A continuous dialogue on reforms to build medium to long-term economic resilience will be prioritized once the immediate needs of the crisis are addressed.

[...] The Bank, through Senior Management and country managers, will therefore engage in policy dialogue with RMC governments on their response to COVID-19, their needs, and on the policy measures to mitigate the economic and social consequences. Similarly, a continuous dialogue on reform priorities required to build resilience in the medium to long term, will be prioritized.

**Non-sovereign operations**

4.14  **Table 3** below presents a more granular view of the proposed use of Bank resources for CRF non-sovereign operations. This planned allocation can be summarized as:

- UA 1.0 billion of the UA 1.5 billion total ADB non-sovereign resources available in 2020 will be dedicated to fighting the COVID-19 crisis through the CRF. This represents 67% of available ADB non-sovereign resources and will specifically seek to protect the Bank’s existing portfolio of non-sovereign projects. UA 0.5 billion will be available to support other non-sovereign projects not directly linked to the CRF.

- Within the UA 1.0 billion of non-sovereign resources allocated for the CRF up to UA 500 million is expected to be used to support the anticipated request from the Bank’s existing private sector clients for limited deferral of their loan obligations to the Bank due to a sharp contraction of revenues caused by the COVID-19 crisis. The Bank will ensure that under any loan repayment deferral request received, the contracted provisions of the existing or original loan facility are not revised in terms of tenor, repayment schedule, corporate undertakings and covenants. The Bank will also ensure that any accommodation of deferral of loan repayment obligations is assessed on a case-by-case basis while reflecting strong collective collaboration with stakeholders and consent approval of specific co-lenders/financiers (where the relevant deferred obligations arose under a syndicated or club loan financing agreement or systemically through general engagements with

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6 This rapid response debt deferral is a critical instrument to protect the Bank’s portfolio and is consistent with the offerings provided or contemplated by other IFIs during this period of crisis.
fellow IFIs/MDBs). The dedication of the Bank’s acts of consent will also be extended to applicable Risk Mitigation or BSO (Balance Sheet Optimization) Counter-parties where the case also applies.

- The financial implication to the Bank of the CRF Debt Service Deferral sub-component includes: i) the creation of a cash flow gap (not higher than UA 500m in the worst case scenario) due to a delay in the receipt of deferred loan repayment obligations from NSO Clients; ii) Preservation of the Bank’s projected interest income during the period of deferral; iii) General enhancement of the NSO Portfolio quality due to limited or mitigated NSO credit default events arising from unplanned financial liquidity squeeze; iv) Preservation and mitigation of NSO real sector portfolio default due to the prevalence of the Debt Service Reserve Account balances under existing loan structures. The CRF debt deferral facility will only be offered to non-sovereign clients that meet specific eligibility criteria and conditions.

- UA 0.3 billion of non-sovereign resources allocated for the CRF is expected to be used to assist the Bank’s existing private sector clients facing short-term liquidity challenges caused by COVID-19 through emergency liquidity facilities.

- UA 0.2 billion of non-sovereign resources allocated for the CRF is expected to be used to assist the Bank’s existing private sector clients to access trade finance and guarantees. It should be noted that the Bank has more than UA 500 million of outstanding risk participation agreements with commercial banks that confirm trade finance letters of credit issued by African commercial banks. The Bank will seek to optimize the utilization of these existing facilities, but this will not be counted towards new CRF approvals.

- UA 0.5 billion of non-sovereign resources are expected to be used for other regular non-sovereign operations not directly linked to the CRF.

**Table 3 – Non-Sovereign Operations for CRF**

<table>
<thead>
<tr>
<th>Non-Sovereign Operations</th>
<th>Total</th>
<th>CRF</th>
<th>Non-CRF</th>
<th>Share CRF</th>
<th>Share Non-CRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB Loan Reprofiling</td>
<td>500</td>
<td>500</td>
<td>-</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Liquidity Facilities</td>
<td>300</td>
<td>300</td>
<td>-</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Trade Finance</td>
<td>100</td>
<td>100</td>
<td></td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Guarantees</td>
<td>100</td>
<td>100</td>
<td></td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Other Regular Operations</td>
<td>500</td>
<td>-</td>
<td>500</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,500</td>
<td>1,000</td>
<td>500</td>
<td>67%</td>
<td>33%</td>
</tr>
</tbody>
</table>

**5. Financing the COVID-19 Rapid Response Facility**

5.1 The African Development Bank Group’s COVID-19 Rapid Response Facility (CRF) will require UA 7.4 billion of resources to funds its 2020 programs. These resources will be mobilized from the African Development Bank and the African Development Fund.

- From the African Development Bank, UA 4.0 billion of the UA 5.5 billion total 2020 lending program will be dedicated to fighting the COVID-19 crisis through the CRF. This represents 73% of the 2020 ADB lending program.
• UA 1.1 billion of possible cancellations of ADB loans will be repurposed for fighting the COVID-19 crisis through the CRF.

• From the African Development Fund, UA 2.3 billion of the UA 4.1 billion total resource potentially available in 2020 will be dedicated to fighting the COVID-19 crisis through the CRF. This represents 57% of the 2020 ADF resources.

• Resources from the ADF for fighting the COVID-19 crisis through the CRF will come from three sources: 1) UA 1.3 billion of frontloaded ADF-15 resources; 2) UA 0.15 billion of unused ADF-14 resources; and 3) UA 1.3 billion from possible ADF cancellations.

6. Implementation Modalities for the COVID-19 Rapid Response Facility

6.1 Given the scale and severity of the COVID-19 crisis on Africa’s economies, one key measure of the CRF’s success will be its ability to respond swiftly to its clients’ needs. To this end, the Bank will make sure that its 2020 lending programme is fully geared towards addressing its clients’ most pressing economic and social priorities. Similarly, the Bank will also need to make sure it is able to fast-track operations aimed at addressing the COVID-19 crisis. In doing so, the Bank will strike a balance between the need to ensure efficient and effective processing of operations and the need for the Board of Directors to exercise the right level of oversight over operations presented under the CRF framework.

Implementation of the 2020 lending program

6.2 The Bank is actively engaging with client countries and the private sector to realign the 2020 lending programme with clients’ emerging priorities. To this end, the Director Generals and Country Managers are working with Governments and the private sector to assess their needs and design operations to address them. In addition, Management is designing a clear set of criteria to prioritize the 2020 lending programme with a view to allocating the CRF resources where they are most needed and the most useful.

6.3 The repurposing of our 2020 lending program is also informed by a realistic assessment of the feasibility to deliver the existing lending program in a context of travel restrictions and national lockdowns potentially until the end of the year. To this end, Management will continuously review and adjust its lending programme based on the developments at country-level to ensure delivery and share this information in the regular updates of the implementation of the CRF with the Board.

Approval process

A key feature of the COVID-19 Rapid Response Facility are expedited processes. During a crisis, timely responses are of the essence; accordingly, and without compromising sound banking, compliance or oversight standards, Management is developing a streamlined approval approach, bringing projects to approval stage as quickly as possible.

Eligibility criteria

6.4 To identify and prioritize operations eligible for CRF funding, the Bank Group will make a clear distinction between sovereign and non-sovereign operations. Further detail on allocating CRF resources is presented in Annex 2.

6.5 Sovereign operations – The Bank Group’s credit policies will apply to all CRF sovereign resources to determine RMC eligibility for each window. For the Bank, prevailing prudential country exposure limits will remain in effect. The ADB credit policy exceptionally allows creditworthy ADF countries to access the
ADB sovereign window subject to specific conditions. Generally, ADB financing is reserved for projects in qualifying ADF countries that are linked to economic infrastructure. Given the unprecedented nature of the crisis, this restriction may be exceptionally relaxed for specific COVID-19 operations.

6.6 As per Bank Group credit and sanctions policies, all RMCs applying for CRF financing must be current on all debt service obligations to the Bank Group. The bulk of CRF sovereign financing will be in the form of budget support. RMCs applying for CRF budget support must: 1) demonstrate the projected fiscal impact of COVID-19 crisis; and 2) explain how the resources will be used to improve the country’s resiliency and ability to address the challenges of the COVID-19 crisis.

6.7 A portion of CRF sovereign resources will also be used for project operations. It is expected that most CRF project operations will be in the social sectors, which are the most directly related to the COVID-19 health crisis. However, projects from other sectors may be eligible for CRF financing if a strong case can be made that the operation enhances the country’s resiliency to the COVID-19 crisis.

6.8 Non-sovereign operations — The COVID-19 crisis is forcing banks worldwide to provide substantial flexibility to their clients with respect to debt collection. Central banks and regulators have joined the call for leniency with respect to temporary debt service moratoria and restructuring of private sector loans. They have also called on lenders to expand the provision of liquidity to the private sector and many central banks have availed special financing windows to their commercial banks.

6.9 Rapid-response debt service deferral is an essential instrument to protect non-sovereign portfolio (See Annex 2 for more details). In this respect, through their collaborative platform for NSO MDBs/DFIs have been discussing and coordinating their Private Sector COVID-19 Operational Responses including modalities and process simplification. Liquidity facilities guarantees and deferral of debt service payment are components of most of DFIs’ response packages.

6.10 The Bank will not provide deferral of debt service payments for non-performing loans or provide new CRF financing to businesses that do not have a reasonable chance of survival. To be eligible for debt deferrals or new CRF financing, the Bank’s non-sovereign clients must be current on their debt service payments to the Bank. In addition, as a condition, the Bank’s non-sovereign client will have to provide credible financial projections to demonstrate the need for debt deferral for new financing as well as their budgeted plan for remaining operational through the crisis. In cases where there are multiple lenders, such as project finance operations, the Bank will only offer debt deferrals or new financing as part of an agreed lender plan. It should be noted that debt deferral of non-sovereign loans has no potential impact on the Bank’s preferred creditor status (PCS). PCS is only a potential issue with respect to reprofiling of sovereign loans.

6.11 The Bank will leverage all instruments to ensure the private sector, especially in low-income and fragile countries, is adequately supported during the unfolding crisis. In particular, the Private Sector Facility (PSF) is looking into better ways to support the Bank Group NSOs in transition countries during the unfolding crisis. The PSF is exploring the requirements and implications (rather than benefits and costs) of those possibilities and the ADF Board of Directors will be consulted in due course.

6.12 For non-sovereign operations the CRF will support private companies and their employees hurt by the economic downturn caused by the spread of COVID-19. The Bank will focus its efforts to help existing clients. Special attention will be given to client financial institutions to enable them to continue to offer trade financing, working-capital support and medium-term financing to private companies struggling with disruptions in supply chains. It will also help existing clients in economic sectors directly

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7 DFIs/MDBs (IFC, IADB, AfDB, AsDB, IsDB, SIFEM, CDC, EDFI, USD DFC, FMO, SIFEM, etc.) met virtually on April 1, 2020 to coordinate COVID impact and response packages under the auspice of IFC.
affected by the pandemic to continue to pay their bills. The CRF will also benefit sectors involved in responding to the pandemic, which face increased demand for their goods and services.

**Comparative advantage**

6.13 The African Development Bank’s comparative advantage in Africa during crises like COVID-19 is rooted in its vast experience dealing with shocks and catastrophes. This is reflected in the suite of Crisis Response Budget Support (CRBS) products and policies that guide the Bank during times of unexpected crisis. These operations have included assisting countries as they have emerged from long-lasting conflicts that have decimated economies, such as Rwanda, Sierra Leone, Liberia and Côte d’Ivoire. In these Bank-supported operations, CRF-styled funding was provided to offer budgetary relief during a difficult transition while also supporting an agreed policy agenda focused on reforms that would help to achieve stability and conditions for sustainable growth buttressed by functioning institutions. Likewise, more recently and, in some ways more similarly, the Bank has supported countries in West Africa and subsequently in DRC to mitigate the devastating effects of Ebola. In these cases, the Bank focused on rapid, cost-effective and targeted emergency budget support so that the affected countries could contain and ultimately eliminate the epidemic while also sustaining reforms focused on medium- and long-term strategic objectives agreed to through CSPs with the Bank.

6.14 Therefore, the Bank has front-line institutional experience and awareness of requirements in affected countries under these conditions of unanticipated exogenous shocks. The Bank has a long history of responding to crises with rapid response facilities that focus on budgetary relief during the core transition period, helping to lay the foundation for pillars of strength needed for progress in normal times and resilience during times of unexpected stress as is the case today. Its responsiveness in these times of need have also built trust with RMCs and strengthened the position of the Bank in its regular policy dialogue with member states and Regional Economic Communities precisely because the Bank has been responsive in the past.

**Environmental and social safeguards**

6.15 Operations which are not classified as “short-term emergency relief operations” shall continue to follow normal safeguards procedures. Short-term emergency relief operations would be defined as operations supporting the “provision of essential needs to individuals, families and communities in the context or the immediate aftermath of the current COVID-19 pandemic and accompanying global economic shock”. As with the drought and food crisis of 1998, the devastating flood episodes of 2010 or the most recent Ebola crisis of 2014, these projects would be carried out over a 1-3 year period. For operations funding health sector activities (e.g. resources to acquire medical equipment, drugs, vaccines, construction of quarantine centers, etc.), appraisal reports and financing agreements will include the obligation of the beneficiary to properly manage the medical wastes.

6.16 Operations targeting the medium and long-term economic impacts of the COVID-19 crisis (including infrastructure investments, value-chains development, etc.—but excluding health sector infrastructure) will be considered early recovery operations which are subject to normal E&S due diligence. Borrowers may introduce a request for a “waiver to ISS requirements” or “deferral of a safeguards aspect” for Category 1 and 2 (including FI-A and FI-B) operations, which would be considered on a case-by-case basis.

6.17 Operations likely to have serious adverse risk/impact on community health and natural resources, shall not processed under the CRF. Moreover, CRF operations will be subject to E&S categorization and the filling of the Environmental and Social Compliance Note (ESCON).
Reporting to the Board of Directors on the COVID Rapid Response Facility

6.18 Management will provide the Board of Directors with 100% transparency on the activities funded under the CRF. As the Bank gradually scales up its response to the crisis, every quarter, Management will take stock of the situation with the Board of Directors on emerging priorities and challenges. In addition, Management will provide the Board of Directors with a monthly update on the CRF lending program and an update on its prudential financial ratios through the quarterly financial statements of the Bank.

6.19 Operations eligible for CRF funding will be tracked through the Bank’s normal monitoring mechanisms. This includes the weekly lending tracking report reviewed by the Bank’s Operations Committee (OpsCom), the monthly operations status report, the automated delivery dashboard, as well as the regular Retrospective Performance Review Reports submitted to the Board of Directors.

ADF-specific Issues

6.20 Even though ADF-15 is not yet effective, up to UA 1.5 billion of resources for the lowest income countries can be mobilized with the support of donors accelerating their subscriptions and using the Advance Commitment Capacity of the Fund. The package for ADF countries relies on what is immediately available and/or expected to be available in the near future. However, the repurposing of possible cancellations raises this amount by up to UA 832 million, providing a more sizable resource base for additional support as warranted.

6.21 The ADF provides funds to RMCs on financial terms that adjust the level of concessionality to suit the specificities of each eligible country. ADF resources provided through the CRF to eligible countries will follow the standard ADF rules to protect the long-term debt sustainability of recipient countries.

7. Implications of the COVID-19 Rapid Response Facility

7.1 The CRF will be the Bank Group’s primary channel for delivering assistance to countries and the private sector as they address the effects of the COVID-19 crisis. The implications of the proposed CRF are examined from three main perspectives: 1) the impact on the primary beneficiaries (African countries and the private sector); 2) the African Development Bank Group; and 3) Development Partners.

African countries and the private sector

7.2 The proposed CRF is intended to provide immediate financial assistance to African countries that are expected to face significant financial stress as a result of the COVID-19 crisis. The CRF will help address some of the immediate effects by providing RMCs with liquidity to support their fiscal needs during these extraordinarily adverse circumstances.

7.3 The CRF is expected to provide up to UA 4.75 billion of budget support in 2020 for both ADB and ADF countries. If the basic objective to ensure net positive transfers would require UA 1.64 billion of budget support, then the difference, approximately UA 3.1 billion of budget support financing, is available to enhance African countries’ ability to address the COVID-19 crisis.

7.4 Although the CRF will provide substantial rapid-response resources to African countries during the crisis, the attractive financing terms offered by the Bank Group will ensure that African countries are able to address their crisis financing needs without aggravating debt sustainability problems. In the few weeks since the COVID-19 crisis has taken off, capital markets have reacted with extraordinary swiftness to effectively lock-out all but the very best creditors (such as the ADB) from accessing new funding. African countries that have Eurobond and Syndicated Loan facilities falling due in the coming months are unlikely

8 These figures are indicative.
to be able to refinance these facilities. In this light, all financing from the Bank Group will be very welcome to compensate for this crisis-driven market failure.

7.5 For private enterprises that can access CRF resources, this financing may be the difference between survival and collapse. Many African businesses with solid economic fundamentals are teetering on the brink of bankruptcy as they face drastic reductions in revenues and traditional sources of liquidity have dried up. Temporary debt deferrals and emergency liquidity facilities will help these fundamentally solid enterprises maintain operations, make payroll, avoid massive layoffs, and permanently destroy African economic infrastructure that has been created over the past decade of the continent’s progress. [...]

Assisting countries under sanctions

7.6 The Bank Group’s assistance to RMCs under sanctions is provided in conformity with by the Bank Group Sanctions Policy (Paragraph 2.3) and in the case of the ADF, the ADF Operational Guidelines and the 2015 Operational Guidelines for the Implementation of the Strategy for Addressing Fragility and Building Resilience in Africa (section 6). ADF 14 Operational Guidelines (Annex VI, paragraph 12) provide for ADF-eligible countries under sanctions to utilize all its supplemental TSF funding to support operations plus a maximum of 50 percent of its PBA determined grant allocation for capacity building prior to debt regularization. The CRF will support RMCs under sanctions exclusively in conformity with these Policies and Guidelines, and in partnership with all development partners. In line with other multilateral development banks operating in the region, the Bank Group will also consider supporting countries in arrears using trust funds under the control of the AfDB Group and other MDBs. As the pandemic knows no borders, and the extreme vulnerability to COVID-19 of countries under sanctions, the Bank Group will coordinate within the agreed international framework, in particular with the World Bank and the IMF, for support to countries under sanctions. There are a growing number of refugees now called “COVID-19 refugees” from Zimbabwe that have besieged the border of Botswana. They see that Coronavirus cases in Botswana are much lower and therefore see Botswana as a safe haven. The government of Botswana, already under heavy social pressures from refugees in their country, has closed its borders. The same applies to South Africa. Zimbabwe lacks funds to procure essential medicines, equipment or pay front line medical workers. If the Coronavirus spreads from packed “COVID-19 refugee populations” at the borders from Zimbabwe it will become an epidemic of disastrous proportions.

Box: The Case of Zimbabwe

The economic consequences of COVID-19 on Zimbabwe’s already fragile economy can be dire. Zimbabwe, by any measure, is one of the most fragile economies and among the least able to respond to a pandemic. The pandemic is hitting Zimbabwe at a time when it is experiencing extremely narrow fiscal space. The situation is further compounded by the adverse effects of climate change and structural issues. The complete lockdown declared by the Government since 30th March will constrain economic activity and quickly impact the ability of all sectors of the economy to generate income. For example, COVID – 19 has hit when the tobacco auction is meant to start in April and will affect sales and inflow of forex, tobacco being one of the key exports. Finally, drought continues to persist. This together with the above factors, added to COVID – 19, we expect a further contraction of between 1% and 3% as opposed to the growth of 4.6% initially projected for 2020.

The Bank Group remains partner of choice in Zimbabwe. Besides being one the partners leading the dialogue of arrears clearance, the Bank Group also engages in reform efforts. The Bank also provides
knowledge product to Zimbabwe. Over the last three years, the Bank has completed three substantive studies including: (i) The Zimbabwe Economic Report, Building a New Zimbabwe, targeted policies for growth and job creation, launched in November 2018; (ii) Zimbabwe Infrastructure Report 2019, launched in July 2019; and (iii) the Joint Needs Assessment (2019), the first to be undertaken together with the World Bank and the United Nations, at the request of the Government. Increasing the effectiveness and responsiveness by the Bank Group through the CRF remains critical in helping Zimbabwe address various drivers of fragility and vulnerability.

Development partners

7.7 The proposed CRF is intended as a rapid-response mechanism to deliver urgent assistance to the Bank’s RMCs and its private sector clients. It is designed to deliver stand-alone assistance as well as to help in coordination with other development partners. It is flexible and scalable and therefore fits well within the response measures being designed by development partners. The Bank Group intends to optimize its comparative advantage while complementing the efforts of others with which it shares common objectives.

7.8 The CRF development impact can only be considered together with what other development partners, including humanitarian actors, are doing for RMCs in the context of the ongoing pandemic. Existing country coordination mechanisms will be used to strengthen and coordinate interventions at the regional and at the national levels. Collaboration with other IFIs, other international actors or bilateral partners and with specialised agencies, such as WHO and Africa CDC, will be leveraged to increase the preparedness and responsiveness of initiatives on the continent. African governments have already established a continental taskforce to coordinate the response: the Africa Taskforce for Novel Coronavirus (AFTCOR) with the following pillars: 1) Enhanced surveillance; 2) Laboratory testing; 3) Risk Communication and community engagement; 4) Infection prevention and control; 5) Case management; 6) Rapid response and simulations; and 7) Resource mobilization.

7.9 For African countries, the CRF will provide rapid fiscal space using budget support instruments to enable them to deal with the urgencies of the crisis. Whenever possible, this budget support will be coordinated with development partners able to provide this form of assistance. The CRF will also deliver financial assistance in the form of projects and programmes targeting the health and social aspects of the COVID-19 crisis. Given comparative advantages, the Bank will seek to coordinate with development partners whose comparative advantage may exceed the Bank’s in these sectors.

7.10 In the context of fragile and conflict-affected situations, the Bank Group will rely on its longstanding relationship with the African Union (AU), Regional Economic communities (RECs), and UN agencies to leverage its engagement and facilitate coordination with the civil society, the private sector and other development, humanitarian and peace-building actors. The purpose of this coordinated approach is to formulate integrated crisis response programmes at national and regional levels. It will seek to enable RMCs to predict, prevent, respond, and adapt to the underpinning challenges during and after the crisis. A stronger focus will be given to Transition States, whose economies are likely to be more exposed to the crisis, by using a resilience-based approach helping to stabilise economies and strengthen the livelihoods of the most vulnerable population to the crisis (health, environmental, or conflict).

7.11 Moreover, the Bank Group will use its ADF financing instruments and its convening power in order to fast-track strategic alliances and sharpen joint collaborations— with the IMF, World Bank Group, the European Union— towards addressing post-crisis situations. ADF financing instruments proved to be very valuable in crisis situations. These enabled the Bank Group to respond quickly and flexibly during the
drought crisis in the Somalia and South Sudan; the Idai cyclone in Mozambique, Zimbabwe and Malawi; and the Ebola outbreak in Liberia, Sierra Leone and Guinea.

**Box. Guinea, Liberia and Sierra Leone: AfDB Partnership Initiatives during the Ebola Virus Disease (EVD)**

The Bank Group was a very strong and pro-active partner working with both traditional and non-traditional donors. Country Managers participated in all the technical and strategic coordination platform meetings with donors and governments. The Bank provided resources to the World Health Organization (WHO) through the Strengthening West Africa’s Public Health Systems (SWAPHS) project. The Bank Group, through the TSF-funded Crisis Response Project, provided much needed funds to the African Union Support to Ebola Outbreak in West Africa (ASEOWA) and West African Health Organisation (WAHO) for mass training of medical workers, deployment of medical workers to most affected areas and extra compensation of local health workers. In addition, a Budget Support Operation was provided to these countries through the Ebola Fightback Project. This support provided the fiscal space for the payment of salaries to local health workers, provision of food supplies to quarantined communities and acquisition of essential services. The support to these countries scaled up the deployment of community health care workers in these countries. The UNHCR, UNFPA, UNDP and WHO were involved with training of health staff, infection control, contact tracing, epidemiological surveillance, alert and referral systems, community education, and mobilization with support from the Bank.

In addition to these direct interventions, the Bank also engaged on the following partnership initiatives:

- **Post Ebola Economic Recovery Initiative**: Post Ebola Economic Recovery Initiative was launched with the support of the UN, AfDB, World Bank, AU and EU. The Bank partnered with World Bank to develop a regional socio-economic recovery strategy with specific interventions in their areas of comparative advantage and strategy focus areas.

- **Private Sector Participation and Business Roundtable**: The African Union together with the Bank, the United Nations Economic Commission for Africa and leading businesses in Africa, came together in November 2015, in Addis Ababa, Ethiopia to create and support a funding mechanism to deal with the Ebola outbreak and its effects.

7.12 In the private sector, the Bank will work closely with other IFIs that are part of non-sovereign lending syndicates to ensure fast and equitable solutions are available to assist our common clients. The Bank will seek practical solutions that optimize the chances for sparing Africa’s economic infrastructure from the potentially devastating effects of the crisis. The Bank will use its leadership position in African transactions to build consensus and minimize the natural tensions between lenders trying to optimize their individual objectives.

7.13 The Bank will also work with partners such as the rating agencies through sharing of information. The rating agencies recognize the unique position of the African Development Bank and the knowledge that it brings. The Bank will seek to use this position to help rating agencies understand how the crisis is affecting the continent and how it is being addressed. To the extent possible, the Bank will seek to reduce the risk of over-reactions that may lead to unnecessary credit rating downgrades of African sovereigns and private enterprises, which can exacerbate the challenges created by the crisis.
8. Conclusions and Recommendations

8.1 The severity and scale of the COVID-19 crisis on African countries is unprecedented. And it calls for exceptional measures from the African Development Bank Group, its shareholders and development partners. The scale of the crisis means that we all need to work in unison. So that the impact of the actions we take together is larger than the sum of the parts. Already, the global crisis is prompting national actions and spending on a scale that was absolutely unthinkable only a week ago.

8.2 The Bank Group is taking exceptional measures to address the pandemic and provide the support our clients need to lessen the economic and social impact of COVID-19. These measures can be summarized as follows:

- The Bank Group will mobilize UA 7.4 billion (USD 10 billion) in 2020 for the COVID-19 Rapid Response Facility — The Bank Group’s main channel for responding to the crisis.
- As part of this response, the Bank Group will make available UA 6.4 billion of financing directly to its RMCs in 2020. This is almost four times the expected annual debt service payments from RMCs to the Bank Group. And will ensure substantial positive net transfers for all eligible countries in 2020.

8.3 The COVID-19 Rapid Response Facility will, as a matter of priority, provide fast-track budget support to ensure that its clients are able to fund timely preventive action and emergency response measures.

8.4 Management also recommends flexibility in the use of the different ADF envelopes in line with existing policies. This will provide much needed resources to the Bank’s client countries.

8.5 In addition, and in order to provide a swift response to its clients, Management recommends that approval of operations presented to the Board of Directors under the COVID-19 Rapid Response Facility framework be fast-tracked. To this end, Management is asking the Board of Directors to approve the provisions set out CRF operations’ final approval measures.

8.6 As the African Development Bank Group responds to the COVID-19 crisis and implements the Facility, it is guided by three principles — flexibility, speed and responsiveness. In pursuing these objectives, Management will provide the Board of Directors with 100% transparency on the activities funded under the CRF. As the Bank gradually scales up its response to the crisis, every quarter, Management will take stock of the situation with the Board of Directors on emerging priorities and challenges. In addition, Management will provide the Board of Directors with a monthly update on the CRF lending program and an update on its prudential financial ratios through the quarterly financial statements of the Bank.

8.7 The framework presented in this paper is intended to apply until the end of 2020. Management will carefully review the situation with COVID-19 and the progress and effects of its CRF and will come back to the Board, for approval, should there be a need to extend the CRF framework beyond 2020.

8.8 Management presents the “The African Development Bank Group’s COVID-19 Rapid Response Facility” for the Board of Directors’ consideration and approval.
Annex 1 — Context of the COVID-19 Crisis in Africa

African countries across the continent are already facing initial adverse economic effects as a result of COVID-19. This has initially been experienced in falling commodity prices, declining export revenues, and foregone customs duties and other tax revenues. The interruption in international trade and investment has already culminated in cancelled contracts, deferred investments, disrupted supply chains, and stagnant inventories. These effects are broad-based and affect all regions of the continent.

For example, countries reliant on oil and gas exports for the generation of foreign exchange are reeling from the impact of declining prices brought on by COVID-19 and turbulence in relations among OPEC and non-OPEC oil producers. This will directly and adversely affect Algeria, Angola, Cameroon, Chad, Egypt, Equatorial Guinea, Gabon, Libya, Nigeria, and the Republic of Congo, South Sudan as major exporters of oil and gas. Together, these countries account for around 50% of African GDP. Therefore, the shock to these markets and countries will be severe for Africa.

African countries reliant on commodity exports face the ripple effects of declining world prices as major manufacturers either slowdown, or temporarily shut down production. Prices of several commodities like copper, oil and coal have dropped by at least 20 percent over the last eight-week period. With the export of commodities accounting for approximately 70 percent of total exports in nearly half of the African countries, the impact of this on economic growth will be unprecedented.

Africa is the continent from which approximately 60 percent of the world’s raw materials are supplied. The global slowdown in demand for commodities as a result of COVID-19 has uncompromising implications for the African continent’s ability to earn foreign exchange and maintain jobs, and employment creation. The countries are already beginning to feel the impact of the global economic slowdown include, for example, South Africa, Mali, Guinea, Zambia, Botswana, Namibia, and Niger, whose economies heavily rely on commodities.

African exports are also beginning to show severe declines. As worldwide demand tapers off, countries relying on horticulture exports, the export of minerals and metals, and the export of intermediate goods, are already beginning to be severely impacted. These countries would include, for example, Kenya and Ethiopia (horticulture), Tanzania (gold) and DRC (diamonds), and Botswana, Mauritius and Seychelles (all upper MICs with important intermediate goods industries).

Various African countries have already responded to the COVID-19 crisis by shutting down government services and closing schools. Some have also asked that businesses close and various social protection programs are currently being prepared to assist all those who can no longer pursue a meaningful way of maintaining their livelihoods. Various African countries will need to find ways for developing safety nets that are well beyond their ability to do so. The countries facing this challenge now include Egypt, Ghana, Morocco and South Africa. Because of the expected costs and need for relief, the 15% PBO limit for ADB countries and the 25% for ADF countries may need to be exceeded to ensure that countries receive the assistance they need.

Current policy responses to fight the coronavirus pandemic (business shutdown, border closures, and travel restrictions) will have important fiscal implications in Africa. By reducing household incomes and firm profits, business shutdown (bars, restaurants, sport and leisure businesses among others) will induce lower government tax revenues while at the same time requiring increased public spending in terms of safety-net programs and business support measures to avoid a wave of firm bankruptcies. This will be compounded by reduced revenues from border closures as international tourism receipts taper off. Import and export taxes are also likely to be affected as demand and supply disruptions in Africa’s trading partners worsen.
As the fiscal situation deteriorates in various African countries affected by COVID-19, or its fallout, so will the ability of governments to provide and maintain essential services. Many countries on the continent provide electricity to their populace through gas-fired turbines and the like and many import fuels, diesel among them, to be able to generate electricity. If foreign exchange resources continue to dry up, being able to provide reliable electricity to the populace at large will become more challenging. Additionally, the import of essential items like chlorine to maintain a safe and clean drinking water supply may become an issue, especially for African fragile states, and a risk for the increasingly rising urban populations. Keeping public services operating efficiently may also become problematic like public transportation and key social services.

Remittances from the African diaspora are also likely to be depressed due to the COVID-19 pandemic. Diaspora remittances have become the largest source of financial inflows to Africa surpassing aid and FDI (AEO, 2020), thanks to an increasing number of African migrants in high-income countries. The growth in remittance inflows to Africa has been supported by strong economic and employment situations in developed countries the United States and Europe. This implies that given depressing economic activities in those countries, the COVID-19 would reduce migrants’ remittance capacities due to potential loss of jobs, increased healthcare costs and household expenditures as a result of hoarding. In countries such as Lesotho, Liberia, Comoros and Senegal, where remittances represent more than 10% of GDP, the economic consequences of a sudden cessation of remittance inflows would be significant. Other highly vulnerable countries to the financial flows channel by remittances include Egypt and Nigeria with an average of USD 21 billion of remittance inflows between 2014 and 2018.

Africa imports USD 35 billion of food annually. Africa is not food self-sufficient and is a net importer of food. Food supplies are likely to be impacted as foreign exchange resources dry up with declines in oil prices, commodity prices, etc. This will likely lead to an upsurge of inflationary pressures as the populace competes for whatever essentials are available. This could lead to disturbances across various African countries the reach of which remains unknown as of today.

Additionally, countries highly reliant on growing tourism revenues for foreign exchange earnings and job creation from that sector will now be hurt by the fall-off in tourism and tourism-related investments. Countries like Kenya, Seychelles, Cabo Verde, Mauritius, São Tome e Príncipe, Tanzania, Morocco, Egypt, Tunisia, and South Africa that enjoy significant tourism sectors will be hit hard by the crisis. Coupled with the decline in oil prices, commodity prices, and remittances this has the potential to generate foreign exchange deficits of a magnitude that the African continent has never seen.

As for the direct health effects on Africa, inadequate information globally and specific to Africa prevents any reasonable estimation of health-related suffering. However, Bank research notes:

- The recent outbreak of the coronavirus (COVID-19) disease has threatened global health and economic prospects. As of March 17, 2020, there were over 173,344 cases of the illness in over 152 countries, areas or territories around the world, with 26 African countries having confirmed cases.
- More than 33 African countries have high vulnerability to the impact of the disease based on their scores on the Global Health Security (GHS) Index. Only 21 countries appear to be adequately prepared from a clinical perspective to deal with epidemic threats with international implications of this magnitude.
Annex 2 – Criteria for Allocating CRF resources

Allocation of the CRF funds will be guided by a simple tenet — Providing the Bank’s public sector and private sector clients with the support they need to address the immediate economic and social impact of COVID-19. The CRF’s success will depend in large part in directing these resources swiftly not only to clients that most need the support but also to those who will make the best use of it. In order to allocate CRF resources efficiently, Management has defined a small set of criteria that will guide decision-making. In doing so, it makes a distinction between sovereign and non-sovereign operations.

Sovereign Operations

For sovereign operations, the CRF will as a matter of priority provide fast-track budget support to ensure that RMCs are able to fund timely preventive action and emergency response measures. This is an efficient approach, with the flexibility to allow RMCs to apply for the support that best meets their individual needs. It gives due consideration to the growing risk of debt distress in many African countries. At a minimum, standard objectives of PBOs will need to sustain growth by contributing to financing requirements; strengthen economic and financial governance; support policy and institutional reforms; Mitigate the adverse impact of shocks; contribute to recovery, state building and arrears clearance in fragile states.

In addition, Management will consider allowing governments to use budget support resources for ongoing services. For example for the purposes of income supplements, pension payments, and other payments on which ordinary households depend; protection to the most vulnerable; funds to sustain critical infrastructure; support for critical needs for normal commerce in areas that may have suffered interruptions in supplies or sales as a result of the virus; and injection of liquidity to support the financial system.

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

The CRF will also fund, but to a lesser extent, sovereign investment operations. Special attention will be given to the social sectors, which are the most directly related to the COVID-19 health crisis. Other criteria include operation’s ability to enhance the country’s reliance to the COVID-19 crisis. Support will also include policy advice and technical assistance drawing on global expertise and country-level knowledge.

Non-Sovereign Operations

Deferral of debt service payment:

Eligibility:

- Existing Bank clients in all member countries from all sectors that have signed and disbursed loans and are current on their debt service obligations
- Provide financial cash flow projections showing the need for deferral due to the crisis
- The 2019 financial performance should be satisfactory as determined by the Risk department
- Need for a business plan, outlining contingency plans and liquidity management strategies that support the financial model / cash flow and demonstrates future ability to pay

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9 Subject to domiciliation requirements set out in the NSO Policy.
- Information concerning relief received from other creditors (which can include trade creditors and other lenders and related party loans).

*Priority:*
- Corporate loans & lines of credit
- Financial intermediaries supporting SMEs
- Syndicated loans will be restructured only if other IFI lenders agree to defer their payments (and subject to voting arrangements)

*Liquidity Facility:*

*Eligibility:*
- Existing Bank clients in all member countries from all sectors will be eligible to the liquidity support facility.
- Provide financial cash flow projections showing an expected shortfall in liquidity due to the crisis
- Provide a business plan demonstrating increased short-term funding requirements due to the crisis (e.g. for those critical to the response (e.g. medical value chains, manufacturing, etc.)
- NSO Policy eligibility criteria will apply.
- Providing a forecast / ability to refinance (in case of FIs) that demonstrates the repayment over the envisaged time period.

*Priority:*
- Financial intermediaries to support loan restructuring and provision of working capital to their clients, including SMEs
- Corporations affected by the crisis or critical to the response (e.g. medical value chains, manufacturing, etc.)

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10 Subject to domiciliation requirements set out in the NSO Policy.
## Annex 3 – COVID-19 Responses of Other International Financial Institutions

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| **African Export-Import Bank (Afreximbank)** | - US$3-billion Pandemic Trade Impact Mitigation Facility  
- Support member country central banks to meet trade debt payments that fall due and to avert trade payment defaults. Support and stabilize the foreign exchange resources of central banks for support to critical imports under emergency conditions. Assist member countries to manage any sudden fiscal revenue declines as a result of reduced export earnings. Provide emergency trade finance facilities for import of urgent needs.  
- The facility will be available through direct funding, lines of credit, guarantees, cross-currency swaps and other similar instruments. |
| **Bill & Melinda Gates Foundation (BMGF)** | The BMGF is carrying out a number of activities in response to COVID-19, such as US$100 million to respond to COVID, a joint announcement last week with Mastercard Foundation and Wellcome Trust of a new US$125-million therapeutics accelerator. More information is available at [https://www.gatesfoundation.org/TheOptimist/coronavirus](https://www.gatesfoundation.org/TheOptimist/coronavirus). |
| **Banque Ouest Africain de Développement (BOAD)** | - Soft loans of XOF120 billion.  
- Principal repayments by member countries involving XOF76.6 billion of debts due for the rest of the year are suspended. This represents a total support of XOF196.6 billion. |
| **European Commission** | No specific response for Africa so far. Measures taken for member countries include:  
- Ensure adequate supply of protective equipment and medical supplies across Europe;  
- Set up a €37 billion Coronavirus Response Investment Initiative to provide liquidity to small businesses and the health care sector.  
- We are in discussion with the EU partner for the Bank and the number one aid provider to Africa. |
| **European Bank for Reconstruction and Development (EBRD)** | No specific response for Africa so far. EBRD has unveiled an emergency €1 billion Solidarity Package of measures to help companies. |
| **European Investment Bank (EIB)** | No specific response for Africa so far.  
- Up to €40 billion of financing. This will go towards bridging loans, credit holidays and other measures designed to alleviate liquidity and working capital constraints for SMEs and mid-caps.  
- The EIF, as the EIB Group’s specialist arm for SME financing will work through financial intermediaries and in partnership with national banks. |
| **GAVI** | - Looking at acceleration of priority candidate vaccines with a focus on access including production and delivery.  
- Countries will be able to quickly reallocate up to 10% of grants extended to them under Gavi’s health system and immunization strengthening program to fill critical gaps in areas such as hygiene and infection control training for health workers, infection control supplies, surveillance and... |
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| Islamic Development Bank (IDB)               | • Strategic Preparedness and Response Facility’ of US$730 million. This will include US$280 million from the Bank and Islamic Solidarity Fund for Development for sovereign projects and programs, US$300 million from International Islamic Trade finance Corporation (ITFC) for trade finance and US$150 million from ICIEC for insurance coverage.  
• Financing will be extended in the form of grants, concessional resources, trade finance, private sector lending and political and risk insurance coverage. |
| International Monetary Fund (IMF)            | • The IMF has indicated it stands ready to deploy all of its US$1 trillion lending capacity to help counties during the COVID-19 crisis. It asked G20 leaders to back its plan to allow countries temporarily draw on part of the Fund’s US$1 trillion overall resources to boost liquidity. The IMF is providing relief for debt repayments for its poorest members under the Catastrophe Containment and Relief Trust, which it is also replenishing. Low-income countries facing urgent balance of payments need are requesting concessional financing from the Rapid Credit Facility. Finally, a number of low- and middle-income countries have asked the IMF to make an SDR allocation similar to during the Global Financial Crisis. |
| World Health Organization (WHO)             | • Strategic Preparedness and Response plan calling for a resource requirement of US$675m (US$61.5m needed urgently). To date WHO has received US$240 million with pledges of US$29m with large contributions (over US$10m) from China, Japan, Kuwait, EC, Germany.  
• The response aims to  
  • Send personal protective equipment to frontline health workers  
  • Boosting laboratory capacity through training and equipment.  
  • Ensure access to the latest science-based information for health workers.  
  • Accelerate efforts to fast-track the discovery and development of lifesaving vaccines, diagnostics and treatments.  
• The Bank Group has proposed US$2 million from the Special Relief Fund to be used through the WHO. |
| World Bank Group                             | • On March 17, announced US$14 billion in immediate support.  
• Private sector support through IFC is a large portion of this support offering trade financing, working capital and medium-term support to industries both heavily hit and facing increased demands. Training frontline health workers particularly in fragile settings; strengthening institutions for policy development and coordination of preparedness; supporting preparedness and surveillance infrastructure.  
• Through development of emergency investment operations; potential triggering of Contingent Emergency Response Components (CERCs) to existing projects; restructuring existing projects in a country’s portfolio on a fast-track basis. |
Annex 4 — Schema of the Share of PBOs and Investment Projects

The African Development Bank Group is using its palette of instruments, including budget support operations (PBO) and investment projects (IP), to support its RMCs address the economic and social consequences of COVID-19. Given the adverse impact of COVID-19 on governments’ fiscal position, RMCs are primarily requesting budget support from the Bank Group. Based on its total resource envelope, the Bank Group can meet part of those requests ($B), while the rest of its resources would be directed to other instruments ($A). Over time as the crisis abates, it is expected that RMCs will request less for budget support and more for investment operations. This situation is illustrated in Figure 1 below.

Figure 1. Schema

However, as of today, the economic consequences of COVID-19 are not known with certainty. It is possible that the adverse economic impact on RMCs would increase. In this case, the rate at which RMCs request budget support from the Bank would not decline as fast (PBO1 moves to PBO2 in Figure 1), and symmetrically the rate of growth for investment operations would be lower (IP1 moves to IP2 in Figure 1).

Notes to Figure 1 — PBO: Performance Based Operations (budget support), IP: Investment Projects; Index 1 denotes the current situation and Index 2 denotes a possible worsened effect of COVID-19. $A denotes resources currently allocated to investment operations while $B is the corresponding amount for policy-based operations.