III. PROVISION OF FUND FINANCING: BALANCING RISKS AND REWARDS[9]

61. **Roadmap.** This section lays out how the framework for Fund EF balances the need to provide quick assistance with risks to the Fund's balance sheet (Section III.A); reviews the experience with the provision of EF during the pandemic (Section III.B), with particular attention to the application of governance safeguards (Section III.C); assesses the interaction between EF and UCT financing (Section III.D); and concludes with an assessment (Section III.E).

A. Framework for Fund Emergency Financing

62. **RFI and RCF.** The IMF has established from time to time a variety of facilities, often with lower than UCT conditionality standards, to help countries tackle specific and urgent BOP needs arising from various economic shocks, such as declines in commodity prices or natural disasters, where implementing a standard UCT program would be difficult.[10] In 2010–11, urgent BOP assistance for commodity price shocks, natural disasters, and post-conflict states was combined into two EF facilities—the RCF (2010), which provides concessional (PRGT) resources for LICs, and the RFI (2011), which provides GRA resources to the entire membership—and coverage was extended to cover all urgent BOP needs..

63. **CCRT.** In addition to the two emergency facilities, the IMF provides relief on debt service owed to the Fund through the CCRT. In 2015, a debt relief trust originally set up to help Haiti respond to an earthquake was transformed into the CCRT, initially to help some West African countries tackle the Ebola pandemic, and subsequently to help other LICs affected by public health disasters. Countries seeking debt relief need to provide a letter outlining the nature and impact of the public health disaster, explain how the authorities are responding to the crisis, and outline macroeconomic policies taken to address BOP problems.

64. **Risk framework of Fund EF.** Emergency financing is designed to address actual and urgent BOP needs arising from a variety of circumstances, including exogenous shocks and fragility that, if not addressed, would result in an immediate and severe economic disruption. Given the need to act quickly—and the fact that the immediate trigger of the crisis is generally not the result of past policy mistakes—EF provides a single up-front disbursement without requiring time-consuming agreement on ex-post conditionality, which in standard UCT arrangements offers the reassurance that the country will correct policy distortions and thus have the capacity to repay the Fund. Nor does a decision to provide EF require that all sources of financing to meet a country's BOP needs be identified in advance. However, the Fund has numerous policies and practices aimed at mitigating the risks to its balance sheet from emergency lending.

---

[9] This section draws on the background papers by Kincaid, Cohen-Setton, and Li (2023) and Batini and Li (2023).

[10] While the Fund embarked on the practice of granting emergency relief for natural disasters in 1962, there were only four cases of such assistance until 1978. However, during 1979–80, their frequency rose sharply, leading the Board to adopt guidelines in 1982 on the granting of emergency assistance for natural disasters, while rejecting the creation of a formal disaster facility.

- First, staff have to judge the country to be eligible for EF by establishing an urgent BOP need and finding that the country is either unable to implement a UCT program or faces only a short-term external imbalance and does not require adjustment policies. These requirements are intended to avoid "facility shopping" by countries—i.e. requesting the Fund resources with the least policy conditionality attached.

- Second, although there is no ex-post conditionality, RFI and RCF requests require a letter of intent (LOI) from the authorities indicating: (i) the general policies that they plan to pursue to address their BOP needs; (ii) a commitment not to introduce or intensify exchange and trade restrictions; (iii) a willingness to undergo a safeguards assessment by Fund staff; (iv) a commitment to provide Fund staff with access to its central bank's most recently completed external audit reports; and (v) an authorization for the central bank's external auditors to hold discussions with Fund staff.

- Third, the MD may ask for prior actions (PAs) where it is critical that macroeconomic or governance measures be taken upfront, for instance to help ensure that the financing is used for intended purposes and provide a source of protection to the Fund's own balance sheet.

- Fourth, as in other forms of Fund financing, it has to be assessed that the country has adequate capacity to repay the Fund and a debt sustainability analysis (DSA) needs to demonstrate that the Fund is not lending into an unsustainable situation.

- Last but not least, annual and cumulative access limits on how much EF the Fund can provide also serve to limit the risk to the Fund. Additional use of Fund resources would require a UCT arrangement.

B. Fund Financing During the Pandemic

Scale, Type, Speed, and Access Levels

65. **Unprecedented response.** The pace of Fund resource use, approved amounts of financing, number of new financial commitments, and the number of countries with outstanding Fund credits in the aftermath of the pandemic outbreak represented record highs for the IMF in its over 75-year history. These amounts included access to EF and, in a more limited number of countries, access to UCT arrangements and precautionary facilities.

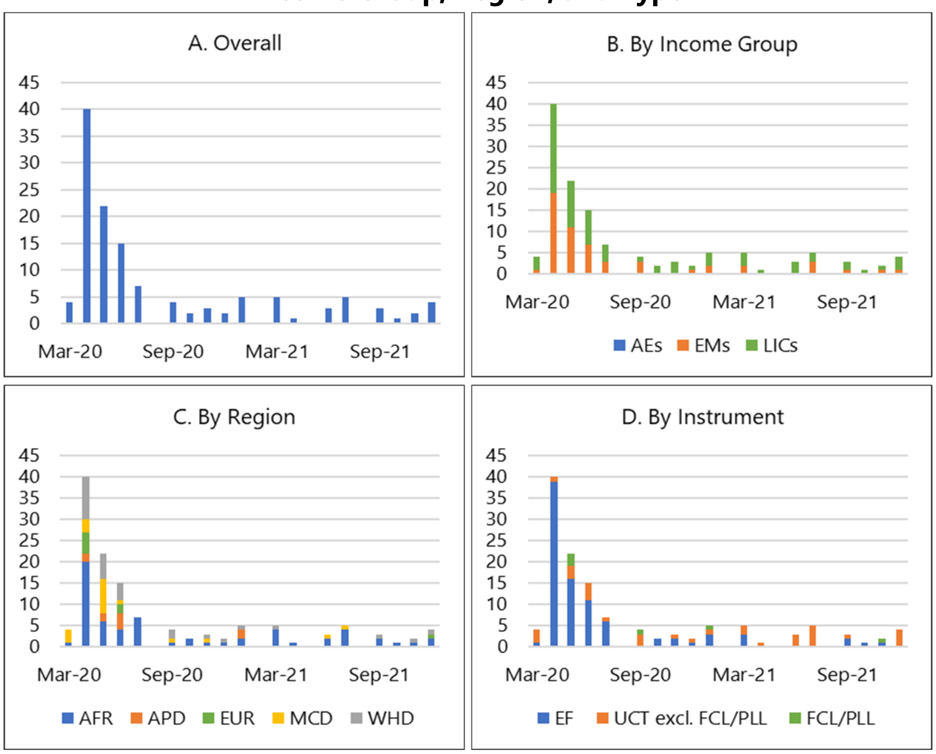
66. **Scale and type:** From March 2020 to December 2021, the Fund approved commitments for US$160 billion for COVID-19-related financial assistance.[11] Of this amount, US$29 billion was in the form of EF, US$30 billion in new UCT arrangements (plus US$3 billion in augmentation of existing UCT arrangements), while precautionary arrangements made up the remaining

[11] All new IMF financing commitments from March 2020 to end-2021 are counted as financial assistance related to the COVID-19 crisis other than the RCF request from St. Vincent and the Grenadines under the Large Natural Disaster Window to address the BOP need associated with a volcanic eruption.

US$98 billion (around 60 percent of the total). In terms of the number of new financial commitments, the Fund approved 128 COVID-19-related financial commitments by end-2021, of which 88 were EF.

67. **Speed:** Over two-thirds of the Fund financial commitments (US$90 billion) took place in 2020—a record 62 countries received support within the first three months (Figure 7). The number of countries that accessed EF in EUR, Middle East and Central Asia Department (MCD), and Western Hemisphere Department (WHD), when scaled by the number of emerging market and developing countries in each region, was roughly similar (40 percent); countries in the African region used Fund resources at a considerably higher frequency (84 percent)—reflecting the much larger share of LICs in this region—while countries in APD had a relatively low usage (30 percent).

Figure 7. Number of Approvals of Use of Fund Resources by Income Group, Region, and Type

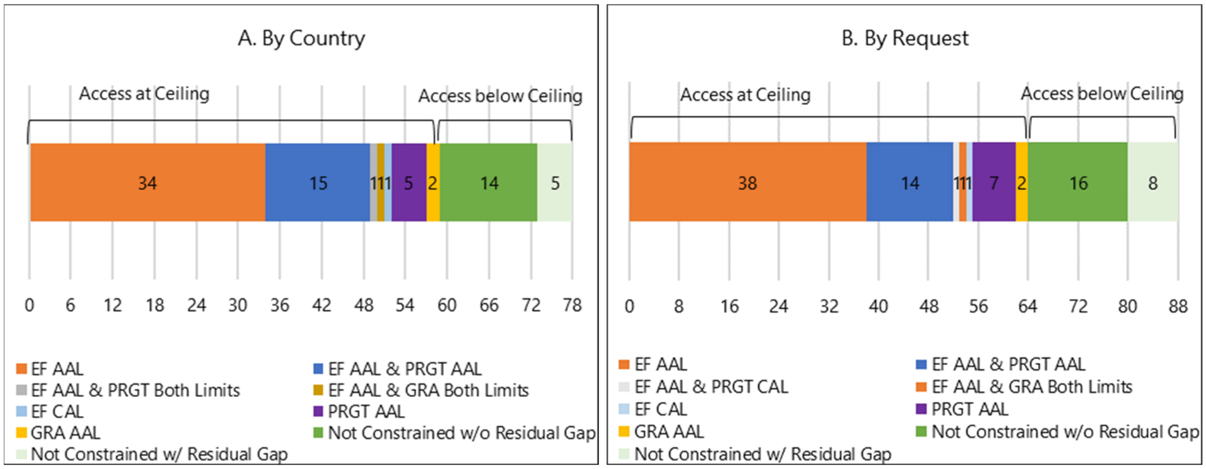


Source: Batini and Li (2023).

68. **Support through CCRT:** The Board also approved five CCRT tranches, starting in April 2020, to provide debt service relief for the IMF's poorest and most vulnerable member countries. In total for the period through April 2022, the Fund provided about US$ 964 million in debt relief to 31 CCRT-eligible countries.

69. **Access limits.** Access limits on Fund financing—both EF and UCT—were raised several times over the course of the pandemic as described earlier.[12] In the case of EF, 56 out of the 78 countries receiving assistance exhausted the maximum amount of EF available under the various access limits at the time of the request—their "borrowing space" (Figure 8).

Figure 8. Access Limits and Access Levels



Source: Kincaid, Cohen-Setton, and Li (2023).
Notes: AAL = Annual Access Limit; CAL = Cumulative Access Limit.

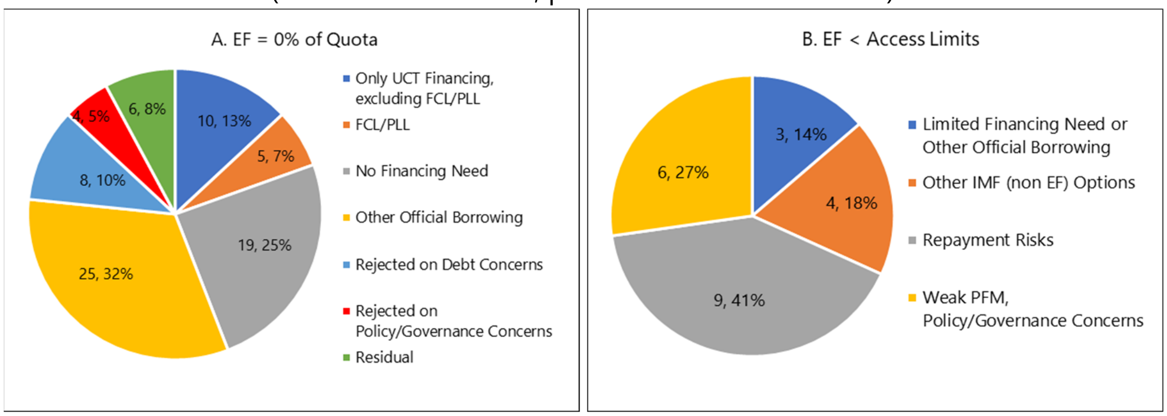
70. **Access limits for RFI vs. RCF.** Borrowing space played a much more important role in determining access levels for RFI than for RCF and blended requests; in fact, only 3 of the 28 countries that received an RFI did not exhaust the maximum amount of EF available. In contrast, RCF and blended requests appear to have taken greater account of countries' crisis-related financing needs alongside the quality of policy and governance framework and capacity to repay. PRGT-eligible countries either did not exhaust their borrowing space because of smaller BOP needs (8 percent of cases) or because staff had governance, debt sustainability, or capacity to repay concerns (22 percent of cases). The determinants of access levels for EF are further discussed in Section III.E.

71. **Countries that did not access Fund financing.** Notwithstanding the breadth of Fund lending during the pandemic, many countries did not access IMF financing. Among the 57 EMDEs that did not obtain IMF financing during 2020–21, the main explanatory reason (about three-quarters of cases), according to interviews with senior area department staff, was lack of demand related to the countries' ability to borrow from international capital markets or obtain alternative official (bilateral and multilateral) resources (Figure 9). Large EMs, such as Brazil, China, India, Indonesia, and Russia, were in this group. The lack of access in the other cases

[12] Access is subject to a normal annual access limit (NAAL) and a cumulative access limit (CAL). Access limits under the GRA and PRGT are not hard caps but serve as thresholds for triggering additional safeguards consisting of substantive and procedural requirements under the Exceptional Access (EA) policy.

reflected a variety of reasons, including policy/governance concerns (Belarus, Iran, Libya, Mauritius, Venezuela, Yemen) and concerns about debt sustainability (Antigua and Barbuda, Argentina, Republic of Congo, Eritrea, Lebanon, Sri Lanka, Zambia, Zimbabwe).[13]

Figure 9. Reasons for Lack of Access or Partial Access
(Number of countries; percent share of all reasons)



Sources: Staff interviews; IEO calculations.

Qualification Criteria and Letters of Intent

72. **Qualification criteria during the pandemic.** Each of the 88 staff reports for RCF or RFI assistance provided information to demonstrate that the country requesting EF faced an urgent BOP need which would be disruptive if not addressed. In 68 cases (nearly 80 percent of total requests), staff stated that the country lacked the ability to implement a UCT-quality program owing to their urgent BOP need, although several staff reports mentioned other factors that also limited policy implementation capacity (for example, due to political or security issues). In 10 cases (12 percent of total requests), staff stated explicitly that they expected the BOP need to be resolved within 12 months without any major policy adjustments being necessary, but often with limited discussion of the reasons for this judgment.[14]

73. **Letters of Intent.** A letter from the country authorities discussing policy commitments was attached to all 88 staff reports requesting RCF/RFI assistance during the pandemic. The staff reports themselves amplified upon the statements made by the country authorities and provided a staff assessment. For many countries, the country and the country team were able to reach quick agreement on these commitments, allowing for rapid approval. However, in some cases, more protracted negotiations on the nature of policy commitments led to delays. In the case of South Africa, for instance, discussions on fiscal policy commitments and the authorities' desire to build political consensus meant that the process took 12 weeks (instead of the typical 3-4 weeks).

[13] San Marino, which is classified in the WEO as an advanced economy, also did not receive financing due to concerns about debt unsustainability expressed in the 2020 Article IV consultation.

[14] In the case of Montenegro, staff's baseline included fiscal measures which were expected to close the BOP gap. Likewise, in South Africa staff noted that the BOP gap was expected to close within a year as "the authorities implement the intended policies," which were described in the staff report as "comprehensive."

Prior Actions: Use and Rationale

74. **Prior actions.** The RFI and RCF decisions allow for the possibility that PAs (upfront measures) be sought by the MD before recommending that the Board approve a request for RCF/RFI. PAs were required for 10 out of 88 requests for IMF emergency assistance (Cameroon, Ecuador, Grenada, Guinea Bissau, Haiti, Liberia, Nicaragua, Papua New Guinea, Sierra Leone, and South Sudan). Eight of these requests were for RCF assistance alone, Nicaragua used a blend, and Ecuador's case was for an RFI.

75. **Frequency and intensity of PAs.** Compared to previous years, PAs were used less frequently during the pandemic, particularly for requests approved before June 2020. Only 5 percent of these requests included PAs compared to 30 percent before the pandemic. The intensity (the number of PAs per request) was also initially lower, with an average of 1.3 PAs for requests approved before June 2020 compared to 1.8 before the pandemic. From June 2020 onwards, however, resort to PAs became more frequent, with 25 percent of requests including PAs, and the intensity of PAs increased to higher than in the pre-pandemic period, with on average 3 PAs per requests (Figure 10).[15] Interviews with staff suggested that the pattern reflected a desire to move EF requests quickly, unless there were serious concerns, which then required a longer period of negotiation to resolve through PAs. The same pattern persists when the sample is split by RFI, RCF, and RFI-RCF.

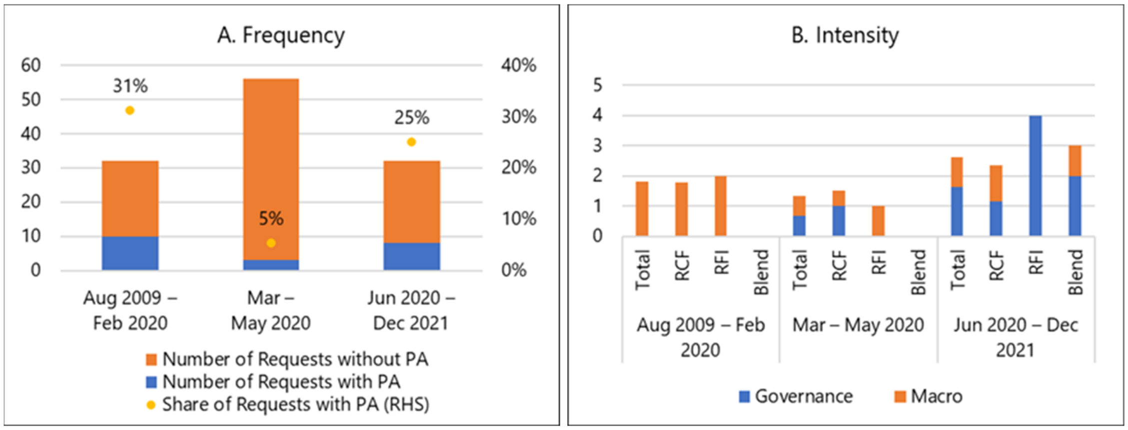
76. **Rationale for PAs.** The nature of PAs also differed compared to the pre-pandemic period. Before the pandemic, the main economic rationale for PAs was "macro" in nature, for instance, to control spending commitments or strengthen the external position (see Figure 10; Panel B). In contrast, more than half of PAs during the pandemic were related to governance safeguards to reduce the risks that EF was misused.[16] Six of the PAs in the evaluation period pertained to commitments that had not been implemented in a pre-existing UCT-supported program but many of these actions were also related to addressing governance and transparency issues.

---

[15] Prior actions remained more frequent in RCF than in RFI on both periods. Before the pandemic, PAs were used in 31 percent of RCF, but only 17 percent of RFI. During the pandemic, PAs were used in 18 percent of RCF and 3 percent of RFI.

[16] The initial cases of PAs related to pandemic governance safeguards were approved in June 2020 (Liberia and Papua New Guinea) and October 2020 (Cameroon). These cases were negotiated before the Board's formal approval of the staff guidance addressing governance safeguards for emergency financing, as discussed later.

Figure 10. Prior Actions in Emergency Financing Requests



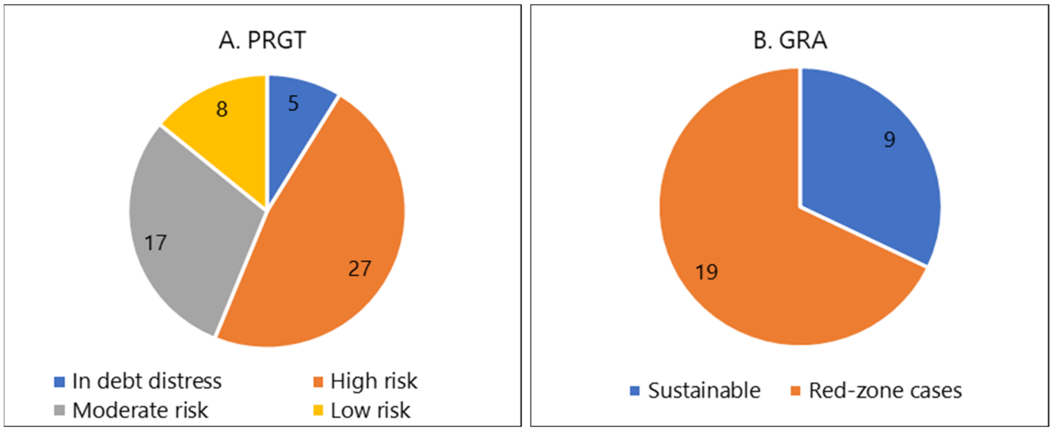
Source: Kincaid, Cohen-Setton, and Li (2023).
Note: Intensity is defined as number of PAs per request (in cases with PAs). Governance-related PAs are specific measures to promote transparency, such as publishing government contracts, beneficial owners, and to ensure ex post accountability, namely through independent audits.

Debt Sustainability Assessments

77. **Global assumptions in DSAs.** As discussed earlier, staff's projections for the global recovery were for a "V-shaped" recovery in GDP growth with continued low international interest rates. Thus, the favorable differential between interest rates and GDP growth rates was expected to continue for most countries beyond 2020. This meant that despite large projected increases in fiscal deficits in 2020, debt sustainability over the medium-term was judged to be broadly unchanged in most cases.

78. **Debt sustainability judgments.** While debt was judged to be sustainable for most countries requesting EF, staff flagged the high risks involved in both PRGT and GRA lending to highly indebted countries (Figure 11). All RCF requests (including those joint with RFI) from LICs provided a joint Bank-Fund DSA (the LIC-DSF). Nearly half placed the country's sovereign debt in the high-risk zone; about 35 percent were considered at moderate risk and the remaining 15 percent at low risk. Three cases—Grenada, Mozambique, and São Tomé and Principe (5 percent of the total)—were determined to be debt distressed, but staff still assessed their sovereign debt to be sustainable, and therefore eligible for drawing on Fund resources, due to various efforts underway to regularize those arrears and improve debt dynamics. Similarly, all RFI requests contained a DSA using the debt sustainability framework (DSF) for market access countries. Public debt was judged by staff to be sustainable, albeit with varying qualifications, in all cases, even though in two-thirds of these cases the country's debt level or gross financing needs placed it in the high-risk zone for the baseline scenario.

Figure 11. Debt Sustainability for Emergency Financing Borrowers
(In percent)



Source: Kincaid, Cohen-Setton, and Li (2023).
Note: Includes countries drawing on RCF or RFI in March 2020–Dec. 2021. Red-zone cases are countries with public debt judged by staff to be sustainable, which had debt levels or gross financing needs in the high risk (red) zone for the baseline scenario.

79. **Borderline cases.** Among the high-risk cases, staff provided additional discussion in three cases (Ecuador, Egypt, Ethiopia) where the sustainability assessment was considered borderline. In each case, Fund staff and the country authorities agreed on a strategy that coupled a Fund-supported UCT program with a debt operation, reprofiling, or maturity extension effort that would improve forward-looking debt sustainability.

80. **Lack of access due to debt concerns.** There were eight cases where countries were unable to access EF due to concerns about debt sustainability. For example, at the conclusion of the 2020 Article IV consultation, Zimbabwe's debt was deemed unsustainable due, in part, to the lack of modalities and financing to clear arrears and to undertake reforms. Lackluster program performance under the 2019 Staff Monitored Program seems to have played a role as well. Zambia was also deemed to be on an unsustainable debt path, after a staff visit in November 2019, owing to past weaknesses in economic governance and public financial management.[17]

81. **Differences between IMF and World Bank.** While the Fund and the Bank must ultimately reach agreement on an LIC's debt sustainability under the LIC-DSF, staff interviews noted that reaching such agreement was often quite difficult. Fund staff tended to be more willing to give a country the benefit of the doubt on debt sustainability in some difficult cases—allowing for provision of prompt EF—while Bank staff often questioned what they saw as the Fund's over-optimistic growth and policy assumptions.

[17] Ethiopia and Zambia's debt situations are now being addressed under the G20 Common Framework, as discussed in the next section.

C. Governance Safeguards

82. **How to "keep the receipts."** As the Fund started to advise countries to spend to contain the spread of the pandemic and save lives, and ramped up its own financing in order to give countries more room to do so, it also started to guide countries in how to monitor use of the spending. Staff in FAD produced two "How-To" notes in April and May 2020: *Keeping the Receipts: Transparency, Accountability, and Legitimacy in Emergency Responses* and *Budget Execution Controls to Mitigate Corruption Risk in Pandemic Spending*.

83. **Engagement with the Board.** As the initial EF loans were made, the Executive Board expressed increasing concerns about the risk of EF being misused. Civil society also raised alarms, pointing to cases where financing was being provided despite well-known corruption issues, sometimes previously flagged by the Fund itself.

- Staff engaged informally with EDs in late May 2020 on the application of governance safeguards in requests for EF from the Fund. Staff noted that commitments in letters of intent on governance safeguards aimed at avoiding the misuse of Fund resources and were calibrated to the severity of countries' corruption risk. In cases of more severe risks, PAs on governance safeguards were possible, while where immediate financing needs were less pressing, the level of access for EF could be set below the maximum access level on the understanding that a second disbursement could be considered after a track record of reasonable performance had been established. Directors generally endorsed this approach but stressed the importance of evenhanded treatment of countries in its application.

- In June 2020, staff provided the Board with an interim progress report on implementing the Framework for Enhanced Fund Engagement on Governance, which had been approved in 2018 (IMF, 2018). This report contained a matrix with a country-by-country description of the commitments made by country authorities on governance measures pertaining to crisis-related spending. This matrix was made publicly available on the IMF's website, and has since been updated regularly.

- In October 2020, the Executive Board formally endorsed guidance on governance safeguards—essentially, "keeping-the-receipts" principles—for EF requests.

84. **Governance commitments in LOIs**. In practice, many EF requests in late-March to mid-April 2020 either had no specific reference to COVID-related governance measures or only made very generalized expressions of commitment. After the cross-departmental Working Group on Governance recommended that common language be included in LOIs, the inclusion of the following four specific commitments was generalized (Figure 12):

(i) to publish COVID-related public procurement contracts and to secure ex post validation of delivery;

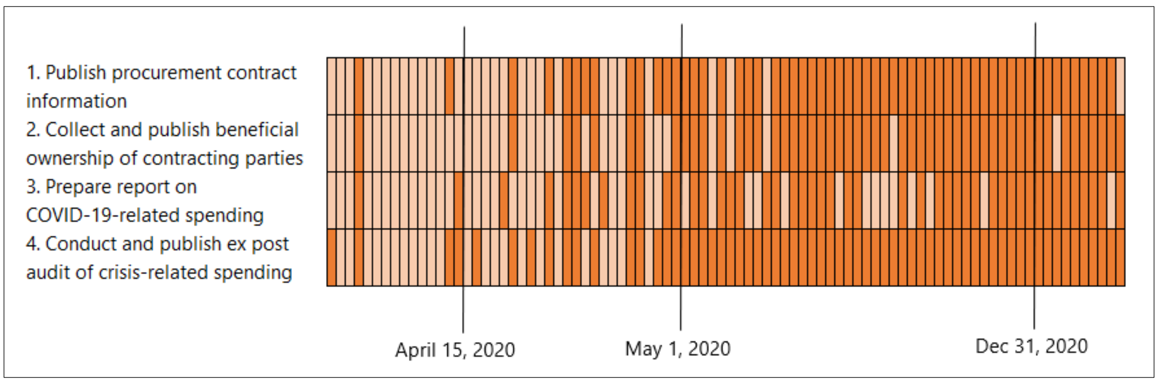
(ii) to collect and publish the names of awarded companies and their beneficial owners;

(iii) to publish information on COVID-related government spending; and

(iv) to undertake an independent audit of COVID-related spending, and to publish those results.

By mid-May 2020, most EF requests included all four governance commitments (Figure 12), with commitments made more often in RCF and blend RCF/RFI requests than in RFI requests. The most common commitment was to undertake an independent audit, which was undertaken in 80 percent of RCF (or blended) cases and 66 percent of RFI cases.

Figure 12. Governance Commitments in Emergency Financing Letters of Intent



Source: Kincaid, Cohen-Setton, and Li (2023).
Note: Total number of RFI and RCF (and RCF/RFI) is respectively 29 and 59. Each bar corresponds to an EF request. Dark cells indicate that the governance commitments were included in the LOI.

85. **Follow-up on governance commitments.** For countries whose EF request was approved before the practice of including governance commitments in LOIs had generalized, staff used Article IV surveillance missions and new financing requests to recommend that the same governance measures be implemented. Staff also followed up on progress made in meeting governance commitments, usually in the context of subsequent Article IV consultations or program discussions.

D. Interaction Between Emergency Financing and Upper Credit Tranche Financing

86. **Overview.** An issue raised by some observers is that by providing EF on easy terms with no ex-post conditionality, the Fund allowed countries to "shop among facilities" and postpone needed adjustment that would have been required by a UCT-quality program. It is hardly surprising that the doubling of the annual EF ceilings induced more members to use EF instruments than to use UCT arrangements as the former are more conducive to rapid deployment in a crisis by their design. As to the interaction between EF instruments and traditional Fund arrangements, the evidence provides a mixed picture. To sum up the evidence before getting into the complicated details:

- For members whose existing UCT arrangements had a remaining duration longer than three months, EF assistance was often followed by subsequent UCT purchases. In contrast, for members whose UCT arrangements were near expiration (less than three months remaining), EF appears to have frequently substituted for a follow-up UCT arrangement.

- Only about one-quarter of countries that used EF, and where the BOP need was not expected to resolve itself within 12 months without any major policy adjustments being necessary, subsequently had an UCT arrangement. Only one country that was judged to have only a short-term BOP need subsequently had a UCT arrangement.

- That said, the total number of countries with (non-precautionary) UCT arrangements at end-September 2022 (32 countries) was virtually the same as two years earlier (33 countries). Hence, at least in the aggregate, EF did not act as either an "on ramp" (transitioning to UCT arrangements) or an "off ramp" (discouraging subsequent use of UCT arrangements).

87. **Countries with UCT arrangements at the onset of the pandemic.** The interaction between EF and (non-precautionary) UCT arrangements can be examined in greater detail by reviewing developments for countries with UCT arrangements at end-February 2020.

- Among the 10 countries with UCT arrangements that were scheduled to expire in the early months of the pandemic (by end-June 2020), all but one (Sri Lanka) received EF and only one (Jordan) obtained a new UCT arrangement. For these members, rapid EF by the Fund may have substituted for a new Fund UCT arrangement.

- Among the 21 members with existing UCT arrangements that extended beyond June 2020, the experience was somewhat different. Fifteen of these members were also granted RCF/RFI assistance, of which 11 members made at least one subsequent purchase under a UCT arrangement by December 2021. This suggests that the use of EF did not undermine a country's subsequent implementation of its UCT program in nearly three-quarters of the relevant cases.

88. **Countries without UCT arrangements at the onset of the pandemic.** Among the 64 countries without a UCT arrangement in February 2020 (Figure 13; right panel), 44 (or two-thirds) relied exclusively on EF, 7 countries relied exclusively on UCT arrangements, and 13 others drew on both EF and a UCT arrangement.[18]

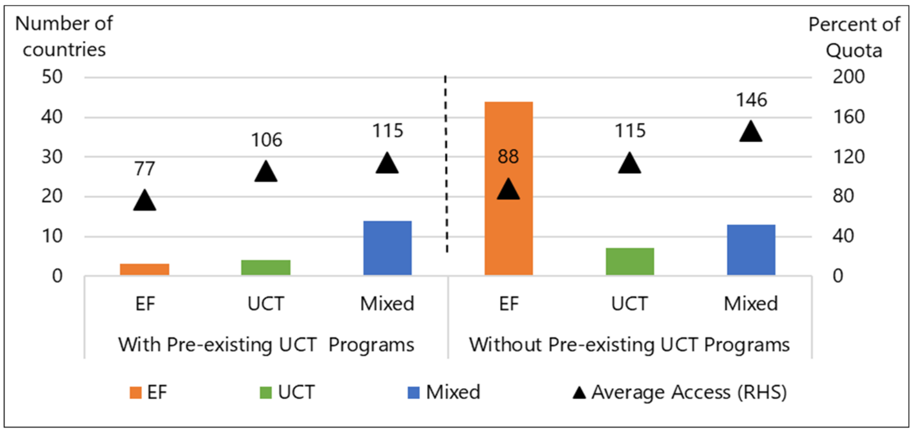
89. **Financial incentives.** In terms of new UFR commitments, access practices encouraged members to seek UCT arrangement independent of whether there was a pre-existing UCT arrangement. Specifically, for countries with non-precautionary pre-pandemic UCT arrangements,

[18] By end-2021, an additional 12 countries obtained a UCT-program, reducing the number of countries that relied exclusively on EF.

average access (at 77 percent of quota) for countries that switched from UCT to EF was lower than for countries that either obtained additional financing exclusively through UCT (106 percent) or through a mix of UCT and EF resources (115 percent of quota)—Figure 13; left panel. Similarly, for countries without pre-existing UCT arrangements, average access (at 88 percent of quota) for countries that relied exclusively on EF was lower than average access for countries that received IMF financing exclusively through UCT programs (115 percent) or relied on both EF and UCT programs (146 percent)—Figure 13; right panel.

Figure 13. Average Access Levels for Emergency Financing and Upper Credit Tranche Financing

(March 2020–December 2021)



Source: Kincaid, Cohen-Setton, and Li (2023).
Notes: Among countries with pre-existing UCT programs, EF users are countries that requested EF resources and no longer utilized UCT resources; UCT users are countries that kept pre-pandemic UCT programs and did not use EF; and mixed users are countries that kept pre-pandemic UCT programs but also used EF. Among countries without pre-existing UCT programs, EF users are countries that only used EF; UCT users are countries that only received additional financing through new UCT programs; and mixed users are countries that used both EF and UCT programs.

90. **Rationale for EF and the EF-to-UCT transition.** The transition from EF to UCT programs can also be looked at through the lens of the rationale for use of EF. For the 10 countries that relied on EF where BOP need was expected to resolve within 12 months without any major policy adjustments being necessary, only one country obtained a UCT program by end-2021. On the other hand, among the 68 countries for which staff justified the use of EF by a lack of capacity to implement immediately a UCT program, 18 countries (about 25 percent of this group) subsequently requested a UCT program by end 2021. Thus, many more countries that utilized EF when BOP need was long-lived subsequently transitioned to a subsequent UCT program compared to countries where the BOP need was expected to be resolved within 12 months without any major policy adjustments being necessary.

91. **Order of requests.** The number of RFI/RFC requests followed by a request for an UCT arrangement was twice as many as the requests for a UCT arrangement without a prior use of EF. Once again, this does not suggest that use of EF had a significant sustained adverse effect on the use of UCT arrangements.

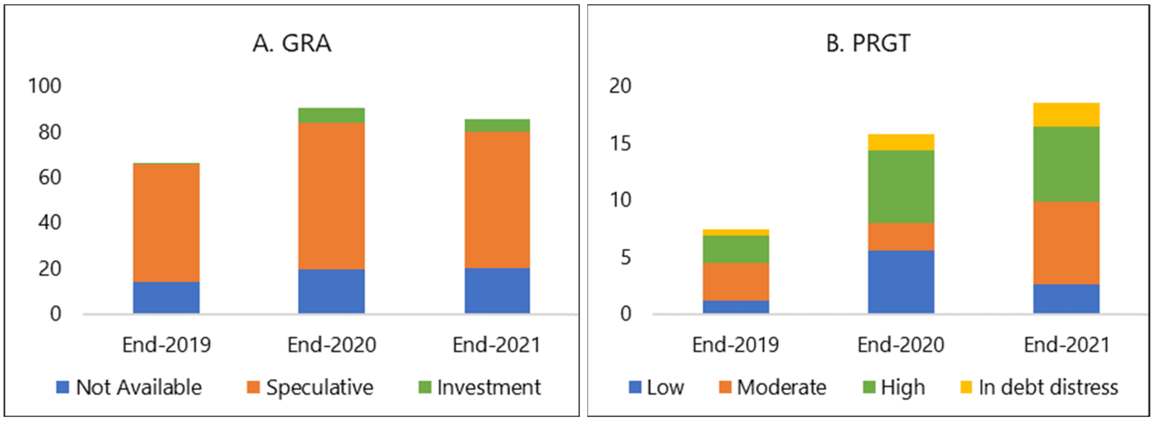
E. Assessment

92. **Balancing of risks and rewards.** Overall, the Fund's EF framework worked well during the pandemic to offer timely and deeply appreciated help to countries while being prepared to accept some greater than usual risks to the Fund. Despite time pressures and streamlined review procedures, country reports adhered to process and qualification criteria in all cases, such as establishing the extent of BOP needs and obtaining an LOI from the authorities. The exigencies of the pandemic were recognized by scaling back prior actions relative to their use in the past and giving countries the benefit of the doubt in some difficult judgments about debt sustainability. While these and other sources of risk to the Fund's own balance sheet were not ignored in the early months of the pandemic, attention to them increased by mid-2020, though by this time the bulk of EF requests had been approved. Moreover, the scale of the financing provided—US$29 billion by end-2021—while not insignificant was limited in comparison to the US$98 billion provided in the form of precautionary arrangements to a small number of countries or to that provided in some of the Fund's larger UCT programs.

93. **Deteriorating PRGT balance sheet.** Nonetheless, the credit quality of the IMF's balance sheet deteriorated significantly during the first year of the pandemic—especially for PRGT credits (Figure 14).[19] Non-concessional GRA credit outstanding increased from SDR 66.1 billion at end-2019 to SDR 85.5 billion by end-2021, with the bulk continuing to be accounted for by countries classified by credit rating agencies as "speculative" (as opposed to "investment") grade. Concessional credit outstanding under the PRGT Trust more than doubled, rising from SDR 7.4 billion end-2019 to SDR 18.6 billion by end-2021. Among them, PRGT credit outstanding to countries in high risk of debt distress or in debt distress under the IMF's LIC-DSF assessment doubled to SDR 8.7 billion by the end of 2021. Moreover, the bulk of the increase in PRGT exposure was due to disbursements of EF, without the assurance of ex post conditionality. The situation was further aggravated by subsequent multiple shocks in 2022. While to date the increasingly difficult situation of debt borrowers was not reflected in payment arrears to the Fund, helped by the long maturities for PRGT loans, a rising number of countries face serious questions of debt sustainability that is hindering new access to IMF resources.

[19] Technically, loans from the PRGT are not on the balance sheet of the Fund, but rather that of a Trust Fund.

Figure 14. Fund Exposure to Credit Risk
(In billions of SDR)



Sources: FIN, S&P500, Fitch; IEO calculations.
Notes: For EMs, S&P foreign currency rating is used when available, and Fitch foreign currency rating otherwise. Letter grades of BB+ or lower are considered "speculative" grade and higher ratings are "investment" grade. For LICs, LIC-DSF rating of external debt distress is used.

94. **Lack of access or limited access.** Notwithstanding the general willingness to provide swift approval of EF for an unprecedented number of countries, this propensity was not unlimited. While extensive early use of EF fed the perception that the Fund was eager to "push money out the door," there were also several countries that could not access Fund financing or were held below access limits because of concerns about debt sustainability, governance issues, or policy choices. This suggests that while displaying flexibility in the face of an unprecedented global health emergency, Fund staff were willing to draw the line in some very difficult cases and hold back or curtail access because of associated risks to the Fund.

95. **Authorities' appreciation and concerns.** Our case studies indicate deep appreciation from the country authorities receiving EF for the speed of the Fund's response. In Africa, in particular, this appreciation was expressed by the region's leaders in public statements and confirmed in the interviews conducted for the six country cases for the region. Nevertheless, the case studies, and other interviews, also raised three concerns that deserve discussion in reaching an assessment of the effectiveness of the Fund's framework and drawing lessons for the future.

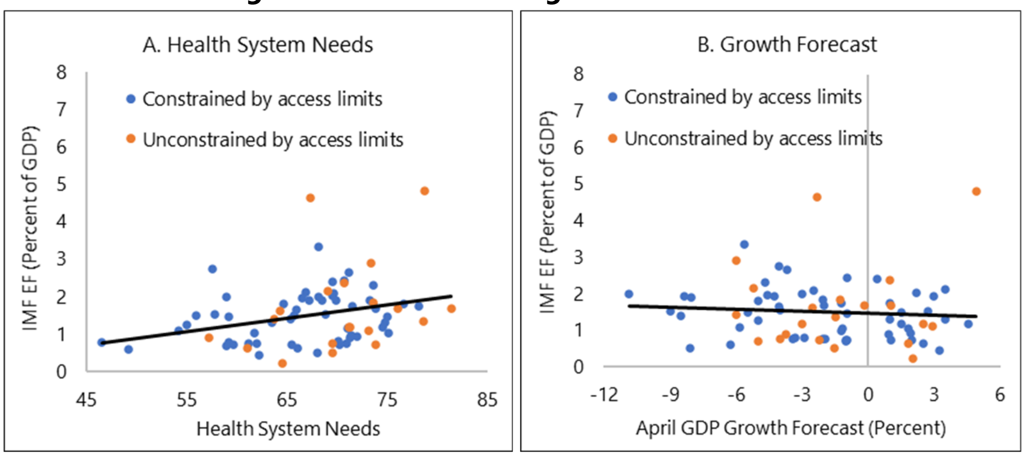
- First, most authorities felt that the level of financing was not commensurate to their needs, despite the welcome raising of access limits. While appreciating that staff were constrained by the Fund's risk framework, many expressed disappointment that a way could not be found to provide greater financing tailored to the needs of those subject to the largest shocks.

- Second, there were perceptions of lack of evenhandedness in the provision of Fund EF. While the necessity for staff judgments about governance, debt sustainability and other policies were recognized, a number of authorities felt these considerations were waived in some instances but became barriers in others. Similar sentiments also surfaced in some of our interviews with Executive Directors' offices.

- Third, and despite the provision of technical assistance, authorities felt that implementation of governance safeguards was often difficult in their country circumstances, particularly the commitment to disclose beneficial ownership. Some area department staff also worried that in the absence of capacity to implement these commitments, they simply became a "checklist exercise."

96. **Tailoring of Fund EF.** Consistent with the first concern, the level of Fund financing shows little correlation with factors that could be said to determine the country's financing needs. For instance, there is little correlation between Fund EF (as a percent of GDP) and the country's spending needs, as proxied by the preparedness of its health systems (Figure 15, Panel A). Likewise, there is little correlation between the financing provided and staff's own growth forecast (Figure 15, Panel B).

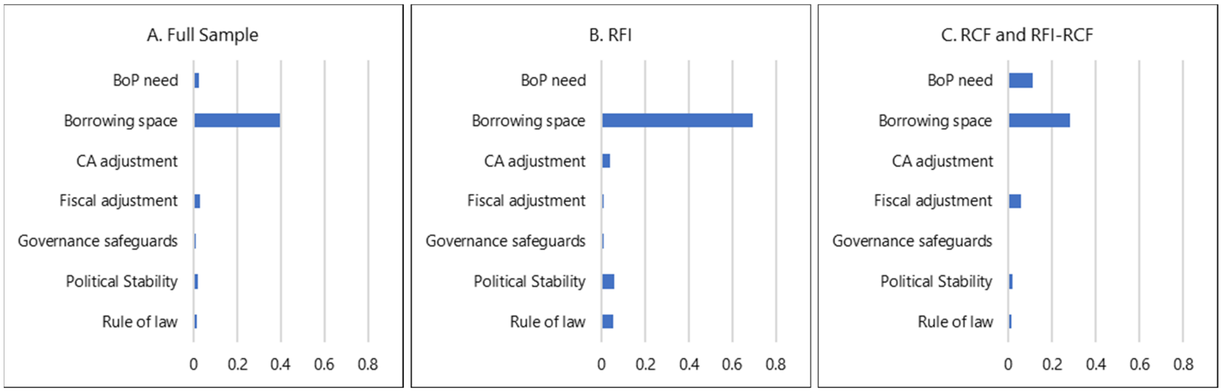
Figure 15. Fund Financing Relative to Needs



Source: Batini and Li (2023).

97. **EF and access limits.** Of course, as discussed above, the Fund's provision of financing is constrained by access limits, by its assessment of a country's BOP gap, and by safeguards considerations. IEO analysis shows that borrowing space—the maximum that could be lent given various access limits—alone explains the bulk of the variation in access across countries, with other factors including BOP needs playing a fairly limited role (Figure 16, left panel). This is particularly the case for RFI requests, where borrowing space alone accounts for nearly 75 percent of the explained variation in access (Figure 16, middle panel). In contrast, in RCF and blended requests, borrowing space accounts for about 30 percent of the explained variation while BOP needs explain around 20 percent (Figure 16, right panel). This is consistent with the view that staff were more concerned about fine tuning access to countries circumstances and limitations in the more difficult cases of countries accessing concessional financing. As discussed further in section IV.A, we find quite wide variations in the share of the financing gap filled by the Fund, with a lower share for countries with greater needs.

Figure 16. Factors Explaining Variation in Access Levels



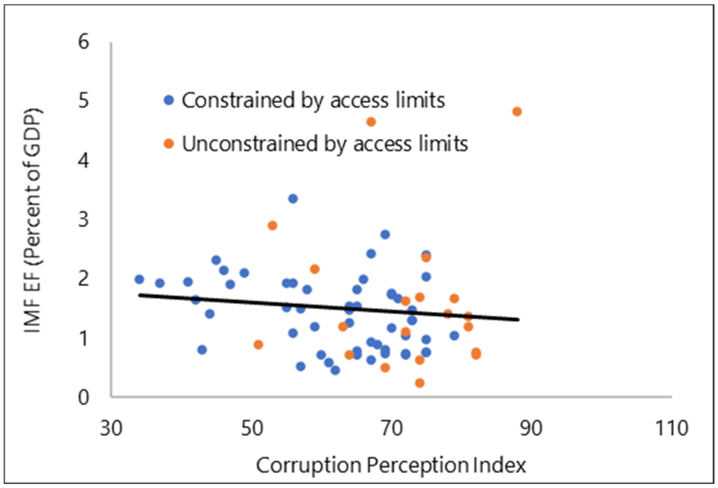
Source: Kincaid, Cohen-Setton, and Li (2023).
Note: Bars show the fraction of variation in access levels attributed to each factor.

98. **Tendency towards binary outcomes.** Overall, the evidence suggests that the application of the Fund's framework for provision of EF implied rather binary outcomes, with most countries either receiving full access up to the limit or no access at all and did not permit much tailoring to country circumstances and needs. The lack of responsiveness to the scale of needs was particularly apparent for small developing states, countries with particularly large financing needs relative to quota, which were only able to finance a smaller share of their BOP gap through EF, and were thus asked to draw more heavily on international reserves than other countries (see Section IV.A).

99. **Concerns about evenhandedness.** Another concern expressed by a number of authorities was whether the Fund's judgments about countries' governance and political situation and assessments of debt sustainability were applied across countries in an evenhanded way in making access decisions and requiring prior actions.[20] On the face of it, there is little correlation between the countries' financing levels and external perceptions of corruption (Figure 17). In interviews, Fund staff working on the country cases—as well as staff in reviewing departments—noted that access decisions rested on a number of delicate considerations. In the case of governance, in addition to looking at external indicators, staff used internal assessments of governance (based on perceptions of previous mission chiefs, views of technical assistance missions that had visited the country, and other sources). In addition, though they stay away from a country's internal politics, staff nevertheless also had to make judgments about whether political transitions (for example, as a result of an upcoming election) raised or lowered risks to the Fund by influencing policy choices and thus impinging on the country's ability to repay the Fund. Another "intangible" that staff noted was the quality of engagement with the authorities, which was better in some cases than others due to several factors, including when the country had last been in program discussions with the IMF and the track record of previous IMF programs.

[20] Examples of such concerns highlighted in the country case studies include Belarus, Iran, Nicaragua, and Zambia. In the staff survey, 30 percent of staff working on EF requests felt that access to EF was not provided evenhandedly.

Figure 17. Fund Financing and Corruption Perceptions



Source: Batini and Li (2023).

100. **Reputational risks for the Fund.** In looking across the country cases, it seems that Fund financing decisions seem in line with the letter of policy guidance, taking into account the complex considerations, some of which cannot be discussed publicly by Fund staff. Having said that, the evaluation is left with the distinct impression that there were variations across countries in the way that policy guidance was applied, in particular the degree to which countries were given the benefit of the doubt when difficult judgments had to be made in the inevitable grey zones that sometimes arise—and that such variations at least in part related to political considerations among major shareholders. In a few cases, it does seem that a lack of evenhandedness in treatment led to delay or limits on access. While not widespread, this experience clearly raises reputational risks for the Fund.

101. **Implementation of governance commitments.** It is too early to attempt to evaluate the effectiveness of governance safeguards. Nonetheless, as indicated in the regional case studies, subsequent staff monitoring in Article IV reports and other information suggest that many countries did indeed follow through with commitments, while in other cases implementation has fallen short. According to staff calculations, by May 2022 about two-thirds of the countries had fully implemented their commitments to publish procurement contract information; about two-thirds of countries had fully implemented their commitments to report pandemic-related spending; around half of countries had fully implemented the commitments to audit pandemic-related spending and publish the results online; and about twenty percent of countries had fully implemented their commitments to provide beneficial ownership transparency in procurement (another fifty percent had taken important steps in this direction, such as drafting and/or adopting legal changes to allow this reform) (IMF, 2022).

102. **Being prepared.** The experience with governance commitments during the pandemic suggests the importance of building up country capacity and emergency preparedness in governance areas—in line with the Fund's overall approach on governance approved in 2018.

Particular attention will be needed to ensure that safeguards are well suited to a country's circumstances, particularly the disclosure of beneficial ownership which has caused difficulties in many cases. Interviews with staff in FAD, Legal Department (LEG), and SPR with responsibility for monitoring implementation note that this is indeed being done, with staff teams—particularly from LEG—providing guidance on the value of the safeguards and advice and technical support on how best to implement them in particular country circumstances.

IV. IMPACT OF IMF FINANCING[21]

103. **Roadmap**. This section provides evidence on the role of Fund financing in addressing BOP financing needs (Section IV.A), marshaling financing from other sources such as other official agencies and private capital markets (Section IV.B), and mitigating output losses (Section IV.C), followed by an assessment of the overall impact of Fund financing (Section IV.D).

A. Role of Fund Support in Addressing BOP Financing Needs

104. **Role of Fund financing in addressing BOP needs.** Fund decisions on lending are based on assessments of a country's BOP needs at the time of approval, taking account of policies the country has taken or is planning to take to address its economic situation. Documents supporting all requests for use of Fund resources are required to present estimates of financing (and fiscal) needs and how such needs are to be met, including through Fund credits.[22]

105. **Expected role of Fund financing.** At the time of the approval of Fund financing (EF and UCT arrangements) in 2020, the average ex ante financing gap in EMs was about 8 percent of GDP. The Fund contributed about 1 percent of GDP toward closing this gap, with other sources of financing (about 2 percent of GDP) and reserve drawdowns (about 2½ percent of GDP) making up much of the rest (Figure 18). In LICs, the Fund's share was expected to be proportionately larger, contributing about 1 percent of GDP toward closing an average financing gap of slightly over 4 percent of GDP, with other financing sources and reserve drawdowns each playing a roughly similar role. For small developing states in particular (which span middle-income countries and LICs), the IMF's share was relatively low as the anticipated gap for these countries averaged over 10 percent of GDP, reflecting their greater vulnerability to the pandemic. Looked at by region, the role of Fund financing was more significant relative to other sources in the African region than elsewhere.

---

[21] This section draws on background papers by Batini and Li (2023), Koh and Wojnilower (2023), and Ocampo and others (2023).

[22] Note that, unlike for UCT arrangements, in the case of UFR documents supporting RCF/RFI drawings, some financing to meet BOP needs may remain unidentified.