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BACKGROUND PAPER

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Operational Aspects of IMF Emergency Financing in Response to the COVID-19 Pandemic

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Operational Aspects of IMF Emergency Financing in Response to the COVID-19 Pandemic[†]

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ABBREVIATIONS

AFR	African Department (IMF)
BOP	Balance of Payments
CCRT	Catastrophe Containment and Relief Trust
DSA	Debt Sustainability Analysis
EA	Exceptional Access
EAP	Exceptional Access Policy
ED	Executive Director
EF	Emergency Financing
EFF	Emergency Fund Financing
EFI	Emergency Financing Instrument
EMDE	Emerging Market and Developing Economy
EM	Emerging Market
EUR	European Department (IMF)
FAD	Fiscal Affairs Department (IMF)
FIN	Finance Department (IMF)
FCL	Flexible Credit Line
G20	Group of Twenty
GDP	Gross Domestic Product
GRA	General Resources Account
HAP	High Access Procedure
LIC	Low-Income Country
LOI	Letter of Intent
PA	Prior Action
PLL	Precautionary Liquidity Line
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RoC	Review of Conditionality
SDR	Special Drawing Rights
SLL	Short-Term Liquidity Line
UCT	Upper Credit Tranche
UFR	Use of Fund Resources
WEO	World Economic Outlook

EXECUTIVE SUMMARY

This paper examines operational aspects of IMF emergency financing (EF) in response to the COVID-19 pandemic. Overall, the Fund's use of EF allowed it to rapidly provide an unprecedented amount of financing to a very wide range of members. The Fund's support came when it was most needed in the midst of great uncertainty in the early months of the crisis and was particularly appreciated where disbursements from other donors came later in the crisis. The Fund's rapid deployment of EF also raised some concerns—some valid, others less so—which are examined in detail in the paper.

Fund's Decisions on Access

- **Lack of access or limited access to EF.** Several countries could not access Fund financing or were held below access limits because of concerns about debt sustainability, governance issues, or policy choices. Hence, while displaying flexibility in the face of an unprecedented global health emergency, Fund staff were willing to draw the line in very difficult cases.

- **Determinants of access levels in EF.** The Fund's provision of EF was largely determined by "borrowing space"—the maximum that could be lent given various access limits—and assessments of BOP gaps, with other factors such as planned fiscal and current account adjustments and governance safeguards playing a fairly limited role. For RFI requests, borrowing space alone explains more than 75 percent of the variation in access levels; in contrast, in RCF and blended requests, borrowing space accounts for about 30 percent of the variation while BOP needs explain around 20 percent. This is consistent with the view that staff were more concerned about fine-tuning access in the more difficult cases of countries accessing concessional financing.

- **Binary provision of EF.** Overall, the Fund's provision of EF implied rather binary outcomes, with most countries either receiving full access up to the limit or no access at all. Thus, there was not much tailoring of access to country circumstances and needs. This is particularly apparent for small developing states and other countries with particularly large financing needs, which were asked to draw more heavily on international reserves than other countries.

- **Concerns about evenhandedness regarding access.** Officials in several countries noted a lack of clarity in staff's explanations for decisions about access. In some country cases, for example, no explicit rationale was provided for why borrowing space under access limits was not fully exhausted or why phasing and modes of financing were adjusted to avoid triggering exceptional access procedures in most but not all cases.

- **Concerns about facility shopping.** Our detailed examination does not support the concerns of some observers that availability of EF undermined countries' interest in Upper Credit Tranche (UCT) facilities. Overall, we find that EF did not act as an "on ramp" (transitioning to UCT arrangements) or as an "off ramp" (discouraging subsequent use of UCT arrangements) for use of UCT arrangements over this period.

Implementation

- **Fulfillment of qualification criteria.** Despite time pressure and streamlined review procedures, country reports adhered to process and requirements in all cases.

- **Use of prior actions.** Prior actions (PAs) were required during 2020–21 less often than had been the case pre-pandemic, particularly in the early months. They were more frequent for RCF requests than for RFI requests during the evaluation period, continuing a pre-COVID practice.

- **Attention to governance concerns**. The inclusion of governance commitments in Letters of Intent (LOIs) became standard practice in May 2020 after almost half of the total EF requests were approved. Earlier engagement and agreement with the Board could have provided clearer guidance to staff, improved communication with country authorities and avoided concerns about a lack of evenhandedness. Over time, there was progressively stronger attention to governance protections in the form of both PAs—half of the PAs pertained to governance safeguards measures, a much higher proportion than pre-pandemic—and governance commitments. Country teams and authorities, however, reported some difficulties in understanding the underlying considerations for applying these specific provisions in their country contexts.

Balancing Risks

- **Additional credit risks.** In fulfilling its role as lender of last resort, the Fund took on significant additional credit risk between March 2020 and end 2021. The Fund's credit exposures increased to levels above previous historical peaks, while its buffers declined despite efforts to raise additional concessional resources. The scale of the financing provided—$22 billion non-concessional lending and $7 billion concessional lending—while limited in comparison to that provided in the Fund's larger UCT programs under the General Resources Account (GRA) was quite large relative to the size of the PRGT. Credit risks were somewhat mitigated by borrowers' reduced use of EF and the gradual transition to UCT-type arrangements with ex post conditionality in 2021, though subsequent shocks have worsened debt situations.

- **Debt sustainability assessments.** In borderline debt sustainability cases, staff appeared willing to give the benefit of the doubt to a number of countries in debt distress, which were judged to have sustainable debt on a forward-looking basis in the medium-term. However, other countries that could not demonstrate clear paths were deemed unsustainable.

I. INTRODUCTION

1. This background paper focuses on the operational aspects of IMF emergency financing (EF) in response to the global crisis caused by the COVID-19 pandemic. IMF financing took place via EF facilities (the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF)), augmentation of existing upper credit tranche (UCT) arrangements, approval of new UCT arrangements, and drawings on precautionary facilities, as well as debt service relief for the IMF's poorest and most vulnerable member countries through the Catastrophe Containment and Relief Trust (CCRT).

2. While the Fund's lending framework contains many instruments and policies, this paper concentrates its attention on how effectively the Fund applied its emergency lending framework (i.e., lending via the RFI and the RCF) during the initial stage of this pandemic, given their extensive use by the IMF membership, and draws early lessons from that experience. The Fund's approach was to make its financing quickly and abundantly available by utilizing rapid emergency financing instruments (EFIs) with no ex post conditionality and by doubling annual access limits (AALs) for EF. The operational aspects of the EF studied pertain to the application of access limits; prior actions (PAs) and other forms of ex ante conditionality; governance safeguards; and qualification criteria. Efforts to raise additional resources to finance IMF lending and CCRT relief, to allocate new SDRs, and to secure participation in the Group of 20 (G20) Debt Service Suspension Initiative and in the Common Framework for Debt Treatments are discussed in the background paper by Ocampo and others (2023).

3. This paper evaluates experience during the period from March 2020, when the IMF Executive Board took its first actions to modify EFs and approved the first EF drawings in response to the pandemic, to April 2021. However, the paper also provides information through end-2021 for a more complete coverage of Fund operations during the pandemic. It draws on evidence from Fund Board documents, internal staff policy notes and memoranda, interviews with staff and Executive Directors (EDs), and discussions with evaluation offices in other multilateral institutions, notably the World Bank. This paper is also informed by earlier IEO evaluations as well as other background papers prepared for this evaluation.

4. As to this paper's structure, Section II provides some brief background on how the IMF responded in the past to dislocations and disasters affecting its membership. In particular, the IMF has from time to time created new facilities/policies to provide financing to meet new challenges facing its membership with less than its usual (ex post) program conditionality.[1]

[1] The phasing of Fund purchases and the related observance of performance criteria, or completion of program reviews, has been a hallmark of IMF arrangements providing access to IMF resources beyond the first credit tranche (25 percent of quota), that is UCT conditionality. By contrast, purchases in the first credit tranche can be "outright" that is fully available and without a program, or under a Stand-By Arrangement (SBA) but without any phasing and performance clauses (a first credit tranche SBA). First credit tranche access is to be provided liberally if the member makes reasonable efforts to resolve its BOP difficulties. In contrast, UCT arrangements (for example, SBA/Standby Credit Facility (SCF), Extended Fund Financing (EFF)/Extended Credit Facility (ECF) only make Fund resources available in installments associated with adherence to performance criteria and/or completion of program reviews by the Board.

In Section III, the paper presents the various changes made to the IMF lending toolkit and access limits to reduce economic disruptions and support pandemic-mitigation efforts during the evaluation period. Section IV focuses on answering questions related to the adequacy and speed of IMF financing and to the evenhanded treatment of members in terms of scale of IMF financing relative to estimated needs. Section V concentrates on operational aspects of rapid EF, qualification criteria, the use of PAs, and governance safeguards. Section VI covers the risk mitigation practices and processes utilized to protect the Fund's resources and manage reputational risks. Concluding assessments are provided in Section VII.

II. BACKGROUND ON IMF EMERGENCY FINANCING

5. To put the IMF response to the COVID-19 pandemic in perspective, it is useful to understand the Fund's past approach to EF in general, and to disaster relief in particular. Under EF, the IMF provides financial assistance without the usual (ex post) UCT standard conditionality.

6. The Fund embarked on the practice of granting emergency relief for natural disasters (without negotiating an adjustment program) in 1962, or some 15 years after the Fund was founded (Boughton, 2001). Over the following 17 years, the Fund provided emergency assistance in just four cases. However, during 1979–1980, their frequency rose sharply. In 1982, the Board adopted guidelines on the granting of emergency assistance for natural disasters, while rejecting the creation of a formal disaster facility. Under these guidelines, a member could receive a quick outright purchase (equivalent to 25 percent of quota although larger amounts could exceptionally be made available), using a "flexible and pragmatic" application of policies on the use of Fund resources (UFR). Specifically, to qualify for emergency assistance a member needs to describe the general policies it plans to pursue including its intention to avoid introducing, or intensifying, exchange and trade restrictions. The Fund would grant such financing when it is satisfied that the member will cooperate with the Fund to find, where appropriate, solutions to its Balance of Payments (BOP) difficulties, which is essentially equivalent to first credit tranche conditionality.

7. The IMF has also established from time to time, a variety of facilities and policies[2] often with lower than UCT conditionality standards to tackle specific BOP needs, which frequently stemmed from a global economic crisis and were also subject to access limits.[3] Use of these facilities/policies

[2] The term "facilities" normally refers to those UFR policies, and repayment terms, that are outside the credit tranches (such as the Extended Fund Facility) or lending via the Poverty Reduction and Growth Trust (PRGT) including for emergency assistance. The term "policies" on the use of the Fund's resources relate to use under the credit tranches (for example, SBAs, non-concessional emergency assistance, etc.).

[3] Annual access limits are intended to balance the need to provide members and markets with confidence regarding the scale of possible Fund financing with the need to preserve Fund liquidity and the revolving character of Fund resources, that is to safeguard Fund resources (IMF, 2018). Access is determined by several criteria: a member's actual, prospective, or potential BOP needs, its capacity to repay the Fund, the strength of the member's adjustment effort, the amount of its outstanding UFR, and its past record of such use (IMF, 2018). Cumulative access limits help to ensure that the Fund's resources are not exhausted, so that borrowers' need not be treated on a "first-come-first-served" basis. Access limits also reduce the risk that members become unable to repay the Fund, thereby safeguarding Fund resources. Annual and cumulative access limits establish the threshold for triggering the application of more exceptional access policies (EAP).

requires meeting certain qualification criteria (sometimes referred to as ex ante conditionality), but they apply no ex post conditionality as full disbursement is made upon Board approval. Examples include: the Compensatory Financing Facility (CFF) (established in 1963), to provide financing after an adverse price shock to a country's exports, which was amended in 1981 to add a window for cereal imports in response to higher cereal prices, and later to add temporarily, a window for oil imports (1990–91); a Buffer Stock Financing Facility (BSFF) (1969); two temporary oil facilities to help developing countries cope with the oil shocks in the mid-1970s; a policy to provide emergency post-conflict assistance (1995); a temporary Systemic Transformation Facility (1993–95) to help centralized plan economies transition to market economies; a policy on currency stabilization funds (1995); a temporary Y2K facility (1999–2000) related to possible computer software failures associated with the new millennium (Y2K, or 2000); and a trade integration mechanism (2004) (Boughton, 2012). The BSFF and CFF were eliminated in 2000 and 2009, respectively.

8. Urgent BOP assistance for commodity price shocks, natural disasters, and post-conflict states were combined into the RCF (2010), which provides concessional (Poverty Reduction and Growth Trust (PRGT)) resources for low-income countries (LICs), and the RFI (2011), which provides General Resource Account (GRA) resources to the entire membership, and coverage was extended to all urgent BOP needs. Annual access for both the RCF and RFI was limited to a total of 50 percent of quota, with some "blend" countries combining access to the RCF and RFI up to the 50 percent limit. Annual (AALs) and cumulative access limits (CALs) were adjusted from time to time, including the introduction of a "large natural disaster (LND)" window offering access up to 80 percent of quota in annual access and 133.3 percent of quota in cumulative access. As regards qualification criteria for such EF, the Fund must be satisfied that the member is experiencing an urgent BOP need which if not addressed could result in an immediate and severe economic disruption and that either: (i) the member's BOP need is expected to be resolved within one year with no major policy adjustments being necessary; or (ii) the member is unable to implement an UCT-quality economic program due to its limited policy implementation capacity or the urgent nature of its BOP need. The need for staff to determine that the member could not implement a UCT-quality program was intended to avoid having a member engage in facility, or conditionality, shopping—requesting UFR with the least policy conditionality. In the case of the RCF, the member's BOP difficulties should not be predominantly caused by a withdrawal of donor's financial support.

9. Such EF also has ex ante qualification criteria. In particular, the relevant decisions state that a country requesting RFI or RCF assistance shall describe in a letter the general policies it plans to pursue to address its BOP difficulties, including its intention not to introduce or intensify exchange and trade restrictions and other measures or policies that would compound these difficulties. The member shall also commit to undergoing a safeguards assessment,[4] provide staff

[4] Under the Fund's safeguards assessment policy, a borrowing country's central bank undergoes a diagnostic review conducted by Fund staff of its governance and controls framework to minimize the risk of misuse of Fund resources and inaccurate reporting of key monetary data ("misreporting"). Following this review, a report is produced that may include recommendations to address identified vulnerabilities. A fiscal safeguards review of state treasuries is needed in cases where the member requests "exceptional access" with the expectation that at least 25 percent of Fund funds would be used for direct budget support.

with access to its central bank's most recently completed external audit reports, and to authorize its external auditors to hold discussions with Fund staff. In addition, the Managing Director may seek that the member implement upfront measures—PAs—before recommending to the Fund Board that it approves a member's request for RCF/RFI assistance. It is also the case that the Fund's general policies and practices on UFR apply, including importantly those related to capacity to repay the Fund, debt sustainability, and economic governance, which provide additional safeguards for Fund resources.

10. The IMF Board created an "emergency financing mechanism" in 1995 to allow the Fund to respond more rapidly in support of members facing a BOP crisis. This mechanism is not a separate facility and should be viewed as accelerated procedures under the credit tranches. Under the emergency financing mechanism, the Board is informed immediately by management of its intention to activate the emergency procedures and the Board is briefed regularly on the progress in negotiations. Once a staff-level agreement has been reached, documents are to be circulated as soon as possible, say within five days, and the Board would be prepared to consider a UFR request as early as 48–72 hours after circulation of the relevant documents.

11. In 2010, the Post-Catastrophe Debt Relief Trust was established by the IMF Board to help respond to hardships caused by an earthquake that devastated Haiti. Its purpose was to provide grant assistance for use in response to the crisis to free up resources that otherwise would have been assigned to meet debt service obligations to the IMF. This Trust was transformed into the CCRT in 2015 initially to address the Ebola pandemic in the West African countries of Guinea, Liberia, and Sierra Leone, and subsequently to help other LICs that may be affected by public health disasters in the future. Countries seeking debt service 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.

III. ACCESS LIMITS AND TOOLKIT RESPONSE TO COVID-19 PANDEMIC

12. To minimize extreme economic disruption and lessen permanent economic scarring associated with the COVID-19 pandemic, the IMF decided to make its financing abundantly and quickly available to support economic activity and pandemic mitigation efforts. Abundant IMF financing was to be facilitated by doubling annual EF access limits, while quick financing was to be achieved by reliance upon rapid EF tools—the RCF and RFI—and the CCRT. The Fund also developed guidance in various forms on policies and safeguards to be applied in providing EF. (The IMF's response strategy is examined in more detail in Ocampo and others, 2023).

A. Modifications to the IMF's Lending Toolkit

13. The IMF extended its lending toolkit in several ways starting in late March 2020. On March 27, 2020, the IMF Executive Board modified the CCRT by expanding the qualification criteria to better cover the circumstances created by the global pandemic and to focus on delivering support for the most immediate needs (IMF, 2020a). Eligibility for support under the

CCRT is limited to members of the Fund that are PRGT-eligible and whose GNI per capita is below 100 percent of the International Development Association income operational threshold. This decision redefined catastrophes to add life-threatening global pandemics that inflict severe economic disruption across the Fund's membership and create BOP needs on such a scale to warrant a concerted international effort to support the poorest and most vulnerable countries.

14. Even before these eligibility changes, the CCRT had been severely underfunded. Under the revised CCRT framework, total potential CCRT demand from the COVID-19 pandemic was estimated at SDR 1.1 billion. A new fund-raising round was kick started by a pledge of £150 million in new grants from the UK along with indications of contributions by other donors.

15. On April 9, 2020, the IMF Board substantially increased access to its EF because it considered that current access levels were too low to deal effectively with the COVID-19 pandemic (IMF, 2020b). The Board decided to double, for a period of six months, annual access available under the regular window of the RFI from 50 percent of quota to 100 percent and under the exogenous shocks window of the RCF also from 50 percent of quota to 100 percent (IMF, 2020b).[5] Cumulative limits for the RFI and RCF were also increased from 100 percent of quota to 150 percent. Fund staff estimated that near-term potential demand for resources from these emergency windows could total some US$ 100 billion from 90 countries.

16. At the same time (April 2020), the Board adopted "pandemic emergency procedures" to streamline the processing and approval of requests for emergency financial assistance (IMF, 2020c). Under these procedures, the Board was to be given four business days to review documents for applicable UFR requests. To ringfence these new standing procedures, their activation requires Board approval when the Managing Director, informed by the World Health Organization's (WHO) assessment, determines that a life-threatening global pandemic is inflicting severe economic disruption. Activation of these procedures is for a three-month period but could be renewed by the Board for another three-month period or could be discontinued. Fund management also informed the Board that it had implemented several measures to accelerate the internal processing of requests for emergency and CCRT assistance including, inter alia, a shortening in the length of policy notes, departmental reviews limited to 2 days rather than 3 days, and management reviews reduced to 12 hours from 3 days.

17. In addition, as part of the IMF's COVID-19 pandemic response, on April 15, 2020, the IMF Board created the Short-Term Liquidity Line (SLL) for a period of seven years (IMF, 2020d). According to the staff report, the COVID-19 pandemic created severe disruption in the global financial system, with many emerging market and developing economies (EMDEs) facing liquidity shortages along with the danger of a "sudden stop." Creation of this new facility required a

[5] In September 2020, the Executive Board approved a six-month extension to April 2021 of the temporary increase in access limits for these EFIs (IMF, 2020h). As discussed in the main text, this extension was also extended.

special majority (85 percent of the voting power).[6] Unlike existing precautionary facilities (the Flexible Credit Line (FCL) and Precautionary Liquidity Line (PLL)), the resources under the SLL facility revolve, allowing for repayment and redrawing, and access is renewable. The SLL was therefore seen as offering a potentially more flexible precautionary instrument than the FCL or PLL, although policy standards for access were set at the same high level as the FCL. This backstop provides up to 145 percent of quota for member countries with very strong policies and fundamentals in need of potential, moderate, short-term BOP support. Preliminary estimates by staff (IMF, 2020d) suggested potential SLL commitments of up to SDR 40 billion.

18. In July 2020, the Board approved a temporary increase in AALs for GRA and PRGT lending (IMF, 2020i) from 145 percent and 100 percent of quota, respectively, to 245 percent and 150 percent, respectively. These increases in AALs allowed countries to obtain greater Fund financial support via all its policies/facilities without triggering the application of the additional risk-mitigation procedures associated with the exceptional access framework.[7, 8] This temporary increase in the AALs was to remain in effect through April 6, 2021, which was considered at that time to be sufficiently long to cope with the pandemic. The separate, cumulative limits for GRA and PRGT resources (435 percent and 300 percent of quota, respectively) were not changed at that time (July 2020). The Board also approved a temporary suspension (again through April 6, 2021) of the limit on the number of disbursements under the RCF within a 12-month period to allow additional RCF lending to LICs. In raising these various limits, Directors noted that judgment continued to be needed in determining the amount of access in individual cases based upon the usual access criteria. While recognizing the heightened risks to the Fund, many Directors pointed to the potential risks from the failure of the Fund to provide adequate financial support to its members during the pandemic.

19. In March 2021, the Board extended to end-2021 these temporary access limits and the suspension of the two-disbursement limit on use of the RCF within a 12-month period (IMF, 2021e).[9] In addition, the Board adopted a policy to provide that RFI/RCF drawing rights would automatically expire 60 days after their approval if not used. This policy reflected the experience at that point related to eight cases of delayed drawings. In June 2021, the Board

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[6] The SLL was modeled after a 2017 staff proposal (that did not receive the required 85 percent support by EDs at that time) for a new facility—called the Short-term Liquidity Swap (SLS)—which was intended to provide members with very strong policies predictable and renewable liquidity support against potential, short-term, moderate capital flow volatility.

[7] The annual exceptional access limit under the PRGT, which is a hard cap, was also temporarily increased by 50 percent to 183 percent of quota.

[8] At an earlier Board discussion, some EDs had indicated a preference for “carving out” access related to EF from the normal annual and cumulative access limits rather than a generalized increase in these limits to avoid triggering the exceptional access framework. To bolster its proposal, the staff (IMF, 2020i; Box 3) stated that they found it problematic to treat Fund credit exposure from EF differently than that from an UCT arrangement.

[9] In July 2021, the Board aligned normal PRGT access limits with those for GRA resources (145/435 percent of quota for annual and cumulative, respectively) until the next full review of LIC facilities, which was then expected to be conducted in 2024–25 (IMF, 2021h).

temporarily lifted access limits, annual and cumulative, across all windows for RFI and RCF to allow access by countries that had previously used EF for pandemic-related needs and subsequently experienced a qualifying LND (IMF, 2021g). Such countries may not have sufficient room available under the LND window to meet their LND-related needs, which is at odds with the original intent of the LND access policy.

20. As large as increased IMF lending to EMDEs was during 2020, it pales in comparison to the historic allocation of SDR 456 billion (about US$ 650 billion) approved in August 2021. SDRs are an international reserve asset that can be issued by the IMF to address long-term global needs to supplement existing reserves. Once they are allocated, IMF member countries can hold them as part of their foreign exchange (FX) reserves or exchange them with other countries for freely usable currencies. The SDR 193 billion that went to EMDEs is more than five times the total gross IMF disbursements during March 2020–April 2021 (SDR 36 billion). For the group of LICs, the financial support obtained through IMF lending (at over SDR 13½ billion (including GRA resources)) was, however, in the same ballpark as the liquidity obtained via the SDR allocation (SDR 15 billion). By the end of January 2022, 35 EMDEs (18 middle-income countries, and 17 LICs) had reportedly exchanged all or part of their allocations for freely usable currencies for an amount equivalent to $14.8 billion (United Nations, 2022; IMF, 2022a).

21. In December 2021, all temporary increases in access limits were allowed to lapse, returning them to their pre-pandemic levels (or to the new PRGT AAL) (IMF, 2021i). However, the CAL for the RFI and RCF were extended at their current levels for another 18 months to provide room for countries to make additional purchases if warranted.

B. Guidance on Policies and Safeguards Related to Emergency Lending

22. As the Fund rapidly ramped up its lending through emergency facilities in response to the pandemic from March 2020, the Fund Board did not formally endorse guidance (for staff or country authorities) pertaining to policies to mitigate the economic impact of the pandemic. However, staff in the Fund's Fiscal Affairs Department (FAD) produced two highly informative and useful notes: (i) "Keeping the Receipts: Transparency, Accountability, and Legitimacy in Emergency Responses," (IMF, 2020f); and (ii) "Budget Execution Controls to Mitigate Corruption Risk in Pandemic Spending" (IMF, 2020g), published on April 20 and May 20, 2020, respectively. These notes were part of a special series of notes launched during the pandemic (see Ocampo and others (2023) for a discussion of the series) and carried the standard disclaimer that they "did not necessarily represent the view of the IMF, its Executive Board, or IMF management."

23. Staff engaged with EDs in an informal Board meeting in late May 2020,[10] setting out a common approach to implement governance safeguards related to pandemic-related spending in the context of countries' requests for EF from the Fund. According to the staff presentation, this approach was grounded in the 1997 governance policy and strengthened by the 2018

[10] Informal Board meetings are sessions where EDs are not assembled as a decision-making organ but rather meet to be briefed by staff and to exchange preliminary and tentative views on an emerging issue.

governance framework. An interdepartmental task force was established to coordinate staff efforts on governance safeguards in surveillance, capacity development, and lending operations. As regards lending, the framework provided that commitments in LOIs on governance safeguards should aim at avoiding the misuse of Fund resources and be tailored and calibrated to the country-specific circumstances and severity of corruption risk. Staff indicated in the informal meeting that in cases of more severe risks, PAs 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. It was clarified by staff that under RFI and RCF instruments, PAs were permitted on an exceptional basis, where warranted.

24. EDs were generally supportive of the common approach (as orally presented by staff) for undertaking commitments on governance safeguards that ensured that Fund resources were utilized as intended and reduced the Fund's reputation risks. They stressed the importance of evenhanded treatment of members in the application of this approach. As regards the use of PAs, Directors expressed differing views: some saw no tradeoff between EF and the need for certain minimum governance standards, while others felt that ensuring that EF was quickly delivered during this "crisis like no other" was paramount.

25. As promised at the May informal session, another informal Board briefing took place in June 2020. Staff provided an interim progress report in implementing the Framework for Enhanced Fund Engagement on Governance. This progress report was published in May 2020 as part of the special series on COVID-19 (IMF, 2020g). A matrix was provided with a country-by-country description of the commitments made in LOIs, follow-up UCT arrangements, and Article IV consultations on governance measures pertaining to crisis-related spending. This matrix (as well as updates) was made publicly available on the IMF website under the section on COVID-19 lending tracker.[11]

26. In October 2020, in the context of a review and extension of rapid EFIs, the Board was informed by staff that RCF/RFI requests had generally contained governance commitments/ safeguards, including relating to transparency and accountability, in order to help ensure that Fund resources were used for their intended purpose (IMF, 2020o). In addition, a box on "Staff Guidance on Addressing Governance Safeguards for Emergency Financing" in the staff paper specified that country authorities should commit to governance safeguards in their LOIs, noting two especially common commitments: (i) to undertake and later publish on the government's website an ex post audit of crisis-related spending; and (ii) to publish crisis-related procurement contracts on the government's website, including identifying the companies awarded the contract and their beneficial owners, as well as recording ex post validation of delivery of the services/products specified in the contract. In the related summing up, many EDs emphasized the importance of implementing appropriate governance safeguards to mitigate the misuse of EF and welcomed staff's guidance encouraging commitments related to audits and procurement.

[11] See https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker.

This formal endorsement, however, came roughly six months after staff had begun to seek commitments from country authorities related to these governance safeguards, albeit following an informal Board briefing on this topic.

27. Staff has provided the Board with systematic information on the implementation status of measures to promote good governance and transparency in pandemic-related spending in the context of IMF financing. This information was first provided in May 2021 and updated in May 2022.

28. In addition to governance safeguards, the Fund relies on a multilayered framework to mitigate and manage credit risk across all its lending operations, including policy safeguards and procedural safeguards. Exceptionally high access to GRA resources is covered under the Exceptional Access Policy (EAP), which requires meeting certain criteria and early engagement with the Board. High Access Procedures (HAP), only applicable to PRGT-eligible countries, requires an early engagement with the Board through an informal Board meeting. In addition, there are Exceptional Access (EA) criteria for non-blenders and the Policy Safeguards for High Combined Credit (PS-HCC), which takes into account access under both the GRA and the PRGT. During the evaluation period, EAP safeguards were triggered for two GRA countries (Ecuador and Egypt).[12] HAP safeguards were triggered for a handful of countries, including Cameroon, Chad, Madagascar, and Mali. In March 2021, annual thresholds triggering EAP and HAP were increased. The increase in EAP and HAP thresholds facilitated the transition of EF-recipients towards UCT arrangements, but also exposed the Fund's balance sheet to greater risk.

IV. IMF EMERGENCY LENDING IN PRACTICE

A. Overview

29. 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 2020 and 2021 represented record highs for the IMF in its over 75-year history.

30. Consistent with the Fund's strategy, the existing emergency facilities were used as the main channel for Fund financing (Figure 1, Panel A). By end-2021, the Fund approved 128 COVID-19-related financial commitments, of which 88 were EF.[13] Some 93 countries were granted non-precautionary access to Fund resources during this period. Over two-thirds (99) of the Fund financial commitments took place in 2020—a record 62 countries received very quick

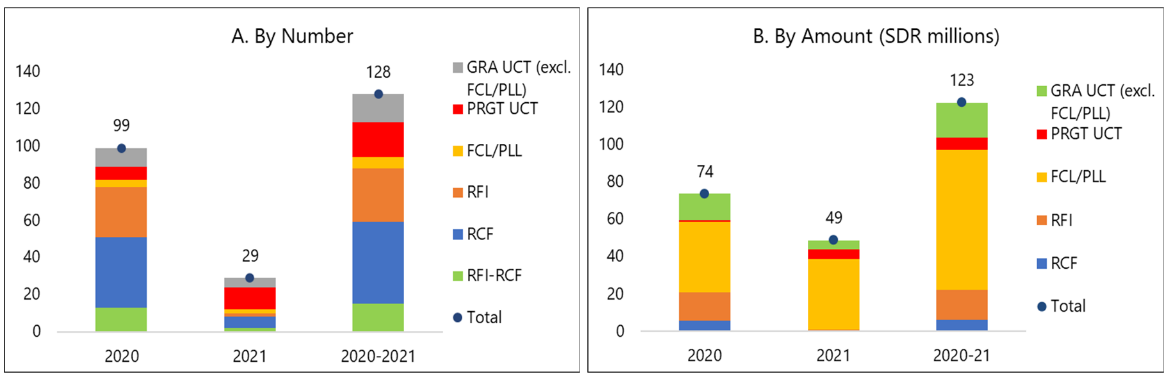
[12] EA was not triggered for PRGT-eligible countries from March 2020 to end-2021, owing to two increases in PRGT EA limits in July 2020 and March 2021, respectively.

[13] 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 LND Window to address the BOP need associated with a volcanic eruption. Two RFI-RCF and RCF requests from Tanzania are considered as one, because the authorities replaced use of RFI in the first request with RCF in the second request following a set of reforms to the Fund's concessional lending facilities in July 2021.

support within March–May. In total, 78 members (88 requests) were granted access to either, or both, of the RFI and RCF. In addition to EF, 11 members augmented existing UCT Fund arrangements and 22 members obtained new non-precautionary Fund arrangements.[14]

31. In terms of new financial commitments, the Fund approved SDR 123 billion for COVID-19 financial assistance, of which SDR 99 billion were approved in 2020 (Figure 1, Panel B). The Fund approved SDR 22 billion in EF, SDR 23 billion in new UCT arrangements, and SDR 2 billion in augmentation of existing UCT arrangements. Precautionary arrangements constituted around 61 percent (SDR 75 billion) of total financial commitments. Five members (Chile, Colombia, Mexico, Panama, Peru) had access to precautionary arrangements at end-2021, including one partially drawn FCL (Colombia).

Figure 1. IMF New Financial Commitments, 2020–2021



Sources: IMF Lending Tracker; IEO calculations.

32. Figure 2, Panel A shows the Fund's disbursements from 2019 to 2021. In response to the unprecedented financing needs, the Fund disbursed in total SDR 37 billion in 2020, almost twice as much as in 2019. Besides the spike in lending, there was also a notable shift in lending instruments. Of the total disbursements in 2020, over half (SDR 21 billion) was EF and around 16 percent (SDR 6 billion) was precautionary UCT financing. In particular, the drawing of precautionary arrangements during the pandemic marked a perceptible drift from pre-pandemic period. Among all the FCL and PLL (PCL) arrangements approved prior to the pandemic, North Macedonia was the only country that drew on its precautionary arrangement before 2020. In contrast, two countries (Colombia and Morocco) drew on their existing precautionary arrangements (a FCL and PLL, respectively) for a total of SDR 5.9 billion during March 2020 to end-2021. This amount represented 13 percent of IMF disbursements in the same period and lifted outstanding credits under precautionary arrangements from zero at end-February 2020. No requests were made to utilize the SLL that was introduced in April 2020 during the evaluation period. As discussed in Ocampo and others (2023), this reflected a combination of factors, including international financial markets that reopened faster and more fully than had been

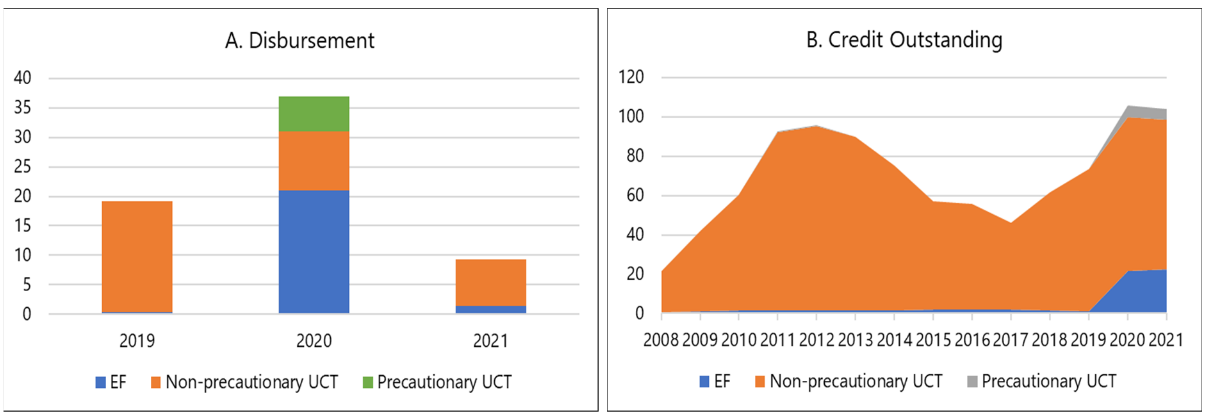
[14] Some of these members were granted access to Fund resources through multiple lending instruments, which explains why their sum is greater than the 93 cited earlier.

expected in the context of commitments to maintain easy monetary conditions by the major central banks as well as the provision of swap lines made available by central banks from advanced countries.[15] Other factors including the design of SLL (notably its limited access compared to the FCL). Possible concerns about stigma may also have played a role.

33. The decisive and swift IMF lending increased the Fund balance sheet significantly. Between March 2020 and December 2021, outstanding IMF credit increased by almost SDR 30.5 billion, or by 41.5 percent, reaching SDR 104 billion, or higher than the peak attained during the global financial and euro-area crises (Figure 2, Panel B).[16] Use of the RFI (by SDR 15.1 billion) and of the RCF (by SDR 6.3 billion) accounted for over two-thirds of the increase in total outstanding IMF credits. The total number of countries with outstanding Fund credit rose to 94 at end-2021.

Figure 2. IMF Disbursement and Credit Outstanding

(In SDR billions)



Sources: FIN; IEO calculations.

34. As regards UFR by WEO classification of Fund members, none of the 34 advanced country members received financial assistance during 2020–21. By contrast, 99 of the 156 EMDEs (or about 63 percent) accessed Fund resources by end-2021. Looking at LICs, 53 of 69 PRGT-eligible countries—or more than three-quarters—received financial assistance from the Fund during March 2020–December 2021, including for debt service relief via the CCRT (SDR 520 million).[17] A somewhat lower share of emerging market and middle-income countries (47 out of 87, or 54 percent) accessed Fund resources.

[15] The early-stage response by the global financial safety net to the COVID-19 pandemic was dominated by bilateral swap lines from central banks in advanced countries, which helped to quickly stabilize global financial markets and contain the economic crisis (Iancu, Kim, and Miksjuk, 2021).

[16] Outstanding Fund credit peaked in January 2021 at almost SDR 106 billion before declining somewhat by end-2021. Outstanding Fund credit was about SDR 104 billion at end-December 2021.

[17] Only one CCRT-eligible country (Yemen) did not receive Fund financial assistance beyond their CCRT debt service relief by end-2021.

35. 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 IMF staff, was the ability to borrow from international capital markets or obtain financing from other bilateral and multilateral sources. Large countries, such as Brazil, China, India, Indonesia, and Russia, were in this group. Some countries were interested in access to EF but did not receive it because of policy/governance reasons (Belarus, Iran, Libya, Mauritius, Venezuela, Yemen) or problematic debt sustainability (Antigua and Barbuda, Argentina, Republic of Congo, Eritrea, Lebanon, Sri Lanka, Zambia, Zimbabwe).[18]

36. The number of countries given access to EF in the European Department (EUR), Middle East and Central Asia Department (MCD), and Western Hemisphere Department (WHD) when scaled by the number of EMDEs in each area departments, was roughly similar (40 percent). However, as shown in Batini and Li (2023), Fund members in AFR used Fund resources at a considerably higher frequency (84 percent), while countries in Asia and Pacific Department (APD) had a relatively low usage (30 percent). This finding may reflect the larger share of LICs in AFR and the well-known problem of stigma associated with the UFR in APD. Meanwhile, two RFI approvals in WHD were not drawn upon, and one RFI was repaid early, owing to domestic opposition. Total commitments were highly concentrated in WHD, with the four FCLs and one PLL, all in WHD, accounting for 79 percent of total committed resources at end-2021 (93 percent of committed resources to the region).

37. In terms of timing, the bulk of Fund COVID-related financial assistance was approved during a slightly more than three-month period (late-March to end-June 2020). This represented unprecedented action in terms of speed, number of members, and total amounts. To be precise, the Fund Board approved during this period 79 separate requests for financing including RCFs/RFIs (68), augmentations of existing Fund arrangements (6), and new Fund arrangements (5). The total amount approved during this period was SDR 27.2 billion, while the IMF disbursed SDR 22.3 billion. The strenuous effort by staff and the Board that made this fast action possible is discussed in Batini and Wojnilower (2023).

38. After this initial burst of activity, the number of requests slowed. During the six-month period July–December 2020, the Fund Board approved 17 requests for financial assistance—11 RCFs/RFIs, 4 augmentations, and two new arrangements—amounting to SDR 9.4 billion. The approval pace slowed further in 2021; from January 2021 through April 2021, the Board approved only 9 requests for financial assistance—6 RCF/RFI, 3 new non-precautionary arrangements and no augmentations, totaling SDR 3.7 billion. By end-2021, the IMF had approved 88 requests for RFI/RCFs, 21 new non-precautionary UCT-quality arrangements, and augmented 11 UCT-quality arrangements.

39. Turning to the CCRT, starting in April 2020, the IMF Executive Board approved disbursement of debt service relief through the CCRT for 25 eligible members with outstanding Fund credit, plus 4 members that were expected to request relief shortly. This relief covered 100 percent of debt service falling due to the IMF over the next six months (IMF, 2020e). Actual

[18] 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.

disbursements totaled SDR 183 million during the first tranche period April–October 2020 to 28 members that had debt service payments falling due. The Board approved a second six-month tranche of debt service relief under the CCRT in October 2020 (IMF, 2020h). At that time, donors had provided grant contributions totaling about SDR 360 million, including from Bulgaria, China, Germany, Japan, Luxembourg, Malta, Mexico, the Netherlands, Norway, Sweden, Switzerland, and the UK. Actual disbursements for the second tranche amounted to SDR 168 million to all 29 eligible countries. A third six-month tranche was approved by the Board in April 2021, covering the period up to October 15, 2021 (IMF, 2021a). Donors pledged contributions totaled about SDR 545 million, including new support from the European Union, France, the Philippines, and Singapore. Available resources and pledges were sufficient to cover the cost of this third tranche of debt relief, or an estimated SDR 168 million to 28 members with IMF debt service falling due.

40. In October 2021, the IMF Board authorized a fourth tranche of debt service relief through the CCRT (IMF, 2021j). At the same time, the Board approved the inclusion of the Kyrgyz Republic and Lesotho in the list of countries eligible for CCRT relief as they now met the eligibility requirements; these two countries started receiving CCRT relief for IMF debt service falling due after the date of this decision. The fifth and final CCRT tranche (for about SDR 82 million) was approved by the IMF Board on December 20, 2021 (IMF, 2021k). In total for the period April 2020 to April 2022, the IMF provided SDR 690 million (equivalent to about US$ 964 million) in relief to cover debt service payments to the IMF to 31 CCRT-eligible countries.

41. In addition to this relief, the IMF approved loans, either EF or UCT arrangements, of nearly SDR 5 billion to CCRT-eligible countries by December 2021; these countries also received an SDR allocation of nearly SDR 6 billion in August 2021. Only one CCRT-eligible country (Yemen) did not receive Fund financial assistance beyond CCRT relief by end-2021.

B. Emergency Financing and Limits on Access

42. Notwithstanding the large amounts and rapid pace of disbursements, on occasions, access to EF was held below the applicable access ceiling owing to the absence of a residual BOP need, because of concerns about policy, governance, and debt sustainability, or because exhausting the maximum amount of EF available would have translated into a level of support (in terms of GDP) significantly higher than for other countries.

43. Figure 3, Panel A looks at whether the 78 countries (34 EMs, 44 LICs) that made 88 EF requests from March 2020 to end-2021 exhausted the maximum amount of EF available at approval under EF, GRA, and PRGT AALs and CALs.[19] This maximum amount takes into account prospective Fund disbursements under already approved UCT arrangements. For 59 countries

[19] Ten countries made two EF requests. In 6 cases, an access limit had been reached initially, or no further BOP need was estimated initially, but subsequently these constraints no longer applied. Tanzania's RCF request in November 2021 is not counted. The country repurchased the outstanding RFI credit in the previous RFI-RCF request in September 2021 and made a new request under RCF for the same amount. The RCF purchase by St. Vincent and the Grenadines (July 2021) is also excluded as it related to a volcanic eruption.

(31 EMs, 28 LICs), or over 70 percent of EF recipients, the full amount available at time of request was approved subject to the various constraints on access limits. The other 19 countries (3 EMs and 16 LICs) received financing below their access limits. In 14 of those 19 countries, staff estimated that the member had no residual BOP need after the provision of official financial support from the Fund and other donors and drawdowns in FX reserves; thus, additional access was not justified under the Fund's lending framework. In the other five cases (Burundi, Equatorial Guinea, Guinea, Lesotho, and South Sudan), the country had a residual financing need, but higher access was not provided. The exact reasons for a smaller requested amount were, however, not explained in the relevant staff reports.

44. Figure 3, Panel B provides a breakdown by request rather than country. While Panel B paints a similar picture, it is worth noting that three countries (Gabon, Malawi, and Myanmar) only exhausted borrowing space—the maximum that could be lent given various access limits—at the second request, and two countries (Sierra Leone and South Sudan) did not at both requests. In summary, there were a total of 24 requests where access was below the maximum available. In 16 of these cases, a larger purchase was not possible owing to the absence of a residual BOP need.

45. In terms of which constraint on access was binding, the AAL on EF was the only binding access constraint in 34 requests and the CAL on EF was the only binding constraint for one case (Dominica). For 7 EF requests, access limits on EF were not binding, but the amount of EF financing was limited by access thresholds on the use of GRA and PRGT resources.[20] And for 17 cases, the EF financing exhausted the borrowing space under both the AAL on EF and the access thresholds on the use of GRA and PRGT resources. Estimated BOP need was a binding constraint in 41 requests, albeit overlapping at times with the binding access limit.

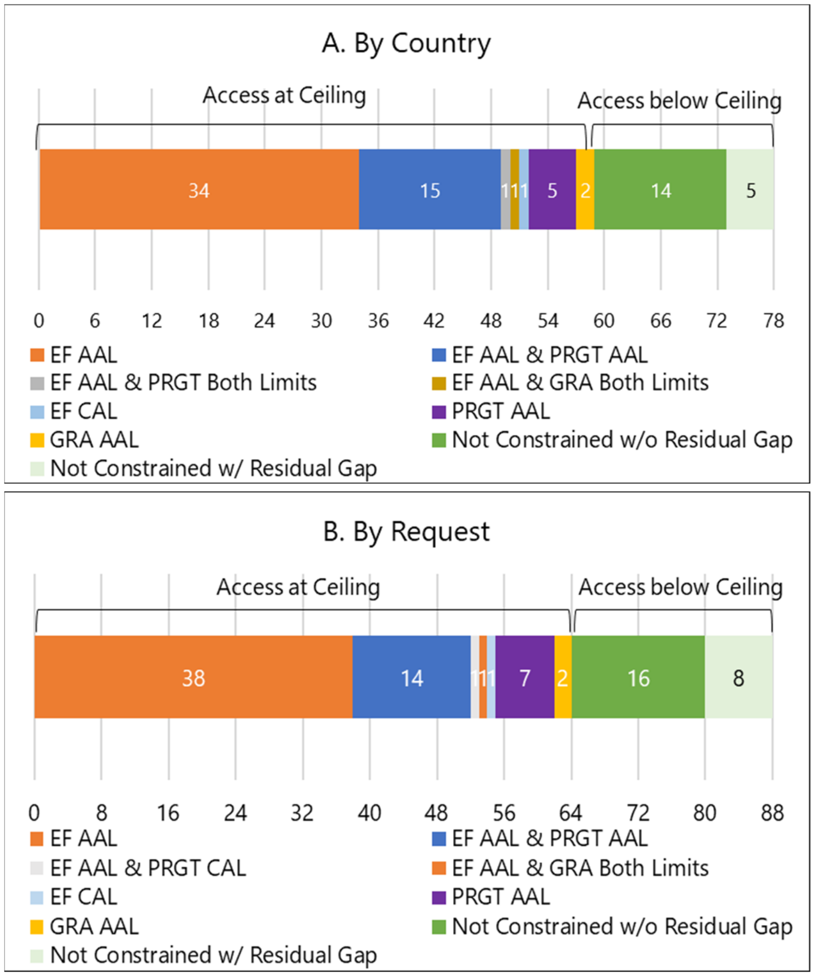
46. Figure 4 provides another way of looking at the link between access limits and the level of financing obtained. In all four panels, the figure shows "borrowing space" defined as the maximum amount of EF available under EF, GRA, and PRGT access limits on the horizontal axis against the actual level of financing on the vertical axis. Both variables are expressed in percent of gross domestic product (GDP). Consistent with Figure 3, Figure 4, Panel A shows that for the full sample of countries that received EF, 59 out of 78 countries exhausted the maximum amount of EF available under access limits. They thus sit on the 45-degree line.[21] In terms of the size of the financial support, these countries received between 0.5 percent and 3.5 percent of GDP of financial support, reflecting differences in their prior access to Fund resources, prospective purchases, and quota-to-GDP ratios. Nineteen out of 78 countries sit below the 45 degrees line. Despite receiving less than their borrowing space, these countries received more support on average than those

[20] As discussed earlier, under the Fund's lending policies, requests for access to Fund financing in excess of specified thresholds are subject to enhanced scrutiny under the EA frameworks.

[21] To be exact, 55 out of 78 countries sit on the 45-degrees line. One country (Egypt) is above the 45-degrees line because its purchase of 100 percent of quota under the RFI entailed exceptional access due to outstanding credit under the previous extended arrangement under the Extended Fund Facility.

constrained by access limits, with support ranging from 0.5 percent to almost 8 percent of GDP. For 17 of these 19 cases, staff estimated that together with other sources of official financing and drawdown in FX reserves, Fund financing would cover all their BOP financing needs.[22]

Figure 3. Access Limits and Access Levels

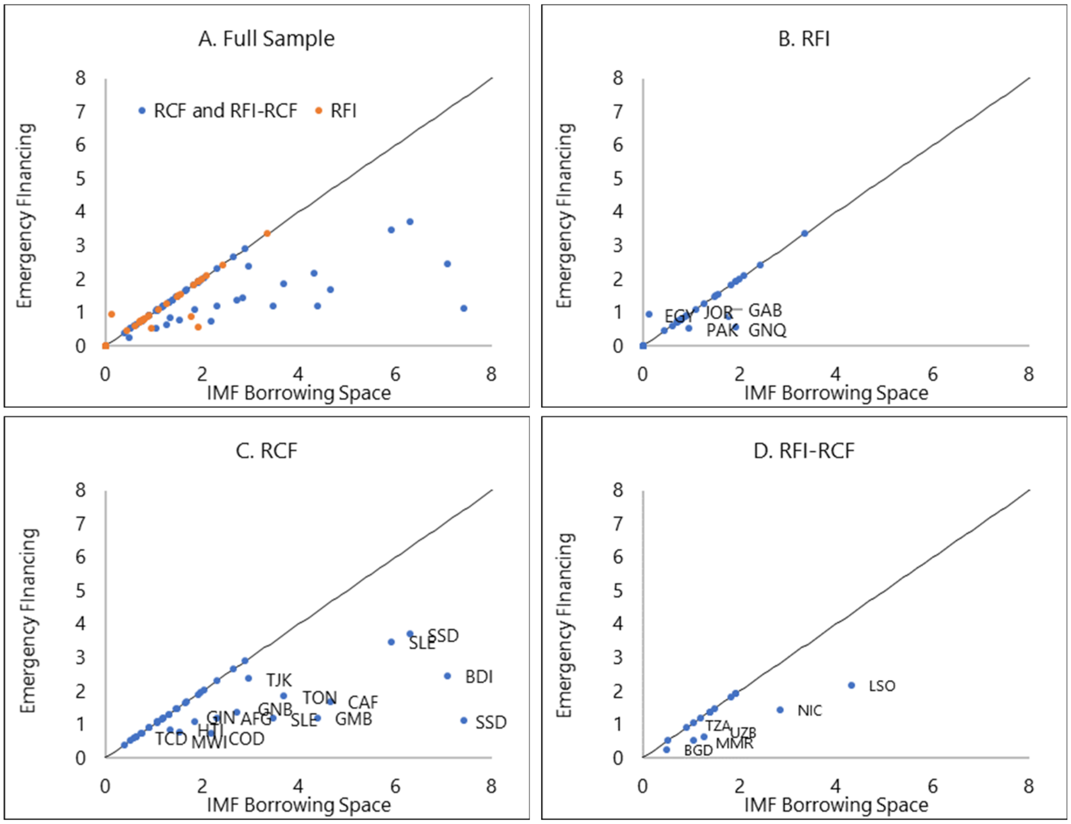


Sources: FIN; IEO calculations.
Note: AAL = Annual Access Limit, and CAL = Cumulative Access Limit. Jordan and São Tomé and Principe were not constrained by access limits at approval, but they were given the maximum amount of EF given their prospective program disbursements. See paragraph 43 for explanation.

47. Panels B, C and D of Figure 4 distinguish countries based on whether they received EF through an RFI, a blend RFI-RCF, or an RCF. The figure reveals that borrowing space played a much more important role in determining access levels for RFI (Panel B) than for RCF and blended requests (Panels C and D, respectively). In fact, only 3 of the 28 countries that received an RFI did not exhaust the maximum amount of EF available under various access limits.

[22] See, for example, the case of Uzbekistan discussed in Mazarei and Loungani (2023).

Figure 4. Borrowing Space and Access Levels



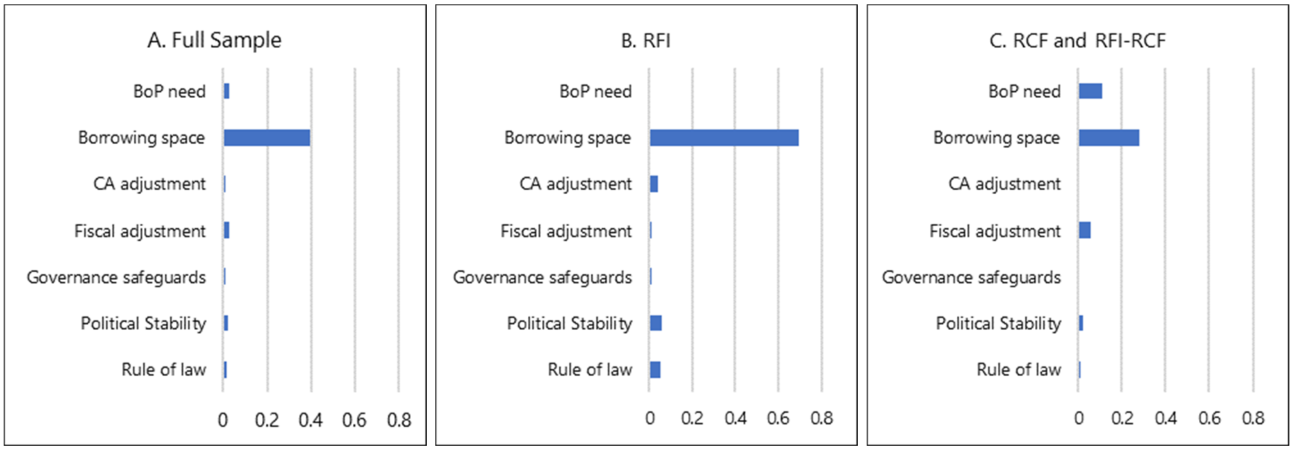
Sources: FIN; IEO calculations.
Note: The figure shows for the 78 countries that accessed EF the maximum amount of borrowing possible under various access limits when EF was requested ("borrowing space") on the horizontal axis against the actual level of financing obtained on the vertical axis. The top left figure shows the relationship for the whole sample. Other quadrants show the relationship for the RFI, RFI/RCF blend, and RCF subsamples. Liberia (borrowing space of 10.8 percent of GDP and access of 1.6 percent of GDP) is excluded from the figure for clarity.

48. Regressing access levels on borrowing space for these three subsamples illustrates the magnitude of the difference in access determinants. In the RFI sample, borrowing space explain more than 75 percent of the variation in access levels (columns (4) of Table II.1 in Appendix II). In the RCF or blended sample, borrowing space explain around 30 percent of the variation in access levels (columns (7) of Table II.1 in Appendix II).[23] These findings are confirmed in a multivariate regression framework that accounts for other determinants of access (Figure 5 and columns (3), (6), and (9) of Table II.1), such as the size of the BOP need, the size of fiscal and current account adjustments, the number of governance commitments included in LOIs, and governance indicators, reflecting institutional strength (and used to proxy a country's capacity to repay to the Fund).[24]

[23] For brevity, we only report the country-level results of Appendix II (Table A). Results from the request-level analysis are broadly in line with those from the country-level analysis and are shown in Table B.

[24] The multivariate regression framework used is described in Appendix II. It is similar to the regression framework discussed in the 2018 IMF Review of Program Design and Conditionality (IMF, 2019; Appendix II) to study the access level determinants for UCT programs.

Figure 5. Contribution to Explaining Emergency Financing Access Levels



Sources: IMF Staff Reports; IMF; World Bank; IEO calculations.
Note: Fraction of the variation attributed to a variable using multivariate regression. The figures show the Shapley Values associated with each variable in the models of columns (3), (6) and (9) of Table II.1 in Appendix II. Results are similar when using Table II.2. Shapley Value analysis or incremental R^2 analysis is a technique used for working out the relative importance of predictor variables in linear regressions. In a first step, the R^2 statistics associated with linear regressions using all possible combinations of predictors is calculated. In a second step, the average improvement associated with adding each predictor across models is calculated. Shapley values are obtained by taking a weighted average of these numbers, with weights based on the number of possible models.

49. These results suggest that EF access was binary in application—zero access or full use of available access—which did not allow for much calibration to a country's needs. This can especially be seen in Figure 4 and in Figure 5 for higher income EMDEs in the RFI only sub-sample, with almost all of them fully exhausting their borrowing space. This outcome suggests that quota-based RFI access limits were relatively small compared to the size of the BOP shock.

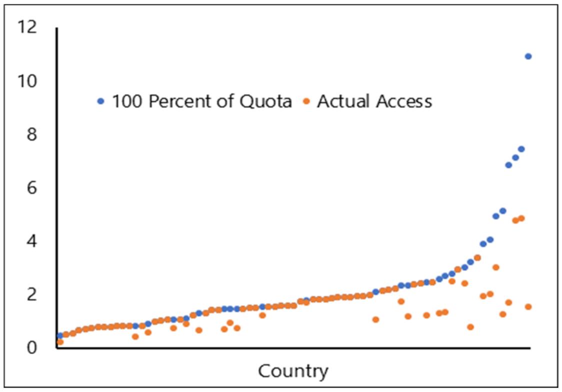
50. Blended and RCF requests have, on the other hand, taken greater account of countries' crisis-related financing needs alongside the quality of policy and governance frameworks and capacity to repay. This can be seen by the fact that more countries fall below the 45-degree line in Panels C (blended subsample) and D (RCF subsample) than in Panel B (RFI subsample) of Figure 4 and by the smaller contribution of the borrowing space variable in the right panel of Figure 5. PRGT-eligible countries either did not exhaust their borrowing space because of smaller BOP need or because staff had governance, debt sustainability, or capacity to repay concerns. In a simple bivariate regression framework, BOP needs explain around 20 percent of the variation in access levels in the RCF and blended sample. The importance of BOP need as a determinant of access levels is confirmed in a multivariate regression framework that accounts for other determinants of access, including borrowing space, in the RCF and blended sample (Figure 5).

51. Interviews with staff also suggest that, in some cases where countries had high quota-to-GDP ratios, access was held below the maximum amount available under EF to keep the level of Fund financial support as a percent of GDP commensurate to that provided to other countries with smaller quota-to-GDP ratio. This can be illustrated by showing how much financing (in percent of GDP) a country would obtain if 100 percent of quota was provided (Figure 6). On average, 100 percent of quota of Fund financing translates into a level of support close to

2 percent of GDP. But, as illustrated by Figure 6, 100 percent of quota would translate into more than 4 percent of GDP of financial support for several EF recipients. In these cases, access was held below the maximum amount available under EF to bring the level of financial support received by these countries more in line with the average access in percent of GDP.

Figure 6. Hundred Percent of Quota and Actual Access by Emergency Financing Recipients

(In percent of average GDP, 2017–19)



Sources: FIN; IMF WEO; and IEO calculations.

C. Emergency Financing and Estimated BOP Financing Needs/Gaps

52. A Fund member can request RFI/RCF resources equivalent to up to its estimated BOP financing need subject to access limits. In Table 1, the 85 staff reports supporting RCF/RFI requests made by 75 members during the evaluation period (March 2020–April 2021) are categorized according to whether staff estimated that an unfilled residual/unidentified BOP financing gap remained after accounting for the proposed IMF disbursement, other sources of official support and reserve drawdowns.[25] Residual BOP financing gaps could be zero or positive, the latter implying unmet/unfilled BOP financing needs (Table 1). In 42 staff reports requesting RCF/RFI resources, or nearly half (49 percent) of the cases, no residual/ unidentified BOP financing gap—no unmet BOP financing need—were identified. In 38 cases (45 percent), an unfilled residual BOP financing gap was estimated by staff with access limits constraining higher IMF financial support. In four of these cases, the member made a second request after the RFI/RFC access limits were raised in early April 2020;[26] their second requests were also constrained by the new higher limit.

[25] Joint requests for a blend of RFI and RCF are counted as a single request for purpose of this analysis. In two cases (Guatemala and Paraguay, both for 100 percent of their respective quotas) these requests were not followed by an actual drawing by the member within the 60-day period. Consequently, their approved access expired. Their request is counted in the above analysis. Bolivia was granted RFI access and made its purchase in full in April 2020, but a new government decided to make an early repurchase in February 2021.

[26] Two other members' (Gambia, Kosovo) requests for EF had been constrained by the prior (50 percent of quota) RFI/RFC access limit, but they did not make a subsequent request after these limits were raised. In the case of Gambia, its BOP needs were covered under the ECF-supported program approved in March 2020.

Table 1. Residual BOP Financing Needs in RCF and RFI Requests, March 2020–April 2021[1]

Zero Residual BOP Need		Positive Residual BOP Need		
		Access Limit Reached		Below Limit
Moldova	Afghanistan	Samoa	Maldives	South Sudan I
Pakistan	Tunisia	Bosnia & Herzegovina	N. Macedonia	Guinea
Central African Republic[2]	Comoros	Albania	Ethiopia	Lesotho
Congo, D.R.	Kosovo	Cabo Verde	Côte d'Ivoire	Malawi I
Gambia	Ghana	Mauritania	Mozambique	Myanmar I
Madagascar I	Tonga	Senegal	Bolivia	South Sudan II
Nigeria	Haiti	São Tomé & Príncipe	Djibouti	*Burundi*
Costa Rica	Dominica	Niger	Kyrgyz Republic II	*Equatorial Guinea*
Grenada	El Salvador	Dominican Republic	Nepal	
Paraguay[2]	St. Lucia	Panama	Chad II	
Tajikistan	Madagascar II	Kyrgyz Republic I	Cameroon II	
South Africa	Cameroon I	Egypt	Uganda	
Malawi II	Nicaragua	Chad I	Montenegro	
Benin	Guinea-Bissau	Seychelles	Rwanda	
Uzbekistan	Sierra Leone I[2]	Papua New Guinea	Gabon II	
Kenya	Jamaica	Myanmar II	Jordan	
St. Vincent & the Grenadines	Mongolia	Rwanda		
Solomon Islands	Bahamas	Gabon I		
Liberia	Eswatini	Ecuador		
Guatemala	Sierra Leone II	Burkina Faso		
Namibia	Tanzania	Mali		
Bangladesh				

Sources: IMF Staff Reports; IEO categorization.
Notes:
[1] Data on BOP residual/unidentified financing gap was taken from the relevant staff report and may not be defined consistently from one country report to another (see Appendix III for more explanation).
[2] Estimated residual/unidentified financing gap was marginally positive—less than 5 percent.
Italicized countries made purchases after April 2021, which is outside evaluation period. The RCF purchase by St. Vincent and the Grenadines was not listed because it related primarily to damage caused by a volcanic eruption.

53. In the six remaining cases (or 7 percent of the total) during the evaluation period, an unfilled residual BOP financing gap was estimated by Fund staff, even though an access limit had not been reached (last column of Table 1). These unfilled residual BOP financing gaps along with remaining head room under the access limits raises the question why the amount of proposed emergency assistance was not larger. Indeed, in three of these five cases, a second request for rapid financing was made subsequently, but in only one of those cases (Malawi) was the residual financing gap closed. In four cases (Guinea, Lesotho, and South Sudan I, II) during the evaluation period, the various access limits were not reached and the residual financing gap was not closed.[27]

54. In the case of Lesotho, the residual BOP financing gap cited in the RFI/RCF staff report—supporting a request for EF of 50 percent of quota—was equivalent to 39 percent of quota. Thus, the residual financing gap could have been closed by a commensurately higher RCF/RFI

[27] During May 2021–December 2021, Equatorial Guinea and Burundi also made RFI/RFC purchases which were below the RFI/RCF access limits, while a residual BOP financing gap remained in each case.

purchase. Indeed, this staff report acknowledged that the proposed access left "open the possibility of requesting additional support from the Fund in the coming months as the situation clarifies and the authorities' response is further elaborated." In particular, the authorities had expressed, at that time, their "interest in exploring and pursuing a medium-term [UCT] program with the IMF." As of end-December 2021, a request for further Fund financial assistance for Lesotho had not been presented to the Fund Board.

55. In the RCF staff report for Guinea, staff explained explicitly the rationale for RCF access below the normal access limit (26 percent of quota after prospective ECF purchases) even though a residual BOP gap remained. Specifically, they indicated that the proposed access (50 percent of quota) was calibrated to take into account that possible additional (unidentified) donors' support could be mobilized if downside risks materialized. The report also indicated that Guinea could also seek additional IMF support from another RCF purchase or from an augmentation of the existing ECF arrangement. According to the RCF staff report, the authorities planned to resume the UCT program as soon as feasible. Indeed, by end-December 2020, Guinea had completed the remaining ECF program reviews and made all of the associated purchases (16 percent of quota).

56. Looking at the first RCF purchase by South Sudan (15 percent of quota) in November 2020, the residual BOP financing gap (see Table 4 of country staff report) was nearly 60 percent of quota. According to staff, this gap was "expected to be closed by a combination of non-concessional and semi-concessional loans." Nonetheless, South Sudan would have benefited from the more concessional borrowing (RCF) from the Fund rather than the expected non- and semi-concessional borrowing. In March 2021, the Fund Board approved a second RCF purchase (50 percent of quota) for South Sudan. At that time, staff estimated a residual external financing gap equivalent to about 75 percent of quota. Half of that residual BOP financing gap could have been filled by increasing the purchase to 85 percent of quota, which would have lifted total outstanding RCF loans to 100 percent of quota. The staff report did not explain why a larger RCF purchase was not proposed.

D. Emergency Financing and UCT Arrangements

57. A number of questions have arisen about the interactions between RFI/RCF purchases with no ex post conditionality and UCT arrangements including ex post conditionality.

58. One issue relates to the triggering of exceptional access procedures (EAP): some countries avoided the application of EAP and other countries did not. In some PRGT cases (Chad I, Mauritania, São Tomé & Príncipe), RCF/RFI access was limited to avoid triggering EAP under the PRGT by earlier or prospective purchases under a UCT-quality arrangement. In other cases (i.e., Ethiopia and Niger), the remaining access of purchases under an existing PRGT arrangement was rephased to keep within normal AALs, or the arrangement was extended to spread out purchases (Cameroon, Chad I). On the other hand, EAP under the GRA were triggered twice for Egypt. In the first instance (May 2020), its RFI purchase pushed outstanding GRA credit above the cumulative normal GRA access limit, while in the second instance (June 2020),

approval of a new 12-month SBA with access of 185 percent of quota resulted in even higher levels of outstanding GRA credits. In other cases not associated with EF, access levels for UCT arrangements for Barbados and Ukraine were set at levels that avoided triggering EAP, while those procedures were triggered in the case of Ecuador.

59. A second issue raised by some observers is that by providing EF with no ex post conditionality, the IMF allowed countries to postpone needed adjustment that would have been required by a UCT-quality program. Indeed, the 85 requests for RFI/RFC assistance during the evaluation period were roughly four times as numerous as requests for new, or augmented, non-precautionary UCT arrangements (22), giving some credence to such worries. On the other hand, the number of countries with non-precautionary UCT arrangements at end-2021 (31) was the same as at end-February 2020 (31). This outcome suggests that EF did not act as an "on ramp" (transitioning to UCT arrangements) or as an "off ramp" (discouraging subsequent use of UCT arrangements) for use of UCT arrangements over this period.

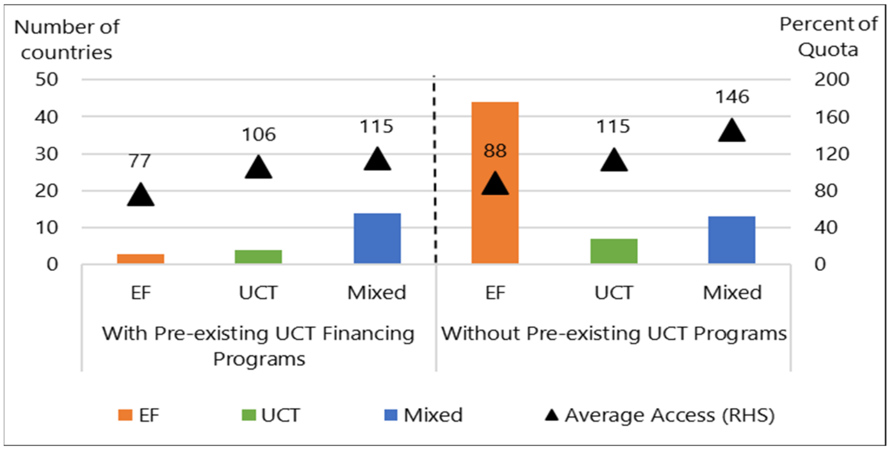
60. The interaction between EF and non-precautionary UCT arrangements can also be examined by reviewing developments with the 32 members with UCT arrangements (35) at end-February 2020. In Figure 7, the bars show the number of countries, which obtained IMF financing through either EF, UCT, or both (bars, left axis) during the period March 2020 to December 2021. It also shows average access for these respective groups (triangles, right axis).[28]

61. Out of 32 countries with pre-existing UCT arrangement, 10 members saw their existing UCT arrangements (13) expire within about three months (end-June 2020) of the Fund's pandemic response.[29] Amongst these 10 members, only Sri Lanka did not receive RFI/RCF assistance during the evaluation period; according to staff interviews, doubts about Sri Lanka's debt sustainability were the reason for not supporting such assistance. Among the remaining nine members, only one member (Jordan) obtained a new UCT arrangement during the evaluation period through April 2021. For the other eight members, EF may have substituted for a new UCT arrangement. If the time period is extended to end-2021, then Chad and Niger (both obtained UCT arrangements approved in December 2021) can be added to the list of members that obtained a new UCT arrangement after their previous UCT-arrangement expired by end-June 2020, bringing the total to three. In both cases, economic and security developments in addition to the impact of the pandemic were responsible for the external imbalances that prompted the request for a Fund-supported program.

[28] The amounts exclude financial commitments already included in pre-pandemic UCT programs.

[29] Countries with pre-pandemic UCT programs are defined as UCT programs in existence in March 2020 with at least one remaining purchase or that would not expire before end June 2020. Programs with more than one uncompleted review by June 2020 are considered off-track and are not considered to have a pre-pandemic program (i.e., Argentina, Bosnia and Herzegovina, Republic of Congo, Mongolia, Tunisia, and Ukraine). For more on Bosnia and Herzegovina, see Schadler and Cohen-Setton (2023). For more on Tunisia, see Mazarei and Loungani (2023).

Figure 7. Countries with New UFR Commitments
(March 2020–December 2021)



Sources: FIN; IEO calculations.
Note: All groups exclude precautionary arrangements. For the purpose of this analysis, countries that requested UCT programs after 2021 are not considered UCT users. Among countries with pre-existing UCT financing programs (see footnote 2 for definition), 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 financing 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.

62. In total, three countries (Equatorial Guinea, Ethiopia, and Malawi) effectively switched from UCT to EF. However, they do not appear to have done so opportunistically. Ethiopia's and Equatorial Guinea's programs were already off-track when they received EF. While the Malawian authorities did cancel the pre-pandemic ECF before their second RCF request, the authorities expressed a strong interest for a successor ECF in 2021 but that did not materialize due to debt sustainability concerns.

63. Turning now to the 21 members with existing UCT arrangements at end-February 2020 that continued beyond June 2020, the experience was somewhat different. Fifteen of these members were also granted RCF/RFI assistance by the end of the evaluation period (April 2021). Angola, Argentina, Barbados, Congo, Equatorial Guinea,[30] and Georgia were the exceptions, but Angola, Barbados, and Georgia did have their UCT arrangements augmented by 72 percent, 70 percent, and 130 percent of their respective quotas. Staff justified RCF/RFI emergency assistance in the 15 cases of RCF/RFI purchases based on a combination of urgent BOP need and the inability of country authorities to quickly formulate a UCT-quality policy response, notwithstanding the concurrent UCT arrangement. Of these 15 UCT arrangements supplemented

[30] Outside the evaluation period, the Fund Board approved in September 2021 an RFI request for Equatorial Guinea (30 percent of quota). A residual BOP financing gap (equivalent to about 80 percent of quota) remained after the RFI drawing, the SDR allocation made in August 2021, and possible drawings under the off-track EFF. The staff report did not explain why a request for a larger amount of rapid financing was not made or accepted.

by RFI/RCF assistance, 11 members (or nearly three quarters) made at least one subsequent purchase under their UCT arrangements by December 2021. As for the other 4 members, 3 UCT arrangements expired with no further purchases under that UCT arrangement; 1 of these UCT arrangement (Ethiopia) remained in effect at end-December 2021. Overall, in these cases, this evidence suggests that the use of rapid financing instruments did not undermine a country authorities' subsequent implementation of its UCT-supported program in nearly three-quarters of the cases.

64. Having examined the countries with UCT arrangements at the outbreak of the pandemic, we now turn to EMDEs without a UCT program (66). Within this group, 44 countries relied exclusively on EF (or two-thirds) during the evaluation period, 7 countries relied exclusively on UCT programs, and 13 others resorted to both EF and UCT programs.

65. In terms of new UFR commitments (indicated by triangles), access practices encouraged members to seek UCT arrangements independent of whether in Figure 7 there was a pre-existing UCT arrangement. Specifically, for countries with non-precautionary pre-pandemic UCT arrangements, 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 (105 percent) or through a mix of UCT and EF resources (115 percent of quota). 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).

66. The interaction of EF with UCT programs can also be looked at through the lens of the rationale for use of emergency with financing. In particular, EF requires that a member have an urgent BOP need that either is expected to resolve itself within 12 months with no major policy adjustments being necessary or that the authorities lack the ability to implement quickly a UCT-quality program. In the first instance, no UCT-quality program is required, while in the second instance, a UCT program would be needed but there is not sufficient time to put one in place.

67. Unsurprisingly, the provision of EF was more often followed by UCT programs for countries whose reliance on EF was justified by a lack of capacity to immediately implement an UCT-quality program than for those whose BOP need was expected to resolve itself within 12 months with no major policy adjustments. Table 2 shows that for the 10 countries that relied on EF where BOP need was expected to resolve within 12 months, only 1 country (10 percent of this group) obtained a UCT-quality 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 an UCT-quality program, 18 countries (26 percent of this group) subsequently requested a UCT-quality program by end 2021. Qualification criteria are further discussed in Section V.A.

Table 2. Use of Follow-on UCT Arrangements by Members Using Emergency Financing Sorted by Qualification Criteria

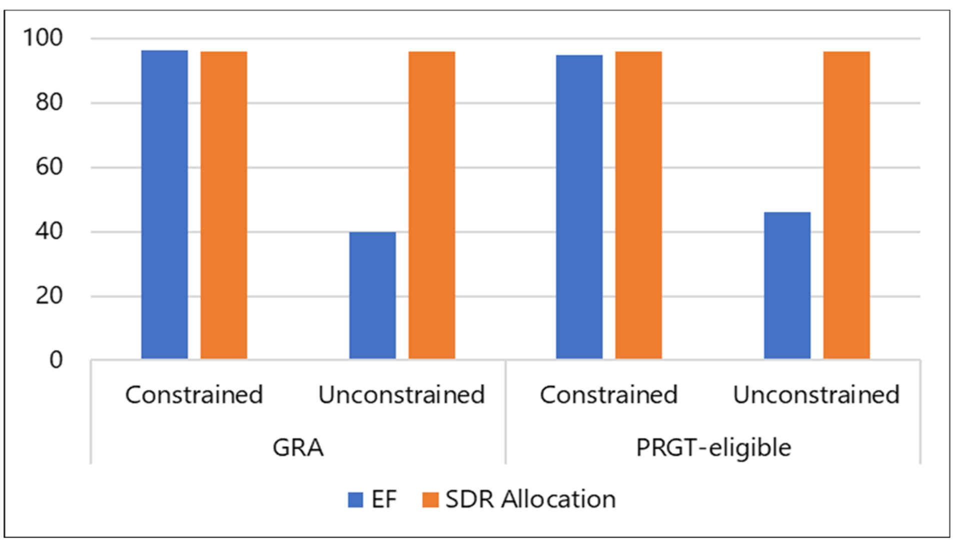
First Qualification Criterion	Second Qualification Criterion	Number of Countries	Number of Countries with Follow-up UCT
An urgent BOP need which if not addressed would result in an immediate and severe economic disruption	BOP difficulty expected to resolve within 12 months with no necessary major policy adjustments	10	1
	BOP difficulty not expected to resolve within 12 months, but authority lacked the ability to implement UCT	68	18

Sources: Staff Reports; IEO calculations.

68. Several reasons may explain why relatively few EF recipients shifted to UCT in 2020–21. Global economic growth resumed in 2021 and was faster than expected in April 2020; international financial market conditions stabilized within a couple of months after the onset of the pandemic and remained broadly accommodative; and, as in the past, stigma associated with conditionality may have made some countries reluctant to seek a UCT-quality program, even though they were prepared to use EF. Finally, the SDR allocation of August 2021 provided countries with an additional financial buffer of around 95 percent of quota, equivalent on average in size to the provision of EF in 2020 and 2021 (Figure 8), which likely delayed the shift to UCT arrangements for at least some countries.

Figure 8. Average Level of Emergency Finance in 2020–21 vs. 2021 SDR Allocation

(Percent of Quota)



Sources: FIN; IEO calculations.

Note: Constrained: access for countries that exhausted borrowing space under various access limits.

69. Another approach to investigate the impact of EF on use of UCT arrangements is to look at the ordering of these requests. Specifically, eight members utilized RFI and/or RCF resources (without an existing non-precautionary UCT arrangement) and then subsequently requested an UCT arrangement (by end-December 2021). This outcome compares with the four members that requested UCT arrangements during March 2020 to December 2021, but they did not make RFI/RCF purchases during the pandemic (i.e., Somalia, Sudan, Suriname, and Ukraine). Thus, the number of RFI/RFC requests followed by a request for an UCT arrangement was twice as many as the requests for UCT arrangement without a prior use of EF. Once again, this evidence does not suggest that use of EF had a significant adverse effect on the use of UCT arrangements.

70. To sum up the above evidence, it is not surprising that the doubling in EF access limits induced more members to use EFIs than to use UCT arrangements as the former are more conducive to rapid use by design. As to the interaction between EFIs and traditional Fund arrangements, the evidence provides a mixed picture. On the positive side, for members whose existing UCT arrangements had a remaining duration longer than three months, EF assistance was often followed by subsequent UCT purchases. However, for members whose UCT arrangements were near expiration (less than three months remaining), EF tools appear to have frequently substituted for a follow-up UCT arrangement. It was also the case that only about one-quarter of countries that made EF purchases (and their BOP difficulty was not expected to resolve itself within 12 months without any major policy adjustments being necessary) subsequently had an UCT arrangement. That said, the number of countries with non-precautionary UCT arrangements at end-2021 was the same as pre-pandemic.

V. ASPECTS OF IMPLEMENTATION

71. EF 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 upfront disbursement without the time-consuming agreement on ex post conditionality, which in standard UCT Fund programs 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.

72. This section looks in turn at three aspects of the operational application of EF: qualification criteria; the requirement for PAs in some cases; and application of governance standards. Each of these has implications for evenhandedness in implementation and for the risks associated with EF.[31]

[31] The credit risk associated with EF is sometimes mitigated by policy undertakings within the LOI and PAs as explained in Sections V.B and V.C.

A. Qualification Criteria

73. As noted in Section II, the Fund policy on emergency assistance has two qualification criteria. Specifically, the Fund must be satisfied that: (i) the member is experiencing an urgent BOP need which if not addressed could result in an immediate and severe economic disruption; and (ii) either the member's BOP need is expected to be resolved within one year with no major policy adjustments being necessary or the country lacks the capacity to implement a UCT-quality economic program due to its limited policy implementation capacity or the urgent nature of its BOP. It is important to note that urgent BOP need appears in both aspects of the qualification criteria, albeit in somewhat different contexts.

74. Each of the 88 staff reports supporting a request for RCF/RFI assistance from March 2020 to December 2021 included information on the impact of the COVID pandemic on economic activity and on the external accounts. All these reports indicated that the member was experiencing an urgent BOP need, which if not addressed would result in an immediate and severe economic disruption. As regards the second qualification criterion, each staff report specified explicitly which of the two clauses applied (see Table 2). In 68 cases (about 88 percent of total requests), the member lacked the ability to implement a UCT-quality program owing to its urgent BOP need, although several staff reports mentioned other factors that also limited policy implementation (for example, political, security).

75. In 10 cases (12 percent of total requests),[32] staff stated explicitly that they expected the BOP need to be resolved within 12 months without any major policy adjustments being necessary. In seven of these cases no further explanation was provided in the staff report for this judgement. Even in the three cases (Bangladesh, Senegal, and South Africa) where staff provide some explanation, it was rather limited—for example, "pandemic assumed to subside in H2 2020," "as global health and economic conditions normalize," or "as the immediate impact of COVID-19 subsides." This 12-month expectation contrasts with the other RFI/RCF requests and with staff views expressed in the April 2020 WEO ("uncertain recovery"). It would have been helpful if the staff reports for these 10 cases had provided a deeper, fuller analysis underlying the judgment that the BOP need would resolve itself within 12 months, particularly as no major policy adjustments were contemplated.

76. In 3 of these 10 cases, some ambiguity was introduced as to the extent of the policy adjustment undertaken by the member. In three staff reports, the standard language from the Board decision—"no major policy adjustments being necessary"—was not employed and alternative wording was developed.

77. In Montenegro, the staff informed the Board that no policy adjustment was needed beyond that contained in the staff's baseline. This baseline included fiscal measures to reduce current spending by 1.5 percent of GDP in 2020 and to restrain large capital expenditures during 2021–24 (9 percentage point of GDP in total (for details see Schadler and Cohen-Setton, 2023)).

[32] These cases were Albania, Bangladesh, Djibouti, Eswatini, Ghana, Guinea, Montenegro, Namibia, Senegal, and South Africa.

78. As regards Guinea's request, staff noted that the urgent BOP need was expected to be resolved within 12 months without any major policy adjustments being necessary, but that discussions on augmentation of the ongoing ECF-supported were not feasible, owing to the uncertain short-term outlook and the difficulties in holding a comprehensive policy dialogue. The latter consideration seemingly invoked the provision that the member lacked the capacity to implement urgently a UCT-quality program, rather than the condition of a no major policy adjustment being necessary, which is associated with the expectation of a 12-month shock. Viewed from this perspective the 12-month expectation was superfluous.

79. Turning to South Africa's request, staff noted that the BOP gap was expected to close within a year as the impact of the pandemic subsided and as "the authorities implement the intended policies." South Africa committed to implement policies that were described in the staff report as "comprehensive" and seeking "to redress the fiscal position and implement reforms." According to the authorities' letter, they intended to implement the needed measures to achieve debt stabilization by phasing out temporary relief measures as the pandemic waned and making permanent some expenditure cuts implemented to make room for the relief measures or by replacing them with other spending cuts. Structural reforms were also envisaged to remove constraints on growth. According to staff, these "de-facto" PAs allowed them to have a "good [macroeconomic] framework to base the RFI request on" (Christensen, Kayizzi-Mugerwa and others, 2023). Thus, it is an open question whether "no major policy adjustments being necessary" was meant to cover—"intended"—or forward-looking polices such as described in the letter from the South African authorities. Perhaps to clarify matters, the staff report stated explicitly that UCT-quality program was not necessary because the BOP gap was expected to close within a year and as the impact of the pandemic subsides and the authorities implement their intended policies. The application of the qualification criteria in these cases suggests a need to clarify the meaning attached to "no major policy adjustment being necessary."

B. Governance Safeguards

80. Although there is no ex post conditionality, RFI and RCF requests require an 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. To mitigate the risks of misuse of EF fund resources during the COVID-19 pandemic, staff also requested that authorities include specific governance commitments in their LOI.

81. 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 Executive Directors in late May 2020 on the application of governance safeguards in requests for EF from the Fund. Staff noted that commitments in LOIs 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 in 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 in LOIs 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.

82. 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 generalized (Figure 9): [33]

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

(ii) to collect and publish provide the names of awarded companies and their beneficial owners; [34]

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

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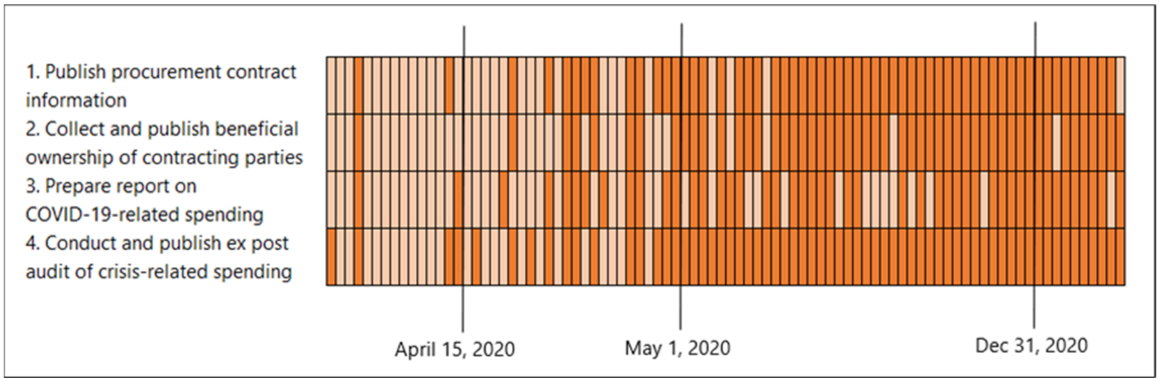
[33] These general lines followed the principles laid out by FAD staff in their note, Keeping the Receipts in March 2020 (IMF, 2020f), and were contained in the Staff Guidance on Addressing Governance Safeguards for Emergency Financing endorsed by the Board in October 2020 (IMF, 2020o).

[34] A commitment to collect and publish information on Beneficial Ownership of Contracting Companies was introduced for the first time under EF in 2020. According to IMF (IMF, 2021f), it is designed to require bidding companies to provide the names of the beneficial owner(s) (i.e., the physical person(s) that ultimately has effective control over the company) to the procurement agency and publishing the information online. Such transparency measures—when properly implemented—should facilitate the detection of potential conflicts of interest with public officials.

(iv) to undertake an independent audit of COVID-related spending, and to publish those results.[35]

83. The practice of including governance commitments in LOI started to generalize in the second half of April 2020. By mid-May 2020, most EF requests included extensive governance commitments (Figure 9). While very early users of EF faced lower expectations related to governance safeguards than later users, to the extent that these users made subsequent UFR requests (i.e., EF and UCT arrangement), these enhanced governance protections were included in the authorities' subsequent letters of intent and those enhanced protections were applied to the earlier EF.

Figure 9. Governance Commitments Included in Emergency Financing Letters of Intent

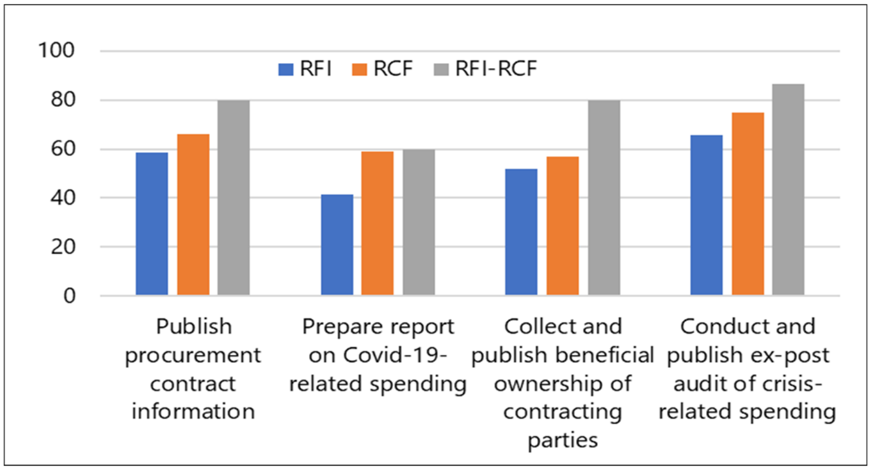


Sources: Staff Reports; IEO calculations.
Note: Each bar corresponds to an EF request. Dark (light) shading cells indicate that the governance commitments were included (not included) in the LOI.

84. Figure 9 shows that the use of governance safeguards became more pervasive over time in the authorities' LOI for RCF/RFI. The two commitments most often made by authorities were to conduct audits and to publish procurement contract information (Figure 10). These commitments were included in respectively 75 percent and 67 percent of the EF requests approved in 2020–21. The commitment to publish information on the beneficial ownership of contracting parties was included in 60 percent of EF requests and the commitment to regularly report COVID-19 expenditures was made in 55 percent of EF requests.

[35] These governance commitments were made in addition to the commitment that countries undertake a safeguards assessment that the country's central bank receiving IMF resources is able to manage the funds and provide reliable information (unless such an assessment has recently occurred). For more details on this measure to protect IMF resources, see https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/43/Protecting-IMF-Resources-Safeguards. In a few cases, the authorities' LOI incorporated commitments that would have likely been included in a UCT program. See, for example, the case of Tunisia described in Mazarei and Loungani (2023).

Figure 10. Governance Commitments in Emergency Finance Letters of Intent
(Share of total)



Sources: Staff Reports; IEO calculations.
Note: Total number of RFI, RCF, and RFI-RCF is 29, 44, and 15, respectively.

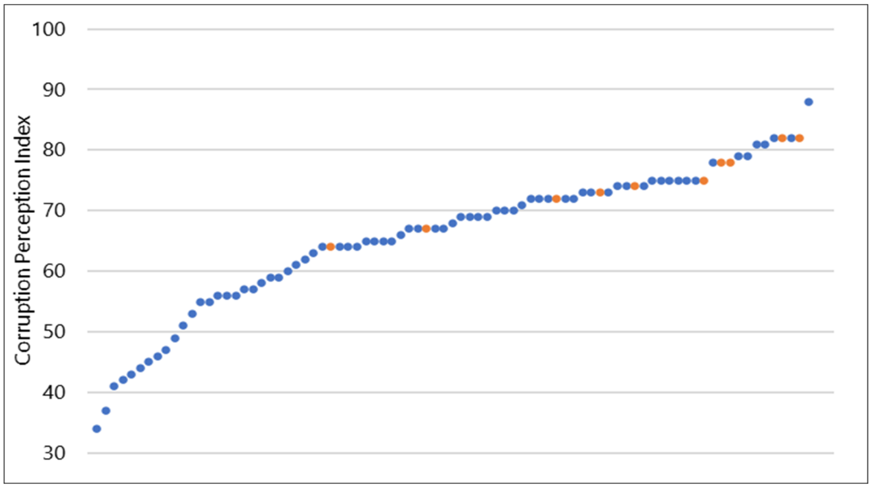
85. Governance commitments were also used more often in RCF and blend RFI-RCF requests than in RFI requests. The commitment to publish COVID-related procurement contracts was included in 59 percent of RFI requests, 66 percent of RCF, and 80 percent of RFI-RCF requests. Similarly, the governance commitments to publish beneficiary owners was included in 52 percent of RFI requests, in 57 percent of RCF, and in 80 percent of RFI-RCF requests. For the commitments to prepare a report of COVID spending and to conduct audits of COVID-related spending, the percentages are respectively 41 percent vs. 59 percent vs. 60 percent and 66 percent vs. 75 percent vs. 87 percent.

86. Increased attention to governance safeguards also resulted in country-by-country updates in May 2021 (IMF, 2021j) and May 2022 (IMF, 2022b) on the implementation status of measures to promote good governance and transparency in pandemic-related spending that countries committed to take in the context of IMF financing during the pandemic.[36] While such follow-up has been welcomed by the Board, there continued to be concerns about whether the policy has been applied evenhandedly across countries. Staff reports did not explain why staff considered necessary to include governance commitments in some EF requests before the policy was generalized to all countries (for example, Gabon, Kyrgyz Republic, and Niger). Similarly, staff reports did not explain why 8 countries were exempted from making any governance commitments (Bolivia, Bosnia and Herzegovina, Cabo Verde, Costa Rica, Côte d'Ivoire, Dominica, Grenada, and Paraguay) after the practice had already been generalized. Our interviews with country authorities and EDs suggest that the underlying considerations that led staff to ask for additional commitments in some requests but not others were not well understood by the stakeholders. Figure 11, which ranks countries that requested EF according to the Transparency

[36] The latest information on implementation is publicly available at https://www.imf.org/en/Topics/governance-and-anti-corruption/implementation-of-governance-measures-in-pandemic-related-spending-may-2022.

International corruption index, shows that some countries had restricted access without being ranked as high corruption cases, while some countries ranked high on corruption nonetheless received maximum access.

Figure 11. Corruption Scores and Governance Concerns



Sources: IEO; Transparency International.
Note: Y-axis starts at 30. Countries that did not receive EF or were held below access limits because of governance concerns are highlighted in orange.

87. Higher risks of misused funds could have been handled by calibrating the use of governance commitments included in authorities' LOI, making them stronger for countries with stronger corruption problems. Except in the first few weeks when the use of governance commitments had not yet been generalized, governance commitments do not seem to have been used in this way. If anything, the same governance commitments appear to have been included in virtually all EF requests, irrespective of their governance problems.[37]

88. While governance commitments were not subject to ex post conditionality, staff still paid attention to monitoring the application of governance safeguards. Governance commitments along with other policy commitments were regularly tracked and reported through various channels, including in the implementation matrix of policy commitments in the AIV staff reports. Furthermore, in February 2021, a survey was sent to country teams, in consultation with country authorities, to consolidate the detailed implementation status. Based on the survey results, in March 2021, an informal Board session took place to update the Board on transparency and accountability measures taken to support the crisis response, including an update on the implementation status of governance measures in crisis-related spending committed in the context of Fund financing provided during the pandemic. Since then, three more updates were realized in October 2021, May 2022, and October 2022.

[37] Lack of governance concerns does not seem to be the reason why eight countries did not have to make any governance commitments after the policy had been generalized to all other countries since they do not hold the lowest corruption scores.

89. In the follow-up process, staff and authorities reported some difficulties in understanding and applying specific provisions in their country contexts. Some of these reflected unfamiliarity with some of the provisions. For example, country teams and authorities report that implementation of the commitment to track beneficial ownership is proving challenging. While discussions of procurement have been common in Fund country documents over the past decade, tracking beneficial ownership first made a large appearance in EF financing documents during the pandemic. According to staff (IMF 2021f), implementing procurement transparency measures has been more difficult for national authorities because of: (i) the novelty of measures, especially beneficial ownership transparency; (ii) the need to amend the procurement legal framework; and/or (iii) capacity constraints exacerbated by the pandemic and political sensitivity.[38] To address key challenges with implementation of governance commitments, staff also provided capacity development to the authorities, guidance on the commitments to staff, and coordinated regularly with the World Bank, in particular, on the issues of procurement.

C. Prior Actions

90. The RFI and RCF decisions allow for the possibility that upfront measures (PAs) can be sought by the Managing Director before recommending that the Board approve a request for RCF/RFI outright purchases. However, the conditions for permitting such PAs are not identical in the RCF and RFI decisions. For RCFs, the decision states that, "in exceptional circumstances, the Managing Director may request that the member implement upfront measures before recommending that the [PRGT] Trustee approve disbursement under the RCF" (IMF, 2019b; p.164)). On the other hand, the RFI decision (op cit., p.385) states, "where warranted, the Managing Director may request that the member implement upfront measures before recommending that the Fund approve of a purchase under this decision." The concepts of "exceptional circumstances" and "where warranted" are not defined in their respective decision (or related staff report). A plain language interpretation would conclude that the application of PAs was intended to be more limited for RCF purchases (exceptional circumstances) than for RFI purchases (where warranted).

91. The LIC Handbook (IMF, 2012), which is a self-described comprehensive reference tool for program work on LICs, attempts to bring some clarity to the concept of "exceptional circumstances" in the context of RCF requests. According to this Handbook, such PAs can be required, "if necessary," but such cases would be expected only in "exceptional circumstances" (i.e., when it is "critical" to address an urgent BOP problem). This "if necessary" characterization resembles the "where warranted" qualification from the RFI decision. Moreover, the parenthetical clarification (i.e., when it is critical) resembles the standard IMF definition for a PA—a measure that is "critical for the successful implementation of the program" (IMF, 2019b, p. 298).[39] This

[38] To lessen these challenges, staff: (i) enhanced interaction with procurement agencies on transparency issues; (ii) provided capacity development on beneficial ownership in procurement; (iii) provided guidance on transparency in procurement to country teams and authorities (namely, via the COVID-19 special series notes); and (iv) regular coordinated with World Bank colleagues to discuss synergies and receive inputs on procurement issues (IMF, 2021f).

[39] Staff does not have a meaningful guide to differentiate use of PAs for RCF requests compared to the standard practice—"criticality" or "where necessary"—for UCT programs and RFI requests, respectively.

Handbook clarification therefore makes the condition for applying RCF PAs virtually indistinguishable from the condition to apply PAs in UCT-support programs. As we will see below, this Handbook's guidance has apparently had a significant impact in the practice of RCF PAs.

92. According to Board documents, formal 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) from March 2020 to December 2021.[40] The EF for Ecuador was the only case involving only the RFI. Eight EF requests with PAs were for RCF assistance alone,[41] while Nicaragua used a blend of the RCF and RFI.

93. Compared to prior years, PAs were used less frequently during the pandemic (Figure 12, Panel A). This is especially true for the requests approved before June 2020 when only 5 percent of them included PAs compared to 31 percent before the pandemic. From June onwards, resort to PAs became more frequent, with 25 percent of requests including PAs, but remained below the pre-pandemic levels. This less frequent usage perhaps reflected the unusual circumstances involved with the large global pandemic shock because no formal change in the relevant policies took place.

94. The intensity—i.e., the number of PAs for financing requests with PAs—was also initially lower, with an average of 1.3 PAs for requests approved before June 2020 compared to 1.8 before the pandemic (Figure 12, Panel B). From June on, the intensity of PAs, however, increased to level higher than in the pre-pandemic period, with on average 3 PAs per requests. The same pattern persists when the sample is split by RFI, RCF, and RFI-RCF.

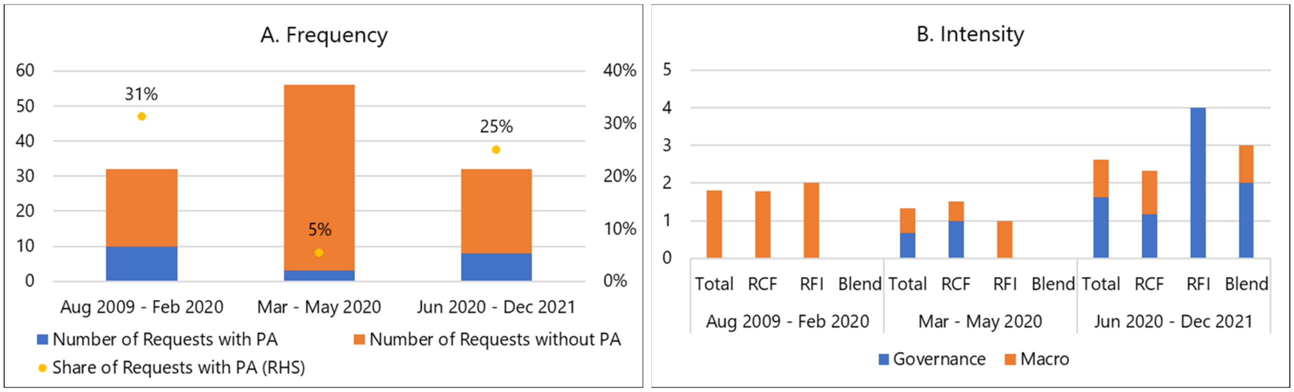
95. The nature of PAs also differed compared to the pre-pandemic period. Before the pandemic, the main economic rationales for PAs were macroeconomic in nature: to secure medium-term fiscal consolidation, control spending commitments, improve tax collection, improve treasury cash-management, strengthen the credibility of the central bank, or strengthen the external position. In contrast, few PAs during the pandemic dealt with such issues. Instead, governance-related PAs were often employed to reduce the risks that EF is misused (IMF, 2021f). More than half of PAs during the pandemic included specific measures to promote transparency,

[40] After the evaluation period (April 2021), the Fund Board approved a joint RCF/RFI request (50 percent of quota in total) for Equatorial Guinea. Four PAs were associated with this request related to better governance, enhanced transparency, and anti-corruption measures.

[41] In the case of South Sudan, two separate RCF requests were made (November 2020, and March 2021). The first RCF request was not associated with any PA, while the second RCF request was associated with a single PA—issuance of a Circular by the Bank of South Sudan containing agreed FX reforms and making them effective. But this association is not straightforward because the second RCF request was also coupled with a concurrent request for a Staff-Monitored Program (SMP) and presented in a single Board document. Moreover, the PA was referenced in the authorities' Memorandum of Economic and Financial Policies that outlined the policies to be pursued under the SMP, suggesting that the PA applied to the SMP policy and not to the RCF request. However, the staff report stated explicitly that the SMP and Board consideration of the RCF request were both subject to this PA. Based upon the staff report, this PA is considered as also applying to the RCF purchase, giving a total of 10 RCF requests associated with PAs including the blended case of Nicaragua.

such as publishing government contracts, beneficial owners, and to ensure ex-post accountability, mainly through independent audits (Figure 12, Panel B).[42]

Figure 12. Prior Actions in Emergency Finance Requests



Sources: Staff Reports; IEO classification and calculations.
Note: Intensity is defined as number of PA per request with at least one PA. Governance-related PA are specific measures to promote transparency, such as publishing government contracts, beneficial owners, and to ensure ex-post accountability, namely through independent audits.

96. Taking a closer look at the recent PAs (Table 3), in total 21 measures were labeled as PAs in 10 EF operations that were made during the evaluation period. The overwhelming bulk of these measures (17 of 21 during the evaluation period, or 20 of 25 including Equatorial Guinea which was approved after the evaluation period) were in the area of general government (i.e., public financial management), with an emphasis on expenditure transparency.[43] Three measures were in the central bank area, while one measure pertained to state enterprise reform. During the pre-pandemic period (2010–19), PAs were also heavily concentrated in the area of general government (65 percent), although without the emphasis on expenditure transparency. PAs were also focused in the areas of monetary/financial sectors (30 percent) during the earlier period.

97. Eleven of the 21 PAs pertained to pandemic-related governance safeguards. Adding the RFI request by Equatorial Guinea, the number of PAs related to pandemic governance safeguards increases to 15, or 60 percent of the total number (25) of measures. The initial cases of PAs related to pandemic governance safeguards (Liberia, and Papua New Guinea) were approved by the Board in June 2020, while Cameroon was approved in October 2020. These cases were negotiated before the Board's formal approval of the staff guidance addressing governance safeguards for EF.

98. Six of the PAs in the evaluation period were not specifically pandemic related; instead, they 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. Specifically, two PAs stemmed from structural benchmarks in a previous SMP (Papua New

[42] Of course, some PAs before the pandemic were also broadly aimed at improving transparency. But the proposed measure did not contain a related action that required publishing specific documents or required any ex post accountability. For this reason, such PAs are not classified as governance-related in Figure 5.

[43] Based upon the "Economic Descriptor" classification system developed by IMF staff (IMF, 2009).

Guinea); one PA was a structural benchmark in a just canceled EFF arrangement (Ecuador); two PAs derived from recommendations made in a prior safeguards assessment (Haiti); and one PA (Equatorial Guinea) had been an uncompleted structural benchmark in a concurrent EFF.

Table 3. Prior Actions Employed in RCF and RFI Outright Purchases, March 2020–April 2021

Country/Type/Date	Description/Classification*	Rationale	Economic Sector	Type
Cameroon/RCF (October 2020)	(i) Issue circular to modify government procurement forms to provide information on beneficial ownership of companies receiving COVID-19 contracts.	Effective and transparent use of COVID funds.	General government	Governance
	(ii) Public backlog of all COVID-19 contracts awarded since May 4, 2020, including beneficial ownership.	Effective and transparent use of COVID funds.	General government	Governance
Ecuador/RFI (May 2020)	(i) Submit to National Assembly amendments to strengthen fiscal discipline and transparency by enhancing public financial management.	Fiscal policy to be enhanced over the medium term. This measure was a structural benchmark under EFF that was also canceled.	General government	Macro
Grenada/RCF (April 2020)	(i) Announcement of robust fiscal liquidity strategy that encompassed three identified actions to prioritize COVID-19 spending measures.	Ensure adequate fiscal liquidity by deferring less urgent spending.	General government	Macro
Guinea Bissau/RCF (January 2021)	(i) Adopt Ministerial order that approves electronic tax returns related to VAT.	Revenue-mobilization.	General government	Macro
Haiti/RCF (April 2020)	(i) Completed and published the audited financial statement of the central bank for year ended September 2019.	These two measures were recommended by August 2019 safeguards assessment report.	Central bank	Governance
	(ii) Central bank Board adopted decision to strengthen governance and accountability arrangements related to foreign reserve management.		Central bank	Governance
Liberia/RCF (June 2020)	(i) Passage of a credible "recast" budget, including a 30 cent a gallon increase in fuel tax.	Fiscal sustainability	General government	Macro
	(ii) Ministry of Finance will publish weekly spending reports on its website.	Transparency	General government	Governance
Nicaragua/RFI/RCF (November 2020)	(i) Enact regulations that enable online publication of the beneficial owners of all public procurement contracts related to COVID.	Strengthen transparency in the use of public resources.	General government	Governance
	(ii) Formulate terms of reference to hire an independent external auditor for all COVID-related spending.	Enhance governance by ensuring a transparent and comprehensive reporting of procurement contracts.	General government	Governance
	(iii) Publish financial statements for the five largest state-owned enterprises.	Increase transparency on the financial position of state-owned enterprises.	State-owned enterprises	Macro
Papua New Guinea/RCF (June 2020)	(i) Steering Committee to set specific objectives and milestones in 2020 based upon internal revenue plan.	"Important, but overdue," structural benchmarks under prior SMP.	General government	Macro
	(ii) Treasury to prepare debt issuance/disbursement plan and share regularly updated projections with central bank.	"Important, but overdue," structural benchmarks under prior SMP	General government	Macro
	(iii) Details of government procurement contracts to be published online within one week.	Enhance procurement transparency	General government	Governance
	(iv) Weekly procurement reports to be provided to Budget Management Committee.	Enhance procurement transparency	General government	Governance

Country/Type/Date	Description/Classification*	Rationale	Economic Sector	Type
Sierra Leone/RCF (March 2021)	(i) Publish quarterly unaudited financial reports related to the National COVID Response Center.	Enhance transparency and accountability	General government	Governance
	(ii) Publish all large public procurement contracts related to COVID mitigation.	Enhance transparency and accountability	General government	Governance
	(iii) Reinstated regular inter-agency meetings on cash management with expanded mandate.	Improve debt management	General government	Macro
	(iv) Table in Parliament a revised National Revenue Authority Act.	Enhance revenue mobilization	General government	Macro
South Sudan/RCF (March 2021)	(i) Central bank to issue circular to formalize foreign exchange market reforms.	These reforms were aimed at reducing existing foreign exchange distortions and support economic diversification away from oil. Both SMP and RCF were subject to same prior action.	Central bank	Macro

Sources: IMF staff reports and IEO classification.
* Economic sector classification based upon IMF 2009 and MONA database.

99. PAs remained more frequent in RCF than in RFI. 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, but only in 3 percent of RFI. In both periods, the frequency of use of PAs was thus considerably higher for RCF requests than for RFI requests, albeit the latter were fewer.

100. The frequent application of PAs from June 2020 raises the issue of whether this application was consistent with the concept of exceptional circumstances and evenhanded across countries. In no RCF request was "the exceptional circumstances" justifying the PAs specifically explained. Similarly, in no RFI request, staff explained why a PA was specifically "warranted." As a result, it is difficult to distinguish if the fact that PAs were insisted upon in some cases but not in others reflected heightened risks or a lack of evenhandedness. Interviews with national authorities also suggest that the underlying considerations for requiring PAs were in some cases not well understood by the stakeholders, raising reputational risks about lack of evenhandedness and possibly delaying disbursement of EF as was the case in Nicaragua (Batini and Levy Yeyati, 2023).

101. The increased use of governance-related PAs has helped the Fund balance the need for rapid financing and appropriate accountability and transparency measures to reduce the risk that EF is misused. At the same time, the diminished reliance on macroeconomic PAs compared to pre-COVID may have increased repayment risks, as discussed further in Section VI.

VI. RISK ASSESSMENT RELATED TO USE OF EMERGENCY FINANCING

102. While recognizing that use of EF allowed the Fund to respond quickly to urgent needs, some stakeholders worried that providing so much financing on easy terms may have significantly raised credit risks both for the Fund and for the borrowing country's medium-term sustainability. After describing the evolution of Fund exposure to credit risks, this section reviews how country level risk was assessed in providing EF during the evaluation period.

A. Fund Exposure to Credit Risk

103. The evolution of PRGT and GRA credit outstanding between 2019 and 2021 is shown in Figure 13 along with the Fund's borrowers perceived credit risk.[44] This figure illustrates the significant additional credit risk that the Fund took on through its lending operations as it approved financing at a record pace, in record amounts, and under pandemic limits on travel that constrained policy discussions with country authorities and was coupled with a shortened internal review process.

104. 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 (Figure 13, Panel B). PRGT credit outstanding to countries in high risks of debt distress or in debt distress under the IMF's debt sustainability framework (DSF) assessment doubled to SDR 8.7 billion by the end of 2021. This increase largely reflected new lending to countries already classified by the Fund as high risk before the pandemic. In addition, PRGT-eligible countries (Comoros, Guinea-Bissau, Kenya, Malawi, and Papua New Guinea) were reclassified from moderate risk[45] to high risk by the end-2021, and their share of total PRGT debt outstanding to countries classified as high risk rose from 6.4 percent in end 2019 to 10.2 percent by end 2021. No PRGT-eligible country was reclassified to debt distress in the evaluation period.[46]

105. GRA credit outstanding, which is non-concessional, increased from SDR 66.1 billion end-2019 to SDR 85.5 billion by end-2021 (Figure 13, Panel A). GRA credit outstanding to countries classified by credit rating agencies as "speculative" grade increased by 16 percent to SDR 60 billion by the end of 2021. Such increase was entirely due to new lending to countries that were already classified as speculative before the pandemic. Taking a closer look at the composition, 26 out of 38 GRA countries with credit outstanding are classified as "speculative," and only four countries, Cyprus, Colombia, Morocco, and Panama, are classified as "investment" grade. While no GRA country was reclassified during this period, one country, Suriname, was downgraded from letter grade B to SD (Selective Default).[47]

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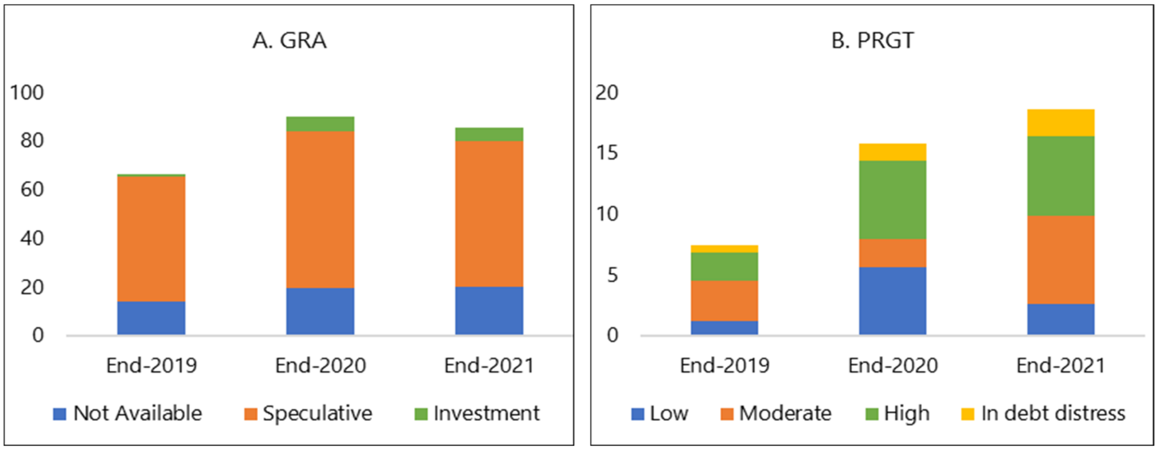
[44] Publicly available sovereign credit ratings (used for GRA credits) and Fund indicators of a country's risk of debt distress reflect perceptions of risks facing private investors, which cannot be translated directly to assess credit risk (used for PRGT credits) faced by the Fund given its unique role (IMF, 2021l).

[45] Last LIC-DSF ratings before the pandemic.

[46] The external debt ratings of Gambia and South Sudan were reclassified from debt distress in 2019 to high-risk of debt distress in 2020 and maintained in 2021 due to debt restructurings (Table 4).

[47] Suriname accounts for only 0.05 percent of total GRA credit outstanding.

Figure 13. Fund Exposure to Credit Risk
(In billions of SDR)



Sources: FIN, S&P500, Fitch; IEO calculations.
Note: For LICs, LIC-DSF rating of external debt distress is used. The exception is St. Lucia, which is considered MAC and uses MAC DSA. For EMs, S&P foreign currency rating is used whenever it is available, otherwise Fitch foreign currency rating is used. S&P and Fitch credit rating data are comparable. Letter grades of BB+ or lower are considered "speculative."

106. Altogether, the share of Fund lending to member countries rated CCC to CC and SD was over 40 percent of total Fund credit at end-September 2021, up from an average 30 percent and 21 percent, respectively in 2002–03 and 2012 when Fund credit previously peaked. The number of Fund borrowers rated less than BB also reached historical highs (IMF, 2021l).

107. At the end of 2021, the overwhelming bulk of the outstanding IMF credits remained GRA resources (SDR 89.5 billion). But with SDR 14.5 billion in outstanding credit at the end of 2021, commitments under the PRGT grew three times faster than under the GRA raising concerns about erosion of PRGT buffers.

B. Policies and Practices to Assess Country's Debt Sustainability

108. The risks involved in widespread and higher access use of EF were certainly recognized at the time in Board documents supporting financing requests, which flagged concerns about increasing debt burdens as countries borrowed more but were faced by weaker economic prospects.

109. The Fund has numerous policies and practices aimed at managing the risks to its balance sheet from country lending. While EF provides a single up-front disbursement and is not subject to UCT (ex post) conditionality or disbursement phasing, other practices and policies like access limits, PAs, and governance commitments do provide some additional risk mitigation. In addition, as with all UFR, a number of conditions needed to be satisfied: (i) a letter from the authorities describing the general policies that they plan to pursue to address their BOP problems; (ii) a commitment not to introduce or intensify exchange and trade restrictions; (iii) a willingness to undergo a safeguards assessments by Fund staff; (iv) a commitment to

provide Fund staff with access to its central bank's most recently completed external audit reports; (v) authorization of the central bank's external auditors to hold discussions with Fund staff; (vi) and a positive staff assessment of the country's capacity to repay the Fund. A letter from the country authorities fulfilling each of first five of these requirements was attached to all 88 staff reports requesting RCF/RFI assistance from March 2020 to end 2021. The staff reports themselves amplified upon the statements made by the country authorities and provided staff assessments including of the country's capacity to repay the Fund.

110. In addition, like other forms of Fund financing, EF cannot be provided to a country whose debt is judged not to be sustainable, requiring Fund to staff undertake a debt sustainability analysis (DSA) prior to all disbursements. The purpose of the DSA is to prevent the IMF from lending into an unsustainable situation to protect the Fund's balance sheet, to ensure prospects for medium-term growth, and avoid bailing out creditors.

111. All 57 RCF requests (including joint with RFIs) made by LICs from March 2020 to end-2021 provided a joint Fund-Bank debt sustainability analysis.[48] Nearly half (27) of these joint debt sustainability assessments placed the country's sovereign debt in the high-risk zone, while about one-third were deemed to have moderate risk. Only 14 percent of the cases (8) were assessed at low risk. Grenada, Mozambique, and São Tomé & Príncipe (5 percent of the total) were determined to be debt distressed, but nevertheless, staff assessed their sovereign debt to be sustainable.

112. None of 57 IMF/World Bank DSF assessments made in the context of EF requests involved changes in ratings compared to pre-crisis assessments. This modest impact of the pandemic on debt sustainability despite large projected increases in fiscal deficits and debt levels reflected the assumption of a "V-shaped" recovery combined with the view that the prevailing favorable interest rate growth differential before the pandemic would continue for most countries after the pandemic (Zettelmeyer and others, 2020). As a result of these DSAs, there was no case in which a country that received EF was required to initiate a sovereign debt restructuring. Notably, even a number of countries determined to be in debt distress avoided debt restructurings, benefiting from forward-looking assessments of debt sustainability. At the same time, however, several EMDEs (for example, Congo, Eritrea, Mauritius, Sri Lanka, Zambia, Zimbabwe) requested but did not receive EF owing to staff's negative assessment of debt sustainability.[49]

[48] These DSAs followed the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (IMF, 2018). This count includes the second RCF/RFI request by the Kyrgyz Republic, which provided a DSA in its executive summary, but did not have the usual full DSA, most likely because the first RCF/RFI request, which was only made two months before to the second request did have a full DSA.

[49] Beyond the evaluation period, Zambia was one of the first countries to apply to restructure its sovereign external debt under the Common Framework for Debt Treatment in early 2021. In January 2022, Chad officially requested debt restructuring under the same debt reduction program.

113. As shown in Table 4, the debt risk ratings of 12 EF recipients have since been downgraded. As of mid-2022, around 60 percent of countries that use the IMF/World Bank DSF (LIC DSF) were assessed at a high risk of debt distress or in debt distress, an increase of 9 percentage points since the beginning of the pandemic (United Nations, 2022). Debt risk ratings substantially worsened afterwards as pandemic-related scarring effects on growth and revenues became clearer and global financial conditions tightened, implying a higher trajectory for interest rates.

114. The RCF staff reports for the three debt-distressed countries provided explanations for why public debt was distressed and yet considered sustainable. For all these cases, external debt arrears triggered the debt distress rating, while staff justified its assessment of debt sustainability owing to various efforts to regularize those arrears and improving debt dynamics. Specifically, for Grenada, unresolved arrears to official bilateral creditors (1.8 percent of GDP) were the main factor for the debt distress rating, while staff added that this rating was unrelated to the underlying debt dynamics, which were projected to be on a downward path. Regarding Mozambique, staff noted that external debt service arrears continued to accumulate on defaulted loans and that the authorities were pursuing their legal and debt restructuring strategies including conducting due diligence on possible corruption involving the contracting of certain loans. These strategies, coupled with medium-term fiscal consolidation, led staff to judge that Mozambique's public debt was sustainable in a forward-looking sense. São Tomé & Príncipe was also considered by staff to be in debt distress, owing to prolonged unsettled external arrears. The authorities were in discussions with their official bilateral creditors to regularize the outstanding external arrears. Staff expressed the view that continued fiscal consolidation and reform of a large loss-making utility company would restore debt sustainability over the medium term.

115. Turning to countries that requested financing but did not receive access, the reverse seemed true. Upon conclusion of 2020 AIV consultation, Zimbabwe was deemed unsustainable due, in part, to the lack of modalities and financing to clear arrears and to undertake reforms. Lackluster program performance seemed to have played a role as well. The Staff Monitored Program, adopted in May 2019, was off-track as policy implementation had been mixed as of February 2020. Along the same line, Zambia was also deemed to be on an upward unsustainable debt path owing to past weaknesses in economic governance and public financial management after a staff visit in November 2019.

Table 4. Ex Ante and Ex Post Sovereign Debt Distress Assessment for RCF Borrowers

	Before COVID	EF Request	As of mid-2022	Explanation for Change in Assessment
Afghanistan	High	High	High	
Bangladesh	Low	Low	Low	
Benin	Moderate	Moderate	Moderate	
Burkina Faso	Moderate	Moderate	Moderate	
Burundi	High	High	High	
Cameroon	High	High	High	
Cabo Verde	High	High	High	
Central African Republic	High	High	High	
Chad	High	High	In debt distress	Uncertainties around the pandemic and oil price volatility.
Comoros	Moderate	Moderate	High	Mainly due to higher debt service obligations.
Congo, Democratic Republic	Moderate	Moderate	Moderate	
Côte d'Ivoire	Moderate	Moderate	Moderate	
Djibouti	High	High	High	
Dominica	High	High	High	
Ethiopia	High	High	High	
The Gambia	In debt distress	In debt distress	High	Debt restructuring agreed before the pandemic.
Ghana	High	High	High	
Grenada	In debt distress	In debt distress	In debt distress	
Guinea	Moderate	Moderate	Moderate	
Guinea-Bissau	Moderate	Moderate	High	A worsening in economic outlook due to the pandemic and higher fiscal deficits in 2018-19.
Haiti	High	High	High	
Kenya	Moderate	Moderate	High	A worsening in economic outlook due to the pandemic.
Kyrgyz Republic	Moderate	Moderate	Moderate	
Lesotho	Moderate	Moderate	Moderate	
Liberia	Moderate	Moderate	Moderate	
Madagascar	Low	Low	Moderate	A worsening in economic outlook due to the pandemic.
Malawi	Moderate	Moderate	High	Large financing needs in the coming years and low level of international reserves.
Maldives	High	High	High	
Mali	Moderate	Moderate	Moderate	
Mauritania	High	High	High	
Moldova	Low	Low	Low	
Mozambique	In debt distress	In debt distress	In debt distress	
Myanmar	Low	Low	Low	
Nepal	Low	Low	Low	
Nicaragua	Moderate	Moderate	Moderate	
Niger	Moderate	Moderate	Moderate	
Papua New Guinea	Moderate	Moderate	High	A worsening in economic outlook due to the pandemic.
Rwanda	Low	Low	Moderate	A worsening in economic outlook due to the pandemic and updates on investment program.
Samoa	High	High	High	
São Tomé and Príncipe	In debt distress	In debt distress	In debt distress	
Senegal	Moderate	Moderate	Moderate	
Sierra Leone	High	High	High	
Solomon Islands	Moderate	Moderate	Moderate	
South Sudan	In debt distress	In debt distress	High	Debt restructuring agreed in July 2020.
St. Vincent and the Grenadines	High	High	High	
Tajikistan	High	High	High	
Tanzania	Low	Low	Moderate	Pandemic's adverse effects on country's exports.
Tonga	High	High	High	
Uganda	Low	Low	Moderate	Delays in oil exports and a shift in financing composition towards non-concessional loans.
Uzbekistan	Low	Low	Low	

Sources: DSF-LIC; IEO calculations.

116. All 28 RFI requests that were not joint with a RCF request contained an annex providing a DSA employing the DSF for market access countries (IMF, 2021a). Public debt was judged by staff to be sustainable, albeit with varying qualifications, in each case. In terms of their heat maps,[50] about one-third (9) of these cases did not have a debt level or gross financing needs in the high risk (red) zone for the baseline scenario. In none of the 19 red-zone cases, did staff consider a debt restructuring to be necessary.

117. Among the 19 red-zone cases, Ecuador, Egypt, and Ethiopia merited additional attention given their precarious debt situations. Staff viewed Ecuador's debt sustainability to be "on a knife edge." Public debt was, however, assessed to be sustainable on a forward-looking basis, under the baseline scenario. As noted in the staff report, the country authorities had already taken initial credible steps toward a debt operation involving private external creditors. While cancelling the existing EFF arrangement, the authorities expressed their intention to request a successor Fund arrangement in the wake of the ongoing urgent crisis; indeed, five months later (October 2020), the Fund Board approved a new EFF arrangement (for 661 percent of quota over 27 months).

118. In the case of Egypt, whose RFI request triggered the EAP, its public debt was assessed by staff to be sustainable, albeit not with a high probability; the DSA heat map was in the high risk (red) zone. To address rollover risks, the authorities announced in their RFI LOI, their intention to seek to lengthen the maturity structure of their domestic public debt. At that time (May 2020), the authorities indicated their desire for a follow-up SBA with UCT conditionality; such an arrangement was approved (for 185 percent of quota over 12 months) by the Fund Board in June 2020. By mid-2021, two SBA program reviews were completed and as staff reported, the authorities extended the duration of domestic issuance—as evidenced by the decline in short-term public debt—and were planning to extend maturities further.

119. Turning to Ethiopia's RFI request, the joint Bank-Fund debt sustainability deemed Ethiopia's public debt to be sustainable, but it was assessed to have a high risk of debt distress. As part of the ongoing ECF-EFF-supported program, the authorities had already committed to obtain a voluntary debt reprofiling from its external bilateral creditors sufficient to reduce their public debt risk to moderate. In February 2021, Ethiopia requested to the G20 and Paris Club creditors to benefit from a debt operation under the G20 "Common Framework."

120. In each of these three RFI cases with borderline debt sustainability, Fund staff and the relevant country authorities agreed upon a strategy that coupled a Fund-supported program with UCT conditionality with a debt operation, reprofiling, or maturity extension efforts that

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[50] The heatmap is required of countries under "higher scrutiny." It summarizes in a standardized way the risks to debt sustainability from the various modules in the MAC DSA template. The first and second rows of the heat map present the impact from macro-fiscal and contingent liabilities shocks on the debt-to-GDP ratio and the gross financing needs-to-GDP ratio. The third row summarizes the likelihood of risks from the debt profile.

would improve debt sustainability in a forward-looking sense.[51] Two factors seemed to have contributed to the assessment of sustainability in the medium-term in a forward-looking sense and led to higher capacity to repay: (i) debt regularization or debt restructuring; and (ii) a credible commitment to reform and achieve fiscal consolidation to preserve/restore debt sustainability in the medium term.

121. As regards assessments of capacity to repay the Fund contained in these RCF/RFI staff reports, in all cases the member's capacity was judged by staff to be at least adequate, which is not surprising since a finding of an inadequate capacity would prevent lending by the Fund to that member. It is also not surprising that a more positive/negative assessment by the sovereign DSA was correlated with a more positive/negative assessment regarding capacity to repay the Fund, with the IMF obtaining additional protection owing to its preferred creditor status. As regards the six country cases with border-line debt sustainability or that were debt distressed, their capacity to repay the Fund was assessed by staff as sufficient, albeit with varying qualifications. In two cases (Ecuador, Mozambique) staff noted explicitly that their assessment of capacity to repay the Fund was subject "to higher than usual risks" or "to significant downside risks" but they recommended in any case that the Board approve the proposed disbursements.

VII. ASSESSMENT

122. **Overall assessment.** The Fund's use of EF as the main vehicle to provide rapid financing in the early stages of the pandemic allowed the Fund to provide an unprecedented amount of financing to a very wide range of members in a very short period of time. The Fund's help came when it was most needed both because of acute economic and financial developments in the first few weeks of the pandemic (Batini and Li, 2023) and was particularly helpful in cases where disbursements from other donors came later in the crisis (Ocampo and others, 2023). However, at the same time, this approach did raise a number of concerns examined in this paper: the degree to which amounts provided were tailored to country circumstances and needs, the evenhandedness in treatment across countries, the potential to reduce incentives for making policy adjustments needed for stabilization and recovery, and the risks for the Fund's own balance sheet. While the Fund went a long way to respond to an unprecedented global event with its existing tools, it will be important to consider in advance of the next crisis what could be a more fit for purpose framework that that would provide the basis for a response that addresses these concerns.

Emergency Lending in Practice

123. **Lack of access or limited access to EF.** 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

[51] Voluntary market-based debt reprofiling operations are not considered a debt restructuring—that is, an event indicating that debt distress has already occurred—according to the staff guidance note. For further guidance on assessing forward-looking debt sustainability for debt-distress countries, see Section X, Sub-section B of the DSF for LIC. The same considerations apply for Market Access Countries (MAC).

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 very difficult cases and hold back or curtail access because of associated risks to the Fund. At the same time, however, as discussed below, in some cases, concerns remain about the evenhandedness of some the country level decisions.

124. **Determinants of access levels in EF.** During the pandemic, the Fund's provision of financing was largely determined by access limits and by its assessment of a country's BOP gap.

- In quantitative terms, IEO analysis shows that borrowing space alone explains the bulk of the variation in access across countries, with other factors including BOP needs, planned fiscal and current account adjustments, and governance safeguards playing a fairly limited role. This outcome suggests that quota-based RFI access limits were relatively small compared to the size of the BOP shock.

- This is particularly the case for RFI requests, where borrowing space alone accounts for nearly 75 percent of the explained variation in access. 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. The RCF outcomes are 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.

- Overall, the evidence suggests that the Fund's provision of EF implied rather binary outcomes, with most countries either receiving full access up to the limit or no access at all. Thus, there was not much tailoring of access to country circumstances and needs. This is particularly apparent for small developing states and other countries with particularly large financing needs, which were asked to draw more heavily on international reserves than other countries.

125. **Concerns about evenhandedness regarding access**. While some countries did not receive Fund financing or were held below access limits because of valid concerns, officials in a number of countries feel that they did not receive clear explanations from staff. Though the number of such countries is not large relative to requests approved, it raises concerns about evenhandedness and exposes the Fund to strategic and reputational risks. In some country cases, for example, no explicit rationale was provided to explain why the borrowing space under access limits was not exhausted when a residual financing gap remained after the support of the Fund and other partners was accounted for. It was also unclear why phasing under an existing UCT arrangement, access under new UCT arrangements, and prospective emergency assistance were adjusted to avoid triggering exceptional access procedures in most but not all cases.

126. **Concerns about facility shopping**. Some observers worried that the IMF was providing financing on too easy terms that reduced incentives to put in places policies needed to address macro imbalances exposed by the pandemic. In their view, the availability of RFI/RCF purchases with no ex post conditionality could undermine country's interest in UCT-quality arrangements, utilizing ex post conditionality.

- On the one hand, only 22 members were granted new, or augmented existing, non-precautionary UCT arrangements during the evaluation period while there were 85 requests for RFI/RCF financing. This 4-to-1 tilt toward relatively lower conditionality tools provides some support for the expressed concern.
- However, a close examination of the interaction between the use of rapid financing instruments and the use of traditional Fund arrangements (with UCT conditionality) revealed a more complex story. For example, for countries whose UCT arrangements were near expiration (within three months) in April 2020, EFIs seemingly substituted for follow-on UCT arrangements during the evaluation period. The experience with UCT arrangements that had a longer remaining duration that were supplemented by EF was more positive; nearly three-quarters of those members made a subsequent purchase under their UCT arrangements.
- Turning to countries without pre-existing UCT arrangements, among those 66 countries, 7 countries relied exclusively on UCT programs, and 13 others resorted to both EF and UCT programs by end 2021.
- Overall, the number of countries with non-precautionary UCT arrangements at end-2021 (31) was the same as at end-February 2020 (31), even after the additional "conditionality free" financing from the SDR allocation in October 2021. It seemed that EF did not act as an "on ramp" (transitioning to UCT arrangements) or as an "off ramp" (discouraging subsequent use of UCT arrangements) for use of UCT arrangements over this period.

Implementation

127. **Fulfillment of qualification criteria**. Despite time pressures and streamlined review procedures, country reports adhered to process and requirements in all cases, such as establishing the extent of BOP needs and obtaining a LOI from the authorities. The Fund's qualification criterion and standard practices related to emergency assistance, and more generally the UFR, were formally satisfied for every single RCF/RFI request. Specifically, all 88 staff reports supporting a request for RCF/RFI assistance included text/table indicating that the member was experiencing an urgent BOP need, which if not addressed would result in an immediate and severe economic disruption, as well as which of the two conditions for the second qualification criterion applied. In the 10 cases where staff judged that the BOP need would resolve itself within 12 months without any major policy adjustments being necessary, it would have been helpful if staff had provided more explicit support for this judgment in the relevant

staff report. In two of those cases, the concept of "no major policy adjustment being necessary" seems to have been stretched to include "intended" and "staff baseline" policies as described in their respective staff reports and attached letters from the authorities. It might be useful to clarify the meaning of no major policy adjustment being necessary in light of this experience.

128. **Use of prior action requirements.** In addition to the qualification criteria, the Managing Director can have a member implement upfront measures (PAs) before recommending that the Executive Board approve a member's RCF/RFI request.

- PAs were required during 2020–21 less often than had been the case pre-pandemic, particularly in the early months. This outcome reflected the desire to move quickly to provide financing for a broad range of countries, although it does leave questions about whether the Fund was too prepared to turn a "blind eye" to some important policy concerns, trusting that they could be dealt with in a follow-on UCT arrangement.

- PAs were more frequent for RCF requests than for RFI requests during the evaluation period, continuing a practice from the pre-COVID period. This higher frequency is seemingly at odds with the RCF/RFI decisions; the former requires "exceptional circumstances" to justify use of PAs, while the latter is more permissive, allowing PAs to be imposed "where warranted." In none of the staff reports requesting a RCF purchase that also had PAs were the exceptional circumstances that necessitated those PAs described. These findings suggest that there is perhaps a need to revisit the application of PAs for rapid emergency assistance and to produce a single common policy on their use.

129. **Attention to governance concerns.** Over time, there was progressively stronger attention to governance protections in the form of both PAs and governance commitments. Indeed, half of those PAs pertained to governance safeguard measures, a much higher proportion than pre-pandemic. Staff and authorities, however, reported some difficulties in understanding the underlying considerations and applying specific provisions in their country contexts. They also reported concerns over the evenhandedness application of these governance measures. The practice of including governance commitments in LOIs related to the appropriate use of funds became more common in the second half of April 2020, but only became standard practice in May 2020 after almost half of the total EF requests were approved. With some countries required to commit to specific governance protection measures while others were not, this period of transition generated valid concerns about evenhandedness. An earlier formal Board endorsement of the policy on governance protections could have provided clearer guidance to staff, improved communication with country authorities and avoided evenhandedness concerns.

Risks

130. **Balancing of risks.** The exigencies of the pandemic changed the nature of the Fund's lending portfolio, with a higher share of disbursements involving limited or no ex post conditionality and also scaling back the use of PAs in EF. Thus, the burden placed on assessments of capacity to repay the Fund increased. Attention to vulnerabilities to the misuse of IMF funds and corruption increased overtime with the introduction of governance commitments in the authorities' LOI. The scale of the financing provided—$22 billion non-concessional lending and $7 billion concessional lending —while limited in comparison to that provided in the Fund's larger UCT programs under the GRA was quite large relative to the size of the PRGT.

131. **Additional credit risks in 2020–21.** The Fund took on significant additional credit risk between March 2020 and end 2021, in fulfilling its role as lender of last resort. In keeping with its pandemic lending strategy, financial risks grew significantly mainly due to EF without ex post conditionality. As a result, the Fund's credit exposures increased to levels above previous historical peaks, while its buffers declined despite efforts to raise additional concessional resources. While credit risks were somewhat mitigated by borrowers' reduced use of EF and the gradual transition to UCT-type arrangements with ex post conditionality in 2021, the debt situations were further aggravated by Debt Service Suspension Initiative rollover and by subsequent multiple shocks in 2022.

132. **Debt sustainability assessments.** Relatedly, the assessment of debt sustainability at approval of EF in 2020 was not much changed from previous assessments, but the debt situation worsened later in 2021 due to unforeseen tightened global financing conditions and pandemic-related scarring effects. A closer examination of borderline debt sustainability cases suggests that the judgement of debt sustainability seemed evenhanded, with a willingness to give the benefit of the doubt to a number of countries in debt distress, which were judged to have in the medium-term sustainable debt on a forward-looking basis. However, other countries that could not demonstrate clear paths were deemed unsustainable.

APPENDIX I. CHRONOLOGY OF IMF FINANCIAL ASSISTANCE IN RESPONSE TO COVID-19 PANDEMIC, MARCH 2020–DECEMBER 2021[1]

Date	Country	Lending Instrument	Amount		IMF Financing	Unfilled Gap
			(SDR millions)	(Percent of quota)	(Share of financing gap)	
2020						
March	Jordan	EFF	926.4	270	20	0
	Somalia	EFF-ECF	292.6	178	15	0
	Gambia*	ECF	35	56	18	0
	Kyrgyz Republic	RFI-RCF	88.8	50	30	68
April	Samoa	RCF	16.2	100	65	35
	Maldives	RCF	21.2	100	14	33
	Albania	RFI	139.3	100	14	33
	Kosovo	RFI	41.3	50	18	0
	Moldova	RFI-RCF	172.5	100	48	0
	Bosnia & Herzegovina	RFI	265.2	100	36	54
	North Macedonia	RFI	142.3	100	37	44
	Afghanistan*	RCF	161.9	50	41	0
	Mauritania	RCF[2]	95.7	74	48	52
	Pakistan	RFI	1015.5	50	85	0
	Tunisia	RFI	545.2	100	44	0
	Burkina Faso*	RCF[3]	84.3	70	39	35
	Cabo Verde	RCF	23.7	100	15	22
	Central African Republic*	RCF	27.9	25	18	2
	Chad*	RCF[4]	84.1	60	26	65
	Comoros*	RFI-RCF	8.9	50	28	0
	Congo, D.R.*	RCF	266.5	25	58	0
	Côte d'Ivoire	RFI-RCF	650.4	100	54	34
	Ethiopia*	RFI[5]	300.7	100	48	41
	Gabon	RFI	108	50	50	50
	Gambia*	RCF[6]	15.6	25	36	0
	Ghana	RCF	738	100	76	0
	Madagascar*	RCF[7]	122.2	50	63	0
	Mali*	RCF[8]	146.7	79	38	34
	Mozambique*	RCF	227.2	100	48	16
	Niger*	RCF[9]	83.7	64	30	70
	Nigeria	RFI	2454.5	100	24	0
	Rwanda*	RCF	80.1	50	60	15
	São Tomé & Príncipe*	RCF[10]	9	61	51	38
	Senegal	RFI-RCF	323.6	100	72	28
	Togo*	ECF Augmentation[11]	71.5	48.7	100	0
	Bolivia	RFI	240.1	100	42	58
	Costa Rica	RFI	369.4	100	33	0
	Dominica	RCF[12]	10.3	89.4	22	0
	Dominican Republic	RFI	477.4	100	19	73
	El Salvador	RFI	287.2	100	33	0
	Grenada	RCF	16.4	100	20	0
	Haiti*	RCF[13]	81.9	50	34	0
	Panama	RFI	376.8	100	14	59
	Paraguay	RFI	301.4	100	23	2
	St. Lucia	RCF	21.4	100	19	0
May	Georgia	EFF Augmentation	273.6	130	19	0
	Kyrgyz Republic	RFI-RCF[14]	88.8	50	49	24
	Djibouti*	RCF	31.8	100	26	72
	Egypt	RFI[15]	2037.1	100	30	46
	Nepal*	RCF	156.9	100	22	50
	Bangladesh	RFI-RCF	533.3	100	24	42
	Armenia	SBA Augmentation	128.8	100	56	0
	Jordan	RFI[16]	291.6	85	27	50
	Tajikistan*	RCF	139.2	80	50	0
	Uzbekistan	RFI-RCF	275.66	50	10	0
	Benin*	ECF Augmentation	76	61.4	46	0
	Cameroon	RCF[17]	165.6	60	65	0

Date	Country	Lending Instrument	Amount		IMF Financing	Unfilled Gap
			(SDR millions)	(Percent of quota)	(Share of financing gap)	
	Kenya	RCF	542.8	100	33	0
	Malawi*	RCF	66.4	47.9	53	20
	Seychelles	RFI	22.9	100	25	32
	Uganda	RCF	3610	100	37	33
	Ecuador	RFI[18]	469.7	67.3	8	92
	Jamaica	RFI	382.9	100	45	0
	St. Vincent & the Grenadines	RCF	11.7	100	26	0
June	Egypt	SBA[19]	3760	184.8	28	0
	Solomon Islands*	RFI-RCF	19.9	100	76	0
	Papua New Guinea	RCF	263.2	100	57	29
	Mongolia	RFI	72.3	100	4	0
	Myanmar	RFI-RCF	258.4	50	21	25
	Montenegro	RFI	60.5	100	30	17
	Ukraine	SBA[20]	3600	179	63	0
	Guinea*	RCF[21]	107.1	50	42	27
	Liberia*	RCF[22]	36.2	14	58	0
	Rwanda*	RCF	80.1	50 (Cumulative 100)	42	7
	Sierra Leone*	RCF	103.7	50	67	4
	Bahamas	RFI	182.4	100	25	0
	Barbados	EFF Augmentation[23]	66	70	30	0
	Guatemala	RFI	428.6	100	54	0
	Honduras	SBA/SCF Augmentations	54.2	108.2	44	0
July	Eswatini	RFI	78.5	100	66	0
	Gabon	RFI	108	50 (Cumulative 100)	37	26
	Lesotho	RFI-RCF	34.9	50	37	29
	Madagascar*	RCF	122.2	50 (Cumulative 100)	57	0
	São Tomé & Príncipe*	ECF Augmentation	1.5	10	17	0
	South Africa	RFI	3051.2	100	40	0
	Chad*	RCF[24]	49.1	35	30	47
September	Angola	EFF Augmentation	540.4	72	64	0
	Mauritania	ECF Augmentation	20.2	15.7	52	0
	Ecuador	EFF[25]	4615	661	100	0
October	Cameroon	RCF	110.4	40 (Cumulative 100)	30	6
	Malawi*	RCF	72.3	52.1	50	0
November	Afghanistan*	ECF	259	80	51	0
	South Sudan	RCF	36.9	15	19	74
	Nicaragua	RFI-RCF	130	50	53	0
December	Benin*	RFI-RCF	123.8	100	37	0
	Barbados	EFF Augmentation[26]	48	51	100	0
	Colombia	FCL Drawing	3750	183		
2021						
January	Tonga	RCF	6.9	50	10	0
	Myanmar	RFI-RCF	258.4	50	36	27
	Guinea-Bissau*	RCF	14.2	50	24	0
February						
March	Madagascar	ECF	220	90	34	0
	Namibia	RFI	191.1	100	62	0
	Sierra Leone	RCF	35.3	17 (Cumulative 67)	80	0
	South Sudan	RCF	123	50	32	68
	Costa Rica	EFF	1237.5	335	29	0
April	Kenya	EFF-ECF	1655	305	71	17
May						
June	Senegal	SCF-SBA	453	139.9	67	0
	Uganda	ECF	722	200	91	0
	Sudan	ECF[27]	1733.1	275		
July	Cameroon	EFF-ECF	483	175	37	0
	Seychelles	EFF	74	323	23	0
	Gabon	EFF	388.8	180	17	0
	Congo, D.R.	ECF	1066	100	42	0
	Jordan	EFF Augmentation	144.1	42	59	0
	St. Vincent & the Grenadines	RCF[28]	8.17	70	10	0

Date	Country	Lending Instrument	Amount		IMF Financing	Unfilled Gap
			(SDR millions)	(Percent of quota)	(Share of financing gap)	
August						
September	Honduras	SBA				
	Equatorial Guinea	RFI	47.3	30	13	35
	Tanzania	RFI-RCF[29]	394.8	100	65	0
October	Burundi	RCF	53.9	35	20	25
November						
December						

Sources: IMF website on COVID response; IMF staff reports.
*Indicates member was granted CCRT relief.
[1] Excludes undrawn precautionary arrangements such as FCL (i.e., Chile, Peru) and PLL (i.e., Panama), and CCRT relief. Debt relief under the CCRT was granted to 29 countries for a total of SDR 519.6 million during March 2020-April 2021. Burundi, Tanzania, and Yemen received CCRT debt relief but did not receive other IMF financial assistance during March 2020-April 2021. Later, Burundi and Tanzania did receive EF.
[2] RCF access was constrained by the PRGT annual access limit (AAL) of 100 percent of quota.
[3] RCF access was constrained by the PRGT AAL of 100 percent of quota; the ongoing ECF arrangement was rephased and two reviews were delayed to increase the amount of the RCF purchase.
[4] RCF access was constrained by PRGT AAL; the ongoing ECF arrangement was extended and rephased to remain within normal PRGT access limits.
[5] To comply with normal GRA access limits, EFF access was reduced by 50 percent of quota. Given exceptional access to PRGT resources under Ethiopia's existing ECF arrangement, GRA resources (RFI) were utilized rather than additional PRGT resources (RCF).
[6] Gambia also received IMF financial support from an EFF arrangement (56 percent of quota) that was approved on March 23, 2020, which also closed the annual BOP financing gap.
[7] There also was outstanding RCF purchases of 24 percent of quota.
[8] RCF access was constrained by outstanding RFC purchase and EFC purchase under ongoing arrangement.
[9] Final ECF purchased was rephased to allow an increase RCF access given PRGT AAL.
[10] The RCF amount is maximum under annual limits on disbursements from the PRGT given ECF.
[11] Augmented the final disbursement of ECF arrangement.
[12] Maximum access allowed within RCF access limit (100 percent).
[13] According to the RCF staff report "should the balance of payments need widen significantly in the coming months, the authorities might consider requesting another disbursement under the RCF, provided they had built a solid policy track record under the SMP and met the other RCF eligibility requirements."
[14] These second purchases under the RFI/RCF brought totals to 100 percent of quota for each facility.
[15] Triggered EAP.
[16] RFI access was constrained to keep within normal annual GRA access policy, allowing actual first EFF purchase and prospective second EFF purchase.
[17] RCF access was constrained to keep within normal annual PRGT access limits; the ongoing ECF arrangement was extended and rephased.
[18] RFI access was constrained to avoid having purchases over the past 12 months exceeding the normal annual GRA access limit of 145 percent of quota.
[19] Triggered EAP.
[20] Access left no room for augmentation within the normal-access framework.
[21] Available PRGT annual access was 76 percent of quota, which also accounted for prospective ECF purchases. The staff report indicated that additional RCF support could be provided if downside risks materialized.
[22] According to staff report, "while this access level is on the low end of COVID-19 RCF disbursements as a percent of quota, it is 1.7 percent of GDP, which is above the average for sub-Saharan Africa (1.3 percent of GDP). In addition, Liberia's repayments to the Fund eligible for debt relief under the CCRT in the next two years is 1.5 percent of GDP, which is the second highest CCRT debt relief among Fund membership as a percent of GDP."
[23] Total EFF access would increase to 290% of quota remaining within normal GRA access limits.
[24] The additional amount lifted disbursements under the RCF to 95 percent of quota in 2020, taking outstanding credit to 299 percent of quota, just within the normal cumulative access limit (CAL) for the PRGT. Their existing ECF arrangement was cancelled to allow higher RCF access with the normal CAL.
[25] Triggered EAP.
[26] According to staff report, total EFF access was raised to 341 percent of quota, while annual access (176 percent) would remain below the temporarily raised limit of 245 percent of quota.
[27] This arrangement was approved following Sudan's clearance of overdue obligations to the Fund and coincided with Sudan's reaching its completion point under the HIPC, allowing for significant debt relief.
[28] This purchase was under the LND window of the RCF and related to a volcanic eruption along with continuing impact of global pandemic. It represented the maximum available within the cumulative RCF access limit.
[29] This blended RFI/RCF request was premised on its status as a presumed blender. However, this status changed after a policy reform adopted by the Fund prior to the approval of the financing request for Tanzania. To correct this oversight, the authorities repurchased early the RFI amount and were granted a new RCF disbursement in December 2021.

APPENDIX II. DETERMINANTS OF EMERGENCY FINANCE ACCESS LEVELS DURING COVID-19[1]

This appendix studies the determinants of access level decisions for EF (RFI, blend RCF/RFI, and RCF) between March 2020 and December 2021. Access levels depend on several factors, including a country's BOP need, its capacity to repay the Fund, and the amount of IMF financing available under access limits. To test the explanatory power of each these factors, this appendix adapts the regression framework used in the 2018 IMF Review of Program Design and Conditionality (RoC) (IMF 2019) that was used to study access level determinants for UCT programs over the period 2002–2017.[2]

Methodology and Data

According to Criteria for the Amount of Access in Individual Cases (IMF, 1983a), the Review of the Policy on Access to the Fund's Resources (IMF, 1983b), Staff Guidance on Justification of Access Level in Staff Reports (IMF, 2000), and the 2018 RoC (IMF, 2019), the criteria governing access are the member's actual or potential need for resources from the Fund, the member's outstanding use of Fund credit and its record in using Fund resources in the past, the ability of the member to service its indebtedness to the Fund, including the strength of the adjustment program,[3] and the access limits on Fund resources in the GRA and PRGT lending frameworks.

To facilitate comparison with the results reported in the 2018 RoC (IMF, 2019) for UCT programs, the same standard OLS regression framework is employed to examine the empirical link between access level decisions and possible determinants.[4] When possible, the same variables as in the 2018 RoC are used to proxy the determinants to access levels. Following the 2018 RoC, the dependent variable, the decision on *Access* is expressed as a percentage of GDP rather than as a percentage of quota.

The analysis is performed at both the country-level and at the level of individual financing requests.[5] For country i (or financing request i), the regression is estimated as follows:

[1] This appendix was written with Akos Mate.

[2] See Appendix G. Tailoring and Uniformity of Treatment: Understanding Access Decisions in IMF (2019); 2018 Review of Program Design and Conditionality https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/05/20/2018-Review-of-Program-Design-and-Conditionality-46910 (p.120 of the PDF).

[3] Emergency financing does not have the same commitment to adjustment as a UCT-quality program, but the country authorities must describe in a letter the general policies that they intend to pursue to address its BOP need, which can include PAs and governance commitments.

[4] Sample selection bias associated with incidental truncation was not addressed in the 2018 RoC and this study will follow that approach to ensure comparability with the 2018 RoC. A statistical approach to handle selection bias was utilized the IEO in a background paper (BP/21-01/01) for its 2021 evaluation of *Growth and Adjustment in IMF-Supported Programs*. A similar approach is used in Box B of Batini and Li (2023) to handle selection bias when estimating the impact of Fund emergency financing on portfolio flows.

[5] Several countries submitted two emergency financing requests during the period of study.

$$Access_i = \alpha + \beta_1 BorrowingSpace_i + \beta_2 BoPneed_i + \beta_3 Adjustments_i + \beta_4 Safeguards_i + \beta_5 CapacityToRepay_i + \epsilon_i$$

Access level in percent of GDP ($Access$) is thus explained by five factors: (i) borrowing space (or access limits); (ii) BOP needs; (iii) fiscal and current account adjustments, (iv) governance safeguards; and (v) the country's capacity to repay the Fund. The proxies used to measure each of these factors are detailed below.

Borrowing space (access limits): Several access limits provide a general indication of what amount of EF the Fund could be generally prepared to provide to a country. Access to EF is constrained by annual and cumulative limits on EF, but also by access limits on use of PRGT (for RCF) and GRA resources (for RFI). The overall GRA and PRGT limits do not set hard caps, but set thresholds above which higher scrutiny consisting of substantive and procedural requirements under the exceptional access policies (EAP) apply. Using information about the parameters governing the PRGT and GRA lending frameworks and members' outstanding use of Fund credit, the available "borrowing space" for EF is calculated for each member country. Borrowing space is the minimum amount available under these different normal access limits. For the regression, borrowing space at the time of the EF request is used. Figure 4 in the main body of the text shows this variable. While the role of access limits was investigated in the 2018 RoC regression framework, using a summary statistics to characterize whether these various access limits were binding is new. Borrowing space is expressed in percent of GDP.[6]

BOP needs: The baseline regression includes an estimate of BOP needs expressed in percent of GDP. All EF requests included estimates of the external financing gap and how it was to be filled, although in some cases a residual unfilled gap remained. As shown in Appendix III, the external financing gap, or BOP need, was however not consistently defined across staff reports. In particular, a drawdown of international reserves reduced BOP need in some cases, while in other cases, it was counted as a source of financing. For the regression analysis, the IEO used a harmonized definition counting a reserve drawdown as a financing item (see Appendix III). In this context, it is important to remember that a Fund member can have a BOP need "because of its balance of payments or its reserve position or developments in its reserves" (Article V, Section 3(b)(ii)). Fund resources cannot be used in the absence of such need and their use cannot exceed the extent of need. Thus, if estimated need is less than an access limit, estimated need is the binding constraint on the UFR.

Adjustments: As in the 2018 RoC (IMF, 2019), the strength of the macroeconomic framework is proxied by the size of the planned fiscal and current account adjustments. Since these variables are not included in the Monitoring of Funds Arrangements (MONA database) for RFI and RCF requests, these variables are obtained using the April 2020 edition of the WEO. For fiscal

[6] For countries with existing UCT arrangements that have undrawn commitments, available borrowing space is actually smaller than proxied by the summary statistics because of potential future purchases within the existing arrangement.

adjustment, we calculate the change in "general government net lending/borrowing, in percent of GDP" between 2019 and 2021. For current account adjustment, we calculate the change "current account, in percent of GDP" between 2019 and 2021.

Safeguards: Financing requests vary in their reliance of governance commitments as illustrated in Figure 9.[7] The regression includes a variable measuring how many of the four governance commitments shown in Figure 9 were included in the authorities' LOI. This proxy variable was not utilized in the 2018 RoC.

Capacity to repay: As in the 2018 RoC (IMF, 2019), governance indicators, reflecting institutional strength, are used as measures of capacity to repay to the Fund. More precisely, the regression includes:

- The variable "rule of law," which captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

- The variable "political stability," which measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.[8]

The data cover 88 Fund emergency finance requests approved between March 2020 and December 2021 for 78 countries.

Results

Results are shown in Appendix Table I for the country-level analysis and in Appendix Table II for the financing request-level analysis, which is the same basis as the RoC analysis. Both tables are organized similarly, with the first three columns using the full sample of observations, the three columns in the middle using the RFI sample, and the last three columns using the RCF and blend RCF-RFI sample. The full sample split between RFI and RCF/blended cases is justified by the fact that blended access is only for LICs and was intended to preserve PRGT resources by requiring that part of the financing needs be met under the GRA in light of the relatively limited amounts of PRGT resources (compared to GRA resources). A common blending ratio (2 to 1) applied to all such cases. For each sample, the first and second columns for each sample shows a bivariate specification, where borrowing space or BOP need is the only explanatory variable. The third column for each sample shows the full model specification.

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[7] Financing requests also vary in their use of PAs. PAs are, however, likely to act more as a filter to the request (a binary or off/on choice) rather than a determinant of the level of access. This may explain why PAs were also not included as an explanatory variable of access levels for UCT program in the 2018 RoC (IMF, 2019).

[8] Country case studies suggest that access was sometimes lowered because of "political uncertainty" rather than because of "political instability." See, for example, the case of Kosovo in Schadler and Cohen-Setton (2023).

Columns (1), (4), and (7) show the results of a bivariate specification where borrowing space is the only explanatory variable. Columns (2), (5) and (8) show the results of a bivariate specification where BOP need is the only explanatory variable. For the country and request specifications, borrowing space is statistically significant for all samples. BOP need is statistically significant for the full and blended samples, but not for the RFI sample.

In the full sample (columns (1)), borrowing space explained 40 percent of the variation in access levels (R^2) in the country-level analysis (Table II.1) and 33 percent of the variation in access levels in the request-level analysis (Table II.2).[9] Columns (4) and Columns (7), reveal that borrowing space played a much more important role in determining access levels for RFI than for RCF and blended requests. In the RFI sample (columns (4)), borrowing space explained 82 percent of the variation in access levels in the country-level analysis and 77 percent in the request-level analysis. In the RCF or blended sample (columns (7)), it explained 33 and 31 percent of the variation in access levels in the country-level and request-level analyses, respectively.

In the full model specification for the full sample (columns (3)), BOP need is not statistically significant in the country-level analysis (Table II.1) or at the request-level. As illustrated in Figure 5 with Shapley values, BOP needs only explain less than 5 percent of the total variation in access for the full sample. Splitting the sample shows that, for RFI (column (5)), BOP need had no explanatory power. However, for RCF and blended cases (columns (8)), BOP need is statistically significant and explains between 21 percent (Table II.1) and 30 percent (Table II.2) of the variation in access levels. Even after controlling for other variables (column (9) in Tables II.1 and II.2), between 11 percent and 16 percent of the variation in access levels can be explained by BOP needs for RCF and blend RCF-RFI (Figure 5).

As for other variable in the full-fledged model, the fiscal and current adjustment variables were either not statistically significant or explained only a small portion of the variation in access levels (at most 6 percent of the variation according to the Shapley value analysis of Figure 5). The rule of law variable—a proxy for capacity to repay the Fund—is statistically significant in the full sample for the country-space and for the full sample and the RFI sample for the request-space regressions. The constant term—implying an access norm/minimum—is statically significant in the full sample and RCF and blended sample, but not the RFI sample. The variable for governance safeguards is not statistically significant. Nevertheless, inclusion of these variables produced improvements in the R squared.

Altogether our analysis for EF outlines important differences with the determinants of access levels for UCT-quality programs found in the 2018 RoC (IMF, 2018). Unlike our results for EF, the results obtained in the RoC analysis suggest strong links between access levels and the size of

[9] The lower explanatory power of borrowing space in the request-analysis is easily explained by the fact that most countries who drew emergency financing multiple times ended up drawing up to the access limits. Since we use cumulative access to move from the request-level analysis to the country-level analysis, borrowing space in the bi-variate regression can only have less explanatory power in the country-level analysis than in the request-level analysis.

adjustment for UCT-quality programs, confirming that the strength of policies also matters for access decisions. BOP needs also play a much more important role in determining access levels in UCT-quality programs than for EF. The flipside of the lower importance of policy adjustments and BOP needs in determining access levels for EF is the stronger importance of access limits. For both EF and UCT-quality programs, governance indicators that reflect a country's institutional strength and are meant to proxy the capacity of a country to repay to the Fund did not seem to affect the level of financing.

Appendix Table II.1. Results for Country Level Regressions

	Dependent variable:								
	IMF Emergency Financing (Percent of GDP)								
	Full Sample			RFI			RCF and RCF/RFI		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Borrowing space	0.317***		0.339***	0.883***		0.853***	0.268**		0.249*
	(0.119)		(0.122)	(0.093)		(0.079)	(0.122)		(0.130)
BoP need		0.048*	0.002		0.017	0.005		0.115***	0.053
		(0.027)	(0.022)		(0.021)	(0.006)		(0.042)	(0.056)
Fiscal adjustment			-0.047			0.046			-0.083**
			(0.035)			(0.031)			(0.039)
CA adjustment			-0.011			-0.027*			0.003
			(0.009)			(0.015)			(0.012)
Governance safeguards			0.033			0.031			0.020
			(0.032)			(0.027)			(0.060)
Rule of law			0.300*			0.305			0.162
			(0.156)			(0.194)			(0.243)
Political Stability			0.046			-0.024			0.024
			(0.118)			(0.075)			(0.165)
Constant	0.892***	1.217***	0.856***	0.116	1.124***	0.181	1.041***	1.004***	0.736**
	(0.201)	(0.178)	(0.208)	(0.118)	(0.191)	(0.134)	(0.246)	(0.252)	(0.342)
Observations	77	77	77	28	28	28	49	49	49
R^2	0.402	0.067	0.502	0.818	0.022	0.873	0.339	0.205	0.489

Note: In Batini and Li (2023), alternative variables are considered in determining access levels. The addition of those variables does not alter the regression result.
*p; **p; ***p<0.01.

Appendix Table II.2. Financing Requests Results for Regressions

	Dependent variable:								
	IMF Emergency Financing (Percent of GDP)								
	Full Sample			RFI			RCF and RCF/RFI		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Borrowing space	0.240***		0.265***	0.852***		0.832***	0.204***		0.186**
	(0.081)		(0.082)	(0.103)		(0.086)	(0.077)		(0.077)
BoP need		0.054**	0.011		0.020	0.009		0.114***	0.055
		(0.023)	(0.018)		(0.021)	(0.007)		(0.028)	(0.037)
Fiscal adjustment			-0.020			0.049			-0.037
			(0.022)			(0.032)			(0.024)
CA adjustment			-0.017**			-0.013			-0.009
			(0.008)			(0.018)			(0.010)
Governance safeguards			-0.022			0.017			-0.051
			(0.025)			(0.030)			(0.031)
Rule of law			0.238*			0.354*			0.016
			(0.126)			(0.182)			(0.185)
Political Stability			0.076			-0.029			0.111
			(0.109)			(0.081)			(0.147)
Constant	0.877***	0.996***	0.934***	0.124	1.065***	0.216	0.943***	0.742***	0.817***
	(0.129)	(0.138)	(0.163)	(0.121)	(0.184)	(0.149)	(0.143)	(0.149)	(0.245)
Observations	87	87	87	29	29	29	58	58	58
R^2	0.334	0.113	0.477	0.773	0.028	0.841	0.311	0.296	0.508

Note: In Batini and Li (2023), alternative variables are considered in determining access levels. The addition of those variables does not alter the regression result.
*p; **p; ***p<0.01.

APPENDIX III. BALANCE OF PAYMENTS GAP ESTIMATES IN STAFF REPORTS

The use of the Fund's EF is subject to a qualification criterion that a member has an urgent BOP need. Accordingly, staff reports accompanying RFI and RCF financing requests include estimates of external financing needs or gaps. Comparing these gaps across staff reports is complicated by the use of different presentations, in particular, whether the gap is presented before or after the use of international reserves is accounted for.

BOP gaps in staff reports. Table A1 shows a stylized version of external financing gap tables that Staff Reports include. What is referred to in staff reports as the external financing gap or the BOP gap is obtained by subtracting net financial inflows from the current and capital account deficits (E = A + B – C + D). In some cases, the external financing need is enlarged by a targeted accumulation of FX reserves (F). This gap is then financed by IMF, World Bank, and other official financing and by drawing down on FX reserves (G). If these sources of financing do not completely fill the external financing gap, a residual financing gap remains (H = E – G).

Table A1. Stylized External Financing Gap Table

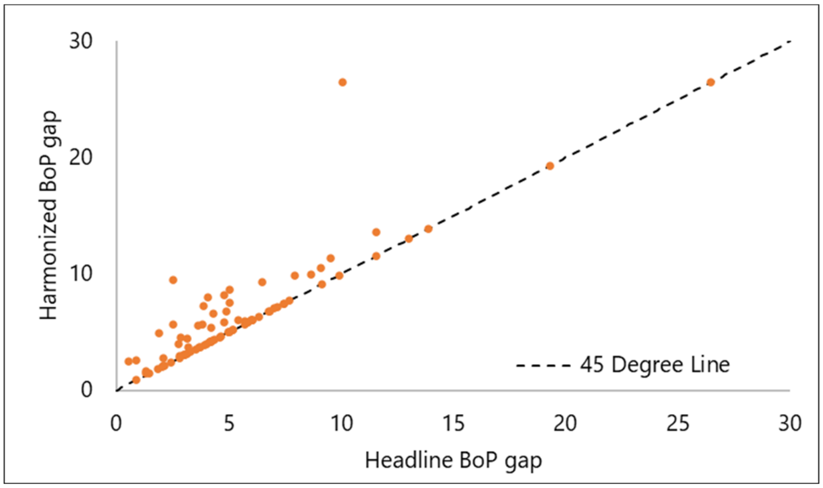
		Alternative terminology used in staff reports
A	**Current Account Deficit**	
B	**Capital Account Deficit**	
C	**Financial Inflows**	
	FDI	
	Portfolio investment	
	Other investment	
D	**Errors and omissions**	
F	**Accumulation of FX reserves (if applicable)**	
E = A + B - C + D (+ F)	**External Financing Gap**	BOP gap, BOP need, overall balance, external gap, financing gap
G	**Financing**	Total financing sources, required financing
	IMF	
	Other official financing	
	FX Reserve Drawdowns	
H = E – G	**Residual gap**	Remaining financing gap, unidentified financing,

Sources: Staff Reports; IEO.
Note: For the purpose of this analysis, SDR allocation in August 2021 is treated as financing flow and presented separately from FX Reserve Drawdowns (if applicable) under Financing (G). Only 3 countries (Burundi, Equatorial Guinea, and Tanzania) requested EF in end 2021.

FX reserve drawdowns in staff reports. In some staff reports, the external financing gap is reduced by a projected/targeted drawdown in FX reserves. In other words, the BOP is expressed as E' = A + B – C + D – (FX Reserve Drawdowns). This alternative definition of the external financing gap is not incorrect in principle. But the lack of harmonization makes it necessary to apply an adjustment to have comparable BOP gaps across staff reports when doing cross-country comparisons as in Appendix II. Accordingly, the IEO recalculated the BOP gaps reported in staff reports according to definition (E) in Table A1. Specially, the FX reserve drawdown is added to the BOP gap, making this drawdown an item financing the larger BOP need.

Figure A1 shows the results of this exercise. On the horizontal axis, the headline BOP gap reported in the Staff Report is shown. This headline estimate does not always use a harmonized definition. The vertical axis shows the BOP gap estimate using a harmonized approach wherein FX drawdowns are treated as financing rather than reducing the size of the BOP need/gap. More than two-thirds (68.5 percent) of data points do not sit on the 45-degree line. The average difference between harmonized and headline BOP gaps is 2.3 percent of GDP.

Figure A1. Headline vs. Harmonized BOP Gaps



Sources: Staff reports; IEO calculations.

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