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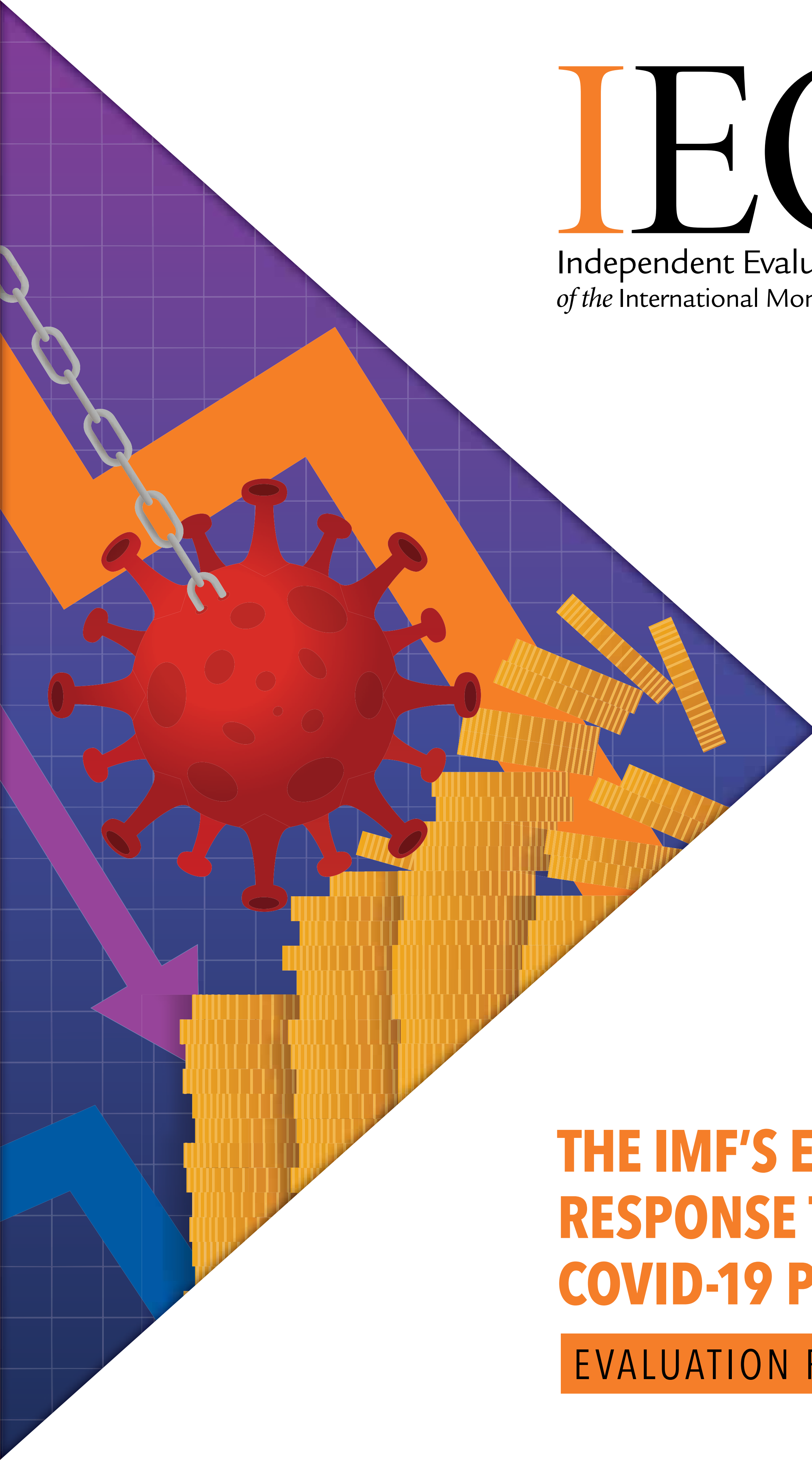

THE IMF'S EMERGENCY RESPONSE TO THE COVID-19 PANDEMIC

EVALUATION REPORT **2023**

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FOREWORD

The COVID-19 pandemic triggered an unprecedented global public health crisis, with a tragic loss of millions of lives around the world. Along with other international agencies, the IMF scrambled to respond quickly to help alleviate the potentially dire economic consequences.

This evaluation provides an early assessment of the Fund's response in the first year of the pandemic, focusing on the rapid extension of emergency financing, the reformulation of the economic outlook and policy advice, and adaptations to internal HR and budgetary practices to shift IMF resources to where they were most needed. We completed the evaluation much more quickly than previous IEO crisis evaluations to provide timely lessons on how the Fund could best prepare for future crises even if this meant we could not examine the longer-term consequences of some important strategic choices.

The evaluation finds that the Fund deserves great credit for its effective and agile response to a crisis like no other. The Fund adopted, and adapted over time, a pragmatic strategy to provide rapid financing to a broad range of countries through its existing instruments. The Fund's policy advice was bold, appropriate for the circumstances, clearly communicated, and avoided some past mistakes, while its economic assessments of the impact of the pandemic were well founded and ended up being quite accurate overall, although there some sizeable misses at the country level. The Fund's corporate response was nimble, involving numerous HR and budgetary initiatives to support the Fund's heavy workload and the abrupt shift to remote work. Finally, Fund staff went above and beyond the call of duty to help member countries navigate the crisis.

Notwithstanding the Fund's effective response to an unprecedented crisis, the experience involved a number of strains and challenges. Emergency financing was not particularly well tailored to countries' needs or circumstances, while there were strategic differences with key partners in providing financing in some cases. The Fund's role as crisis responder required it to take on increased risks to its balance sheet, of which there was limited early analysis. Decisions on access and prior actions seemed to reflect, in a few cases, a lack of evenhandedness. Stress on staff continued at high levels as it took considerable time to shift staff resources to where they were most needed.

The report sets out two broad recommendations to help ensure that the Fund is fully prepared for dealing with future global shocks that seem likely to recur with some frequency. First, the Fund should develop a toolkit of special policies that could be quickly activated to help address the particular needs of a global crisis. Second, steps should be taken to reinforce institutional preparedness to deal with global shocks. I was pleased that the Managing Director agreed with the evaluation's overall findings and that the Executive Board broadly endorsed the recommendations. I look forward to the formulation of an implementation plan to carry them forward.

CONTRIBUTORS

This report was prepared by an IEO team led by Prakash Loungani, and including Nicoletta Batini, Jérémie Cohen-Setton, Natalia Kryg, Joshua Wojnilower, Hites Ahir, Jiakun Li, Umberto Collodel, and Catherine Koh. The team was assisted by excellent contributions from Colombe Ladreit, Lorenzo Spadavecchia, and Francesco Toni on thematic papers.

The external consultants were Benedicte Christensen, Steve Kayizzi-Mugerwa, Eduardo Levy-Yeyati, Adnan Mazarei, and Susan Schadler, for the country case studies, and G. Russell Kincaid, José Antonio Ocampo, Akos Mate, and Martin McCarthy for the thematic papers.

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The evaluation benefitted from comments provided by Christopher Towe for both country and thematic papers. The evaluation also benefited from discussions with participants at several workshops and interviews with current and former IMF staff, member country officials, and academics. The final judgments are the responsibility of the IEO alone.

The report was approved by Charles Collyns.

ABBREVIATIONS

AEs	Advanced Economies
AFR	African Department (IMF)
BOP	Balance of Payments
CCRT	Catastrophe Containment and Relief Trust
CD	Capacity Development
CFMs	Capital Flow Management Measures
CMT	Crisis Management Team
CSOs	Civil Society Organizations
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
DSSI	Debt Service Suspension Initiative
ECB	European Central Bank
ED	Executive Director
EF	Emergency Financing
EMDE	Emerging Markets and Developing Economies
EM	Emerging Market
EME	Emerging Market Economy
EUR	European Department (IMF)
FAD	Fiscal Affairs Department (IMF)
FIN	Finance Department (IMF)
FCL	Flexible Credit Line
FM	Fiscal Monitor
FTE	Full-Time Equivalent
G20	Group of Twenty
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GFSR	Global Financial Stability Report
GRA	General Resources Account
HQ	IMF Headquarters
HR	Human Resources
HRD	Human Resources Department (IMF)
ICD	Institute for Capacity Development (IMF)
IMFC	International Monetary and Financial Committee
LIC	Low-Income Country
LOI	Letter of Intent
MCD	Middle East and Central Asia Department (IMF)

MCM	Monetary and Capital Markets Department (IMF)
MD	Managing Director (IMF)
MDB	Multilateral Development Banks
NPIs	Non-Pharmaceutical Interventions
OBP	Office of Budget and Planning (IMF)
ORM	Office of Risk Management (IMF)
PLL	Precautionary Liquidity Line
PRGT	Poverty Reduction and Growth Trust
PA	Prior Action
RCF	Rapid Credit Facility
RES	Research Department (IMF)
RFI	Rapid Financing Instrument
SDR	Special Drawing Rights
SEC	Secretary's Department (IMF)
SHRP	Strategic Human Resources Partner
SLL	Short-Term Liquidity Line
SPR	Strategy, Policy and Review Department (IMF)
STA	Statistics Department (IMF)
UCT	Upper Credit Tranche
UMP	Unconventional Monetary Policies
UN	United Nations
WEO	World Economic Outlook
WHD	Western Hemisphere Department (IMF)

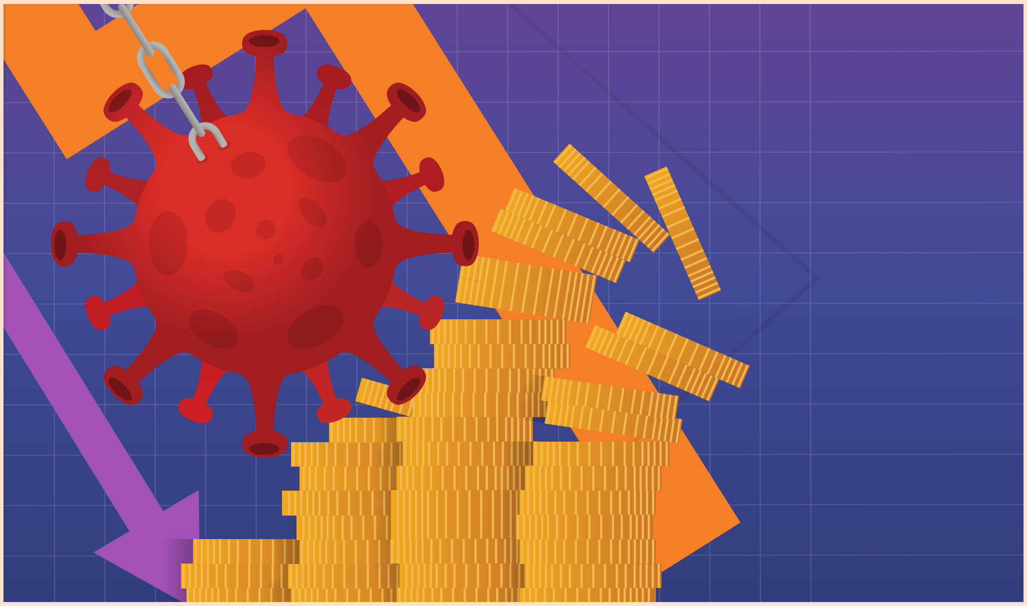
EXECUTIVE SUMMARY

Purpose. This evaluation assesses how well the Fund adapted its lending framework, its processes for formulating the economic outlook and policy advice, and its internal HR and budgetary practices to help countries during the emergency phase—January 2020 to April 2021—of an unprecedented global shock. We are not trying to second guess decisions made in difficult and uncertain circumstances in which the need for quick action was paramount. The purpose is to draw some early lessons from the experience so far that could be useful to fine tune the Fund's lending instruments for dealing with large exogenous shocks and reinforce the broader institutional framework for responding to future global crises. As an early evaluation, this report does not seek to evaluate a number of important aspects of the Fund's crisis response, such as implications for debt issues and support for the economic recovery phase, that extend well beyond the evaluation period and would require a longer time frame to assess adequately. It also does not seek to evaluate the full range of Fund surveillance and capacity development activities in which the Fund was engaged during the pandemic.

Our key findings are as follows:

FINANCING STRATEGY

Agile and effective response. The Fund deserves great credit for its effective and agile response to a crisis like no other. The Fund adopted, and adapted over time, a pragmatic strategy to provide support through its existing emergency financing (EF) instruments, while also urging use of precautionary instruments, including a newly introduced short-term liquidity line. A record 62 countries received support within the first three months of the onset of the pandemic, two-thirds of them on concessional terms. The Fund's early disbursement of financial support at a time of urgent need and high uncertainty was deeply appreciated by country authorities.



Benefits and costs. While delivering impressive benefits, the reliance on the existing toolkit also had costs, often due to the rapid speed of the response in exceptionally challenging circumstances.

- Constrained consultation. Many within the membership did not feel adequately consulted on the Fund's emerging strategy in the initial weeks. An early consultation with the full Board would have provided more ownership of the strategy, appreciation of its challenges, and an early indication of support for innovations such as the introduction of a new pandemic facility.
- Limited take-up of precautionary facilities. Use of the Fund's precautionary facilities was limited and there was no take-up of the Short-Term Liquidity Line (SLL) until May 2022. While stigma may have dampened demand, so did the prompt actions by major central banks in easing monetary conditions and providing swap lines.
- Risks to the Fund. There was acceptance across the institution that the Fund's role as crisis responder required it to take on increased risks to its balance sheet, and concerns that not providing financial support carried adverse reputational risks for the Fund. At the same time, there was relatively limited analysis in the first months of the pandemic of the extent of the risks involved.

OUTLOOK AND POLICY ADVICE

Quick revision of outlook and increased top-down guidance. Fund staff quickly revised their global economic outlook, consulting with experts on the likely duration and spread of the pandemic. Staff's early estimate of the impact of the pandemic on the global outlook in 2020 ended up being quite accurate. In preparing forecasts, there was greater recourse to top-down guidance to ensure shared assumptions about the duration of the pandemic and calibration of the economic impact across country teams. Staff accepted the need for increased top-down guidance and generally did not find it a hindrance to tailoring forecasts to country circumstances. That said, forecasts missed the mark in two respects:

- Pessimism in June 2020 growth forecasts. In contrast to fears about rosy IMF forecasts expressed in policy and media circles in the early months of the pandemic, the IMF's June 2020 forecasts ended up being much more pessimistic than eventual outcomes. In the IEO's view, the pessimism resulted from staff's efforts to best reflect the information on hand at the time rather than a deliberate attempt to make a dire forecast or errors induced by increased top-down guidance.
- Surge in 2021 inflation missed. A bigger forecast miss was staff's failure—along with staff at the Fed and major central banks—to anticipate the sustained surge in inflation that some outside experts had flagged as a concern by spring 2021. While accurately forecasting that 2020 inflation would be subdued, staff's view was not suitably recalibrated to changes in the relative strengths of demand and supply forces in 2021. Though the Fund's forecast miss can be explained as a judgment call that went wrong, it also seems to mark another instance of Fund deference to conventional wisdom among major central banks.

Fiscal policy. The Fund's advice to "spend but keep the receipts" was bold, appropriate for the circumstances, clearly communicated, and avoided past mistakes. Some country authorities, however, found it too broad-brush and worried that it provided political cover for governments inclined to misuse the advice. The Fund's policy guidance was made with awareness of future risks and after considerable internal consultation and Board review, though a full cost-benefit analysis cannot be offered in this early evaluation.

Monetary policy. The Fund broadly supported the stimulative policies adopted by central banks in advanced economies and emerging markets (EMs). Despite internal discussions, the Fund refrained from a public stance on the use of unconventional monetary policies by EMs as they were being adopted. Some policymakers and market participants would have preferred that the Fund weigh in more quickly and openly on a major new monetary policy development.

Advice on dealing with capital outflows. The Fund appropriately refrained from public comment on the use of capital flow management measures during the months of sharp outflows from EMs and low-income countries (LICs) at the start of the pandemic, while being more open internally to supporting use of such measures should the situation continue to deteriorate.

Policy tracker and policy guidance notes. The IMF deserves much credit for launching a widely appreciated policy tracker to share information on policies put in place by governments around the world. The Fund also produced an extensive series of generally appreciated "How-To" notes on policies to help countries respond to the pandemic, although the guidance in some of these notes could usefully have been more granular.

FUND FINANCING: ACCESS

Balancing risks and rewards. The exigencies of the pandemic were recognized by quickly pivoting from Upper Credit Tranche (UCT) to emergency financing, scaling back prior actions relative to past use, and giving the benefit of the doubt to countries in some difficult judgments about debt sustainability. Attention to the risks to the Fund's balance sheet and to the Poverty Reduction and Growth Trust (PRGT) posed by these decisions increased by mid-2020, although by this time the bulk of emergency financing requests had been approved. Overall, the credit quality of the IMF's balance sheet deteriorated significantly during the first year of the epidemic, especially for PRGT credits.

Lack of access or limited access. Despite Fund support to a record number of countries, 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, Fund management and staff were willing to draw the line in very difficult cases and hold back or curtail access because of associated risks to the Fund.

EF and UCT arrangements. While EF use did pick up dramatically during the pandemic, it is not clear that the provision of EF had any lasting impact, positive or negative, on the use of UCT-supported programs. There were nearly as many countries with (non-precautionary) UCT arrangements in September 2022 as two years earlier; hence, at least in the aggregate, EF during the evaluation period did not act as either an "on ramp" facilitating the transition to UCT arrangements or an "off ramp" discouraging subsequent use of UCT arrangements.

TAILORING AND SCALE OF EMERGENCY FINANCING

Tailoring of access. The provision of emergency financing was rather binary, with most countries either receiving full access up to the limit or no access at all, without much tailoring to factors such as the country's spending needs (as proxied by the preparedness of its health systems) or staff's own forecast of the pandemic's growth impact. "Borrowing space"—the maximum amount available given various access limits—explains the bulk of the variation in access across countries, particularly for RFI requests. RCF and blended requests showed a somewhat closer relationship to balance of payment (BOP) needs, suggesting greater fine-tuning of access in concessional financing cases.

Scale. Authorities interviewed for case studies generally felt that the overall scale of Fund financing was not commensurate with their needs during the pandemic. However, higher across-the-board access to EF would not have been appropriate given risks involved and the need in many countries for policy adjustments best suited for a UCT program. Nonetheless, a more tailored approach to access (with greater room for relating access to both need and the strength of the policy framework) could have been helpful for countries like small developing states with particularly large financing needs, which had a smaller share of needs met from the Fund and had to make larger recourse to their international reserves.

Concerns about evenhandedness. In response to authorities' concerns about lack of evenhandedness in decisions on access and prior actions, Fund staff noted that such decisions rested on a number of considerations, such as judgments about the severity of governance concerns (which were partly based on internal assessments); judgments about likely impact of political transitions on policy choices and thereby the ability to repay the Fund; and the quality of prior engagement with the authorities. Nevertheless, there appear to be variations across countries in the way that policy guidance was applied, particularly in the degree to which countries were given the benefit of the doubt when their situations fell in a gray area, and such variations at least in part seem to have reflected political considerations among major shareholders. In a few cases, it does seem that a lack of evenhandedness in treatment led to delay or limits on access. While not widespread, this experience clearly raises reputational risks for the Fund.

Fund Financing: Governance Safeguards

Scaling up of governance safeguards. In response to concerns expressed by the Executive Board and civil society about possible misuse of financing, Fund staff scaled up attention to governance safeguards from May 2020 onwards, culminating in Board-endorsed guidance on governance safeguards in October 2020. Already by mid-May 2020, most EF requests included several governance commitments, the most common commitment of which was to undertake an independent audit of COVID-related spending.

Implementation of governance safeguards. At this point, it is still too early to provide a complete assessment of countries' implementation of safeguards commitments and their impact. Staff monitoring in Article IV reports and other information suggests that many countries did indeed follow through with commitments, but implementation has fallen short in some cases, in part because some safeguard commitments may have been too ambitious or onerous (such as the commitment to publish beneficial ownership information). The experience with governance safeguards during the pandemic suggests the importance of building up country capacity to implement governance safeguards as a general objective—in line with the Fund's overall approach on governance approved in 2018.

IMPACT OF FUND FINANCING

Positive impact on outcomes. Our evidence suggests a broadly positive impact of Fund financing: it fulfilled its expected role in filling financing gaps, it helped marshal support from other sources, and it mitigated output losses.

Meeting financing needs. BOP financing needs ended up broadly in line with and sometimes below ex-ante projections, implying that Fund financing ended up playing, at least on average, its envisaged role in filling BOP gaps. For EMs, and for LICs receiving EF, the Fund provided the expected 10–15 percent of the financing gap; for LICs receiving UCT financing or both emergency and UCT financing, the Fund's share ended up larger, 25–35 percent on average. However, for small developing states facing particularly large shocks, the share was lower.

Marshalling support from other official sources. Fund emergency financing was perceived by other official agencies as providing helpful reassurances of the country's policy framework. In many cases where the Fund did not provide financing, it did provide useful assessment letters. In our case studies, authorities generally felt that Fund support had a catalytic effect for other official financing. However, interviews also surfaced concerns about the lack of a common platform to share information readily on how much financial support was being provided across multilateral institutions.

Productive collaboration overall with World Bank. In 75 percent of cases, countries received (or did not receive) COVID-related support from both institutions, and, on average, the Bank's financial commitments to countries that received Fund support were substantially higher than in cases of no Fund support. The collaboration at the level of country teams also generally worked well according to the evidence from both IEO case studies and those of the World Bank's Independent Evaluation Group (IEG). The Bank and the Fund also successfully collaborated on advocating for and operationalizing the Debt Service Suspension Initiative under the auspices of the G20.

But tensions emerged in some cases related in part to strategic differences. There were a number of cases in which the Fund rapidly disbursed financing, but the Bank's disbursements came much later, leading to uncertainties about financing gaps. In other cases, the Fund did not disburse at all but the Bank provided some assistance. Interviews suggest a lack of agreement at senior levels on the appropriate country approach, as the Fund emphasized quick disbursements though EF, while the Bank relied largely on policy-based instruments.

Catalyzing market financing and mitigating output losses. Our analysis finds modest evidence that recipients of Fund EF experienced higher net portfolio inflows on average than a control group; conversely, a group of EMs that requested but did not receive Fund financing experienced significantly greater capital outflows. Authorities in most of our case studies felt that Fund financing helped calm financial conditions and assisted in their return to market financing. We also find that Fund financing helped mitigate output losses during the pandemic, especially compared to countries that requested but did not gain access to IMF loans.

CORPORATE RESPONSE

Remarkable adaptability. The pandemic elicited a widespread corporate response, with numerous HR and budgetary initiatives to support the Fund's crisis response and the abrupt shift to remote work. The experience also showcased one of the IMF's main institutional strengths: its dedicated workforce. Staff went above and beyond the call of duty to help member countries navigate the crisis.

Work pressures. Despite the wide-ranging corporate response, the pandemic put huge stress on the institution and particularly its staff. The fact that a large share of the workforce was logging at least 20 percent overtime for lengthy periods highlights that the IMF relies on the discretionary effort of staff to handle a crisis.

HR management challenges. While a higher burden on staff is to be expected during a crisis, it does raise a valid question about whether the Fund's HR system could be better prepared to deal with the stresses of a crisis. It is striking that although the frontline departments were quickly allocated additional headcount, it took considerable time for the additional staff resources to materialize where they were most needed. While multiple factors seem to have contributed to this slowness, including that recent upgrades to key HR systems and process were still "works in progress," the recent experience raises concerns about the complexity of Fund hiring mechanisms, the need for more effective centralized mechanisms to direct staff internally where they are most needed in the midst of a crisis, and the adequacy of data on staff experience and expertise.

Budget flexibilities and constraints. The crisis required substantial additional spending to meet crisis needs, including for a temporary expansion of the workforce. The budget response was managed nimbly, without requiring any ad hoc increases in the budget envelope, thanks to quick reprioritization, use of available buffers in the budgetary system, and easing of pressures from the forced cuts in travel and events spending. The concern remains that during future crisis events, the emergency buffer and carry forward resources could prove insufficient, and a supplementary budget could take time to approve with adverse effects on the speed and effectiveness of the crisis response.

Logistical strengths and challenges. The Fund's crisis management team (CMT) made decisions rapidly about access to Fund premises and repatriation of staff at the start of the pandemic, the shift to remote work, and the eventual return to office—and consistently gave top priority to the staff's health and safety needs. The Fund also ensured business continuity in serving the membership during the crisis, with staff and the Board adapting literally overnight to the need to work in an entirely virtual environment. There were challenges involved in the subsequent drawn-out re-entry process. Overall, the Fund's approach was more conservative than that of peer organizations, in line with the preferences of a large portion of staff, which did have some consequences for operational work, particularly where more field presence would have helped bolster country relationships, and for the Board's capacity for effective oversight.

RECOMMENDATIONS

Key takeaway. The key takeaway of the evaluation is that notwithstanding the IMF's remarkably pragmatic response to an unprecedented crisis using its existing lending toolkit and policies, the experience did involve a number of strains and challenges. Thus, although this evaluation ends up with a largely positive assessment of the crisis response, the Fund should nevertheless be prepared to review some aspects of its policies and procedures to ensure that as an institution it is fully prepared for dealing with future global crisis events.

High-level recommendations. For this purpose, we make two high-level recommendations, each of which comes with a number of suggestions on how the underlying purpose of the recommendations could be achieved.

> **Recommendation 1.**
> **Develop a toolkit of special policies and procedures that could be quickly activated to help address the particular needs and circumstances of a global crisis.**

Such policies and procedures could be calibrated and activated at the onset of a global crisis, allowing for a broad set of lending and corporate responses that may be needed on a temporary basis in an emergency context that would not be appropriate in more normal times.

Recommendation 2.
Take steps to reinforce institutional preparedness to deal with global crises and other large shocks.

Consideration could be given to reviewing emergency financing policy and practice; further developing the toolkit of precautionary instruments; further efforts to support countries' efforts to strengthen governance safeguards; steps to foster more coherent strategic partnerships with the World Bank and other official institutions in responding to a global crisis; and table-top exercises to help develop a crisis playbook.

Important caveat. As an early and deliberately focused assessment, the evaluation covers only the initial stages of the pandemic and does not consider the full range of Fund activities. Development of an implementation plan should be considered in light of subsequent experience and in the broader context of the continuing challenges faced by the Fund in helping members deal with a global environment that remains very difficult.

Managing enterprise risks. The IMF faced considerable risks at the onset of the pandemic and successfully took steps to reduce them. Nevertheless, residual risks remain, which could be mitigated in future crises by implementation of the recommendations and associated suggestions provided here.

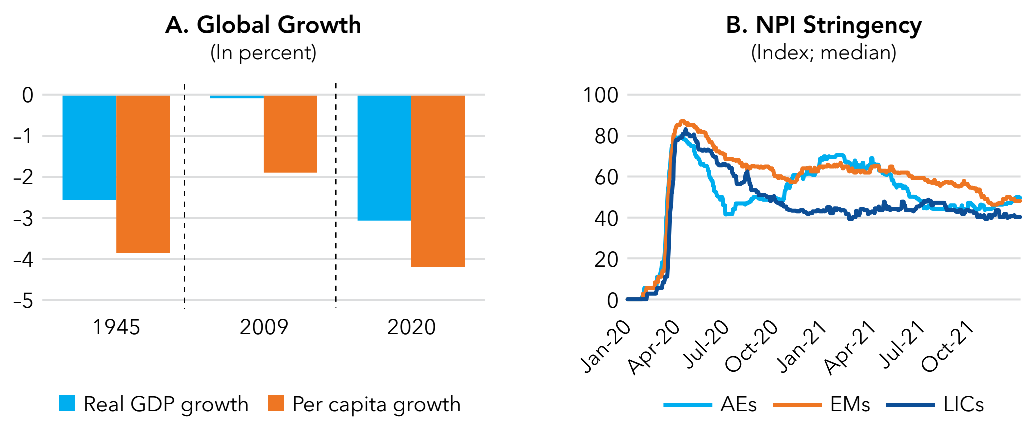
Lessons from partner evaluation offices. Evaluation offices at other multilateral institutions have drawn similar lessons from the experience of the pandemic about the need to review their lending frameworks, and stronger tools for collaboration across institutions.

Resource implications. The additional resource costs of the evaluation's recommendations would seem relatively limited as a sequenced approach to considering adaptations to the IMF lending framework is already part of the work program. However, other actions would involve at least some initial start-up costs. The timing of this evaluation should allow our findings to be drawn upon as that work proceeds.

INTRODUCTION

"A crisis like no other": The COVID-19 pandemic triggered an unprecedented global public health and economic crisis, with a tragic loss of millions of lives around the world. The ensuing economic fallout was also severe, with global output falling by 3 percent in 2020, the deepest global recession since World War II and considerably worse than the Global Financial Crisis (GFC) of 2008 (Figure 1, left panel). Though growth rebounded in 2021, the turnaround was uneven with many emerging market and developing economies (EMDEs) experiencing slow recoveries (IMF, 2022c) and subsequent shocks have left economic prospects still uncertain (IMF, 2023a). Inflation has surged in many countries fueled by lingering supply chain issues and the robust policy support to demand. The pandemic also has been a major setback to the achievement of the Sustainable Development Goals (Sachs, 2022).

FIGURE 1. IMPACT OF COVID-19 PANDEMIC



Source: Batini and Li (2023).
Note: GDP loss during the pandemic and GFC are calculated as the percentage change between GDP levels in 2019 and 2020, and between levels in 2007 and 2009, respectively.

Government actions. To reduce the spread of the virus many governments swiftly enacted non-pharmaceutical interventions (NPIs) to mitigate the duration and severity of the pandemic, save lives, and avoid the need for even more stringent NPIs and further economic damage down the line (Figure 1, right panel). As a result of these early interventions, by April 2020 about half of the world's population was under some form of lockdown. To mitigate the loss in incomes from the lockdowns, global fiscal support reached almost $15 trillion by end-2020 (over 10 percent of global GDP). Most of it was deployed by advanced economies (AEs), while the fiscal response in EMDEs was more constrained by financing and debt concerns. Major central banks, notably the Federal Reserve and the European Central Bank (ECB), responded to the crisis by drastically easing monetary conditions and pumping liquidity to counter market disruptions, which helped stabilize the dramatic reversal of emerging market (EM) capital flows in the early months of the crisis (Batini, 2020). Several EMs used unconventional monetary policy (UMP) measures for the first time, including asset purchases, to help stabilize conditions.

Rapid IMF response. International agencies responded quickly to the call by governments to help alleviate the potentially dire consequences of the pandemic (COVID-19 Global Evaluation Coalition Report, 2021). The IMF rapidly developed a multi-pronged emergency response including:

- Reliance on emergency financing (EF). The IMF quickly made financing available to a large number of members by scaling up its existing EF facilities, which did not involve the ex-post conditionality of standard upper credit tranche (UCT) loans. While total financial support over March 2020–March 2021 was comparable to the total amount in the first year after the onset of the GFC, many more countries received very quick support and substantially more on concessional terms.

- Debt relief. In addition, the IMF provided debt-service relief to the poorest and most vulnerable countries and worked with the World Bank on several Group of Twenty (G20) initiatives that offered debt relief to low-income countries (LICs).

- Surveillance and capacity development (CD). Though work on Article IV consultations was temporarily suspended, the Fund continued to provide bilateral policy advice to members, urging strong domestic policy support through fiscal, monetary, and macroprudential policies. It also worked hard to sustain CD assistance despite restrictions on international travel (IEO, 2022).

- Institutional response. The staff and the Board adapted literally overnight to the need to work in an entirely virtual environment. Less immediate work streams were postponed, and procedures were streamlined to rush financial help to countries, while generally maintaining the usual detailed analysis and careful review for use of Fund resources.

Broad appreciation for IMF response. Recognizing the speed, magnitude and unprecedented nature of the shock, the IMF is generally considered to have done a remarkable job in providing essential financial support so quickly and to so many countries (Ahmed, 2021).

- Country authorities have expressed deep appreciation for the quick financing provided by the IMF, with some characterizing it as "life-saving."

- The Fund is generally considered to have worked well with partners in the UN system, with the leadership role played by the Managing Director (MD) coming in for particular praise. Together with the World Bank President, the MD also played a key role in urging the G20 to advance initiatives offering debt relief to LICs.

- Alongside its financing, the Fund was a prominent advocate for strong domestic policy support, particularly through fiscal policies. The Fund's fiscal policy advice—"spend but keep the receipts"—received widespread attention and was characterized by many observers as bold and appropriate for the circumstances and avoiding past mistakes (Giles, 2020).

Concerns and issues. At the same time, some concerns and issues have also been voiced about the Fund's response.

- Overall strategy. Some observers have suggested that, despite the pressures of the moment, a more holistic and ambitious strategy could have been crafted at the outset, positioning the Fund better to deal with the sustained economic difficulties that many EMDEs are facing (Lowcock and Ahmed, 2021). There are also concerns about the extent of consultation with the IMF's membership in the early weeks as the global outlook was being rethought and the response strategy was being devised.

- Risks, scale, and even-handedness of emergency financing. While the Fund's prompt action in getting financing to countries in need is widely recognized, there are questions both about the process and the results from the heavy reliance on emergency facilities with no ex-post conditionality. Some observers have expressed concern about whether the Fund may have provided too much financing on too easy terms, allowing countries to avoid needed adjustment and diluting protection for the Fund's own balance sheet that would have been provided by greater use of UCT arrangements (Rogoff, 2022). There were also concerns about the adequacy of governance safeguards to ensure that the resources provided were used appropriately (Transparency International, 2020). In contrast, others have questioned whether the scale of financing provided by the Fund was commensurate to the needs of the pandemic and whether it was sufficiently tailored to country circumstances. Concerns have also been raised about the even-handedness of Fund support, as a number of countries received only limited access, faced long delays, and in some cases have still not been able to gain any access. Finally, the Fund's surcharge policy, which applies to outstanding loans from the General Resource Account (GRA) that exceed certain thresholds, has been criticized for imposing undue burdens on middle-income countries when they are least able to afford them (Gallagher and Stiglitz, 2022; Honohan, 2022).

- Collaboration with partners. Despite active engagement with other multilateral lenders, there is concern that the strategy for financial support across the international financial institutions, particularly the World Bank, was not fully articulated and agreed, contributing to tensions at the country level. The rapidity of the Fund's response and strong policy advocacy may in some cases have weakened the ability of other agencies to insist on needed conditions and safeguards for their own activities to support countries (Muhlich and others, 2020).

- Biases in Fund forecasts. As during past recessions and crises, there were issues raised about potential biases in Fund forecasts. Concerns that the IMF's forecasts for 2020 growth, particularly in LICs, were too optimistic surfaced in think tank circles (Sandefur and Subramanian, 2020a; 2020b), the media (for example, The Economist, August 4, 2020) and among civil society organizations (CSOs) (Bretton Woods Project, 2020b). In contrast, some country authorities expressed concerns that IMF forecasts for EMDEs were too pessimistic.[1] Relatedly, some have suggested that the IMF's forecasts were too top-down and formulated without taking adequate account of country specificities, including structural differences between advanced and developing economies in the likely impact of lockdowns on economic activity.

- Fiscal policy advice. A related set of concerns pertains to the Fund's policy advice, particularly on fiscal policies. Some country authorities have expressed concern that the IMF's top-line institutional message that countries should maintain strong fiscal support overshadowed the more differentiated advice needed to reflect many countries' difficult political economy and debt situations. CSOs welcomed the top-line message but did not find it to be adequately reflected in the IMF's country-level advice—over 500 CSOs and academics signed a letter in October 2020 expressing concerns about excessive "austerity" (Bretton Woods Project, 2020a; Daar and Tamale, 2020).

[1] The most contentious case was that of Brazil, where officials complained publicly about overly pessimistic IMF forecasts for their country's growth in 2020 (Financial Times, December 16, 2021).

- Internal processes. The need for long periods of overtime work for many staff during the pandemic, and staff stress and burnout reflected in surveys, raise the issue of whether more could have been done to adapt human resources (HR) and budgetary practices to deliver the abrupt change in resource allocation required by a global emergency.

Purpose of the evaluation. Against this background, this evaluation aims to provide an early assessment of how well the Fund adapted its lending framework, its processes for economic assessment and policy advice, and its internal HR and budgetary practices to help countries during the emergency phase of an unprecedented global shock. The evaluation focuses on the period between January 2020 and April 2021. We are not trying to second guess decisions made in difficult and uncertain circumstances in which the need for quick action was paramount. The purpose is to draw some timely lessons from the experience so far that could be useful to fine tune the Fund's lending instruments for dealing with future large-scale exogenous shocks and reinforce the broader institutional response to future global crises, which could be public health, climate change, or security related.

Limited scope of the evaluation. As an early evaluation, this report does not seek to evaluate a number of important aspects of the Fund's crisis response, such as implications for debt sustainability and support for the recovery phase, that extend well beyond the evaluation period and would require a longer time frame to assess adequately. It also does not seek to evaluate the full range of Fund surveillance and capacity developments activities in which the Fund was engaged during the pandemic.

Evaluation questions. The evaluation covers four sets of questions.

A. Formulation of Strategy, Outlook, and Policy Advice

(i) How effective was the process through which the Fund's overall strategy was put together? Were alternatives to the chosen strategy adequately considered? Was there sufficient consultation internally and with the membership?

(ii) How well did the Fund adapt its processes for assessing the economic outlook and providing policy advice to an unprecedented global crisis?

(iii) How well did the Fund formulate and communicate its policy advice?

B. Provision of Financing: Balancing Risks and Rewards

(i) Did requirements for prior actions (PAs), policy commitments, and safeguards strike the right balance between providing timely and adequate help to countries and containing risks to the Fund's own balance sheet?

(ii) Were governance safeguards adequate?

(iii) Was the Fund even-handed in its provision of financing?

(iv) Did EF lead to subsequent programs supported by UCT arrangements, as envisaged, or crowd them out?

C. Impact of Fund Financing

(i) To what extent did the Fund's financing help countries fill their financing needs in the first year of the pandemic?

(ii) Was the Fund's support useful in catalyzing additional financial support for countries from the World bank and other official sources and from capital markets?

(iii) Did the Fund's support help mitigate the economic effects of the pandemic?

D. Corporate Response

(i) How effective were the Fund's efforts to boost and redeploy staff and budget resources in the face of a huge increase in demand for the institution's services from its members and a forced shift to virtual work?

(ii) How well were resulting strains on Fund staff handled?

BOX 1. THEMATIC PAPERS AND COUNTRY CASE STUDIES

Thematic Papers

1. The Role of IMF Financial Support in Mitigating the COVID-19 Shock
   - Nicoletta Batini and Jiakun Li

2. Operational Aspects of IMF Emergency Financing in Response to the COVID-19 Pandemic
   - G. Russell Kincaid, Jérémie Cohen-Setton, and Jiakun Li

3. The IMF's Response to the Pandemic: Strategy and Collaboration with Partners
   - José Antonio Ocampo, Jérémie Cohen-Setton, Natalia Kryg, Prakash Loungani, and Hites Ahir—referred to in this report as Ocampo and others

4. The IMF's Forecasting and Policy Advice Formulation Processes During the Pandemic
   - Prakash Loungani, Akos Mate, Martin McCarthy, and Umberto Collodel—referred to in this report as Loungani and others

5. The IMF's Institutional Response to the Pandemic
   - Nicoletta Batini and Joshua Wojnilower

6. Staff Survey Results
   - Catherine Koh and Joshua Wojnilower

Regional Country Case Studies

7. Africa: Benedicte Christensen, Steve Kayizzi-Mugerwa, Jérémie Cohen-Setton, Catherine Koh, Jiakun Li and Prakash Loungani—referred to as Christensen, Kayizzi-Mugerwa and others. *Case studies:* Burkina Faso, Côte d'Ivoire, Malawi, Nigeria, South Africa, Zambia.

8. Asia and Pacific: Susan Schadler and Joshua Wojnilower. *Case studies:* Bangladesh, Mongolia.

9. Europe: Susan Schadler and Jérémie Cohen-Setton. *Case studies:* Bosnia and Herzegovina, Kosovo.

10. Middle East and Central Asia: Adnan Mazarei and Prakash Loungani. *Case studies:* Kyrgyz Republic, Morocco, Tunisia, Uzbekistan.

11. Western Hemisphere: Nicoletta Batini and Eduardo Levy-Yeyati. *Case studies:* Bolivia, El Salvador, Nicaragua, Paraguay.

Evaluation approach. This evaluation was launched a little over one year after the onset of the COVID-19 pandemic and focuses on the early experience.[2] This overview draws on six thematic papers and five sets of country case studies, one for each of the Fund's area (regional) departments (Box 1). In addition to a top-down view of the Fund's engagement with the region, the case studies present a closer look at the experience of 18 countries listed in Box 1.

Sources of evidence. The evidence is based on: extensive interviews with IMF staff and management, Board members, and country authorities; a staff survey; empirical analysis based on public and internal databases;

[2] The IEO's previous evaluations of the IMF's crisis responses such as the response to the GFC (IEO, 2014b) and the Euro Area crisis (IEO, 2016), were prepared several years after the initial crisis, providing more time to assess the Fund's impact but did not permit drawing early lessons.

and peer reviews by outside experts of this report and background papers. The evaluation also benefitted from a mid-point informal seminar with the Board, which provided the opportunity to present some initial findings and lessons and benefitted from Executive Directors' (EDs) responses.

Structure of this report. Section II describes and assesses the formulation of the IMF's strategy, outlook, and policy advice to respond to the pandemic. Sections III and IV provide a detailed look at the provision of Fund financing and assess its effectiveness and impact. Section V evaluates the response of the Fund's HR and budget processes and the adaptation to working in a virtual environment. Section VI contains the main conclusions and recommendations.

2 FORMULATION OF STRATEGY, OUTLOOK, AND POLICY ADVICE[3]

Roadmap. This section describes the formulation of the Fund's strategy to help countries cope with the effects of the pandemic (Section II.A), baseline forecasts and risks to the outlook (Section II.B), and policy advice (Section II.C), followed by a combined assessment of all three—strategy, outlook, and advice (Section II.D). Though discussed in separate sub-sections, these three strands were obviously intertwined, with the Fund's evolving view on the outlook informing its financing strategy and policy advice.

A. IMF STRATEGY

Formulation of a crisis-response strategy. As evidence emerged that there was a major public health shock underway, the MD quickly emphasized the need to "act early, boldly, and comprehensively."[4] Amid uncertainty and evolving views about the shock's economic impact and projected need for Fund financing, staff began to shape a response strategy along four fronts:

(i) *The use of existing emergency facilities as the main channel for Fund financing.* The Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) (which provides financing on concessional terms for LICs) were seen as the best suited financing instruments since quick action was needed by the Fund to support a broad swath of the membership and at least for most countries the BOP gaps were not the result of recent policy actions that needed correction. It was considered that UCT arrangements, with ex post conditionality, would be hard to design and put in place in the context of a highly unpredictable and fast-moving global emergency. Staff did not consider a new pandemic facility at this stage as part of the strategy since this too would take time to put in place and the existing set of facilities was seen as flexible enough to meet the needs of member countries.

(ii) *Provision of back-up financial support through precautionary facilities, including a new instrument.* Though past use had been low, it was felt that these facilities, such as the Flexible Credit Line (FCL) and the Precautionary Liquidity Line (PLL), offered a useful source of back-up financing for countries that qualified for access on the basis of their high standard policy framework and record. Moreover, a new Short-Term Liquidity Line (SLL) was proposed based on a design that had already been thoroughly debated in 2017 although not put in place.

[3] This section draws on background papers by Ocampo and others (2023), Loungani and others (2023), and Batini and Li (2023).

[4] Awareness of the potential macroeconomic impact of a pandemic had also been raised by a symposium with outside experts in February 2019.

(iii) *A push for a Special Drawing Rights (SDR) allocation.* Though perceived as unlikely to succeed given the well-known opposition of some large shareholders, it was felt that a chance should be taken because such an initiative could provide significant relief to a wide range of cash-strapped countries (including some not meeting the requirements for EF). While it was recognized that this would likely require a long and complex process, it was felt that "at times of crisis, political constraints sometimes move."

(iv) *Steps to alleviate debt burdens through debt service relief and debt operations where necessary.* The main emphasis was on providing cash flow relief to help meet obligations falling due, including helping the very poorest countries meet obligations to the Fund through the Catastrophe Containment and Relief Trust (CCRT), as well as through a more widely available G20 Debt Service Suspension Initiative (DSSI). It was recognized that some countries would eventually need debt stock restructuring, but this would take time to achieve.[5]

Consultation with the membership and partners. Following a conference call with the International Monetary and Financial Committee (IMFC), the MD announced on March 4, 2020, the availability of $50 billion in support through the Fund's EF instruments. Another conference call with the IMFC took place on March 27 to discuss the Fund's strategy. Interactions with the Board to discuss the Fund's strategy occurred in March through three informal briefings—on March 2, 10, and 26—and a note prepared for the April G20 meeting which outlined possible Fund actions was shared with the Board. The Fund's MD and the World Bank President worked together during March to urge the G20 to provide debt relief for low-income member countries, and the MD engaged actively with heads of UN agencies to exchange information on their respective assessments of the pandemic and plans to help countries.

Enhancing the Fund's emergency financing toolkit. Initial consultations were followed by formal Board discussions during April 2020 ahead of the Spring meetings. On April 6, the Board approved an increase in EF access limits, initially for six months, with annual limits for both the RFI and RCF rising from 50 percent to 100 percent of quota, and cumulative limits rising from 100 percent to 150 percent the quota. During the internal review in March, some area departments urged that the Fund could go further right away (for example, in extending the period of the increase beyond six months), and others suggested that the Fund should signal that additional steps would be forthcoming. However, the consensus among staff was that an incremental approach was preferable in the face of uncertainty and more likely to gain support from the Board. The Office of Risk Management (ORM) also supported a gradual approach, noting that the Fund's strategy had to balance the "reputational risk" if the Fund did not provide timely assistance to the membership at a time of evident balance of payments (BOP) need with the operational and credit risks for the Fund from raising access levels.

Approval of SLL. On April 9, the Board approved the SLL, a new renewable credit line without ex post conditionality, to expand the Fund's precautionary toolkit to help countries with very strong fundamentals and policy frameworks (the same high standard as required for the FCL) meet potential, short-term, moderate BOP needs.

Lack of consensus on a SDR allocation. The Staff made the case that the COVID-19 pandemic had led to a long-term global need to supplement reserve assets and that an SDR allocation would provide a means for a significant injection of liquidity to all members. In the end, however, the proposal for a general allocation did not garner sufficient support from major shareholders. In May 2020, staff worked on a proposal on options for reallocating existing SDRs from economies with strong external positions to member countries in need "in amounts that would mirror the outcome of a general allocation of SDRs to certain target groups." However, this proposal too failed to gain sufficient support from the Board.

Additional steps taken by Spring Meetings 2020. When the IMF's membership met virtually for the 2020 Spring Meetings in mid-April, the main elements of the IMF's response were largely in place. In addition to the scaling up of access limits on EF and the launch of the SLL,

[5] A Common Framework for Debt Treatment beyond the DSSI was launched by the G20 in November 2020.

the Fund took steps toward: (i) a revamped CCRT to provide relief on debt service owed to the Fund by the poorest member countries; (ii) developing a fundraising strategy to increase the Poverty Reduction and Growth Trust's (PRGT's) loan and subsidy resources to ensure that the Fund could continue supporting LICs during the pandemic and thereafter in the recovery phase; and (iii) a strategy to secure the lending capacity of the Fund's GRA by extending the New Arrangements to Borrow (NAB) and obtaining new bilateral borrowing agreements.

Increases in GRA and PRGT access limits. In July 2020, recognizing the continuing impact of the pandemic and to allow for a shift to UCT arrangements as many countries had already reached limits on EF, the normal annual access limit (NAAL) to GRA resources was increased from 145 percent of quota to 245 percent and the NAAL to PRGT resources from 100 percent to 150 percent. The increases allowed countries to access additional UCT financing without triggering application of the exceptional access framework—which would involve more rigorous approval procedures, monitoring and conditionality. These changes were introduced on a temporary basis through April 2021. However, the cumulative access limits were not adjusted, to leave in place the additional protections from exceptional access requirements for countries seeking high total access to IMF resources. The IMF also suspended until April 2021 the limit on the number of disbursements under the RCF within a 12-month period.

Lending options for the next phase. In the run-up to the October 2020 Bank-Fund Annual Meetings, staff's attention turned from the strategy to contain the immediate impact of the crisis to the strategy for the stabilization phase. In late September 2020, staff presented four options, which were not considered mutually exclusive, for the Board's consideration: (i) undertaking a second round of EF (i.e., lifting further RCF/RFI access limits); (ii) using flexibility under the existing lending toolkit; (iii) establishing a temporary pandemic window under the Extended Fund Facility (EFF); and (iv) establishing a temporary Pandemic Support Facility. Among these options, staff leant towards the establishment of a new temporary pandemic facility. Although many Directors—including some of the major shareholders—supported this option or the establishment of a temporary pandemic window under the EFF, in the end neither option commanded a consensus within the Board. It was agreed that the transition to the stabilization phase would be handled within the flexibility already offered by the Fund's existing financing instruments. This required two further extensions of access limits, in October 2020 and March 2021.[6]

The Fund's surcharge policy. There were active internal discussions on a potential relief of surcharges in late spring of 2020. This work was not pursued further after a critical mass of shareholders signalled in informal consultations that they were unlikely to support such an initiative. Directors noted that the surcharge policy played an important role in allowing the Fund to accumulate precautionary balances and discouraging large and prolonged use of IMF resources, while staff observed that the total cost of borrowing from the Fund during the pandemic remained low, especially in comparison to market financing. When it became clear that the impact of the COVID-19 shock would be more prolonged, a new round of internal consultations took place in mid-2021, which culminated in an informal Board meeting to engage in September and a further discussion by the Executive Board in December 2021 in the context of the interim review of precautionary balances. These meetings confirmed that the broad support (70 percent of voting power of the Board) needed to amend the policy was not forthcoming.

B. GROWTH AND INFLATION OUTLOOK

The IMF's forecasting process. The IMF's global forecasts are reported in the World Economic Outlook (WEO), issued in April and October each year, with two updates in January and July. The process is generally kicked off by a memorandum from the Research Department (RES) to country desks laying out key global assumptions—such as assumptions about growth in the major economies and the outlook for commodity prices—that country desks have to respect in making their forecasts. The forecasts eventually released in the WEO reflect an intensive and iterative process of balancing of top-down guidance and country-specific information. While forecasts

[6] In December 2021, while the higher cumulative access limits under the emergency financing instruments (EFIs) were extended for 18 months, other temporarily increased access limits were returned to their pre-pandemic levels from January 1, 2022 onwards (and in the case of the PRGT normal access limits to levels agreed in July 2021).

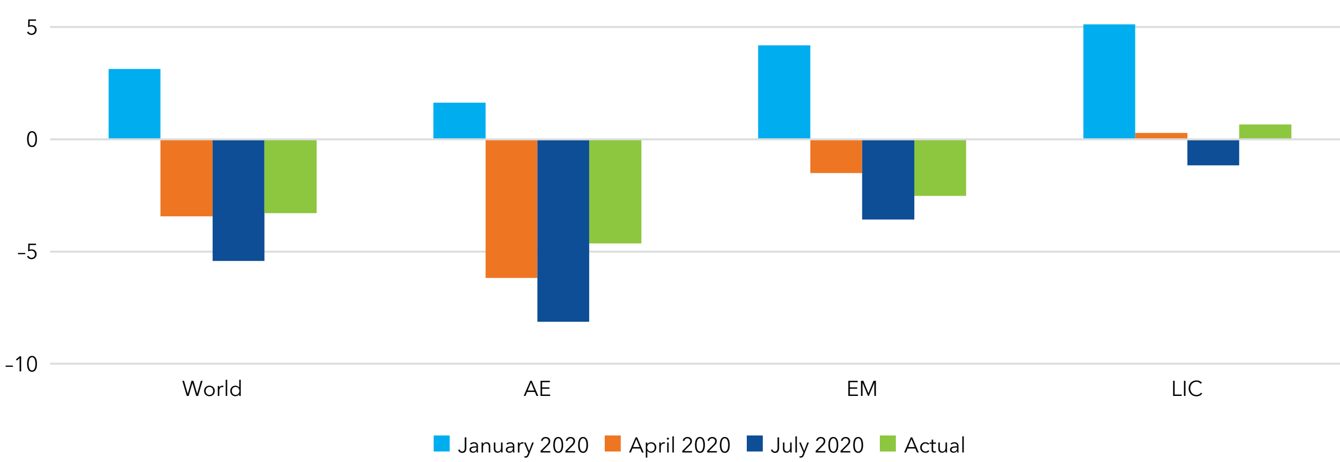
are kept under continuous review, particularly for the largest economies, and individual country forecasts can be revised at times of Article IV consultation and programs, the IMF tries to make the WEO reports the main source of public dissemination of its global forecasts.

Initial estimates of hit to global growth. The January 2020 WEO update did not mention the pandemic. But, as already indicated, by mid-February, staff had become highly concerned about the likely effects of the pandemic and country desks for the major economies were starting to consider how their baseline forecasts would need to be revised. There was also intense interest in policy and media circles on the IMF's revised assessment of the global outlook. Hence, rather than wait until the release of the April 2020 WEO, the IMF offered an initial Joint Statement with the Chair of IMFC on March 27 that global output would contract in 2020, with a subsequent G20 surveillance note estimating the decline at 3 percent.

Increased top-down guidance. In an environment where information about the spread and likely impact of the pandemic was changing almost daily, the February and March framing memorandums from RES on the Spring WEO round went beyond the typical top-down guidance. The Economic Counsellor noted that RES's views were guided by "numerous conversations" with epidemiologists and public health officials on the likely spread and duration of the epidemic. Noting that several EM country desks "appear not to have factored in … large disruptions into their projections," RES's memorandum stated that "we expect [these] desks to lower the 2020 growth forecast [relative to the pre-pandemic forecast] by no less than 5 percentage points, which is the expected revision for advanced economies." Desks were urged to consider the number of days of work lost in their countries and use that to calibrate the likely loss in GDP. While no explicit top-down guidance was provided on how the impact of lockdowns on economic activity might differ between advanced and other economies, country desks in the largest emerging market economies (EMEs) were nevertheless urged to consider substantial downward revisions to their forecasts taking account of spillover effects from the collapse in trade and supply chain disruptions.

Evolution of IMF's 2020 global growth outlook. The forecasts released in the April 2020 WEO reflected this guidance. At this time, the Fund's baseline forecast was for about a 3 percent decline in world output in 2020 (more than 6 percentage points below the January 2020 pre-pandemic baseline). In May, increasing evidence of the pandemic's impacts on the AEs led to further sharp downward revisions in growth forecasts, particularly for the G-7 economies. RES's May 2020 memorandum on global assumptions urged other country desks to similarly "consider projecting stronger hits" to economic activity in their countries. Hence, by the time of the summer 2020 WEO update—released a month earlier than normal in June in light of the fast-moving situation—the Fund was considerably more pessimistic than in April and projected nearly a 5 percent decline in world output in 2020 (Figure 2).

FIGURE 2. FORECASTS FOR GROWTH IN 2020—WORLD AND COUNTRY GROUPS



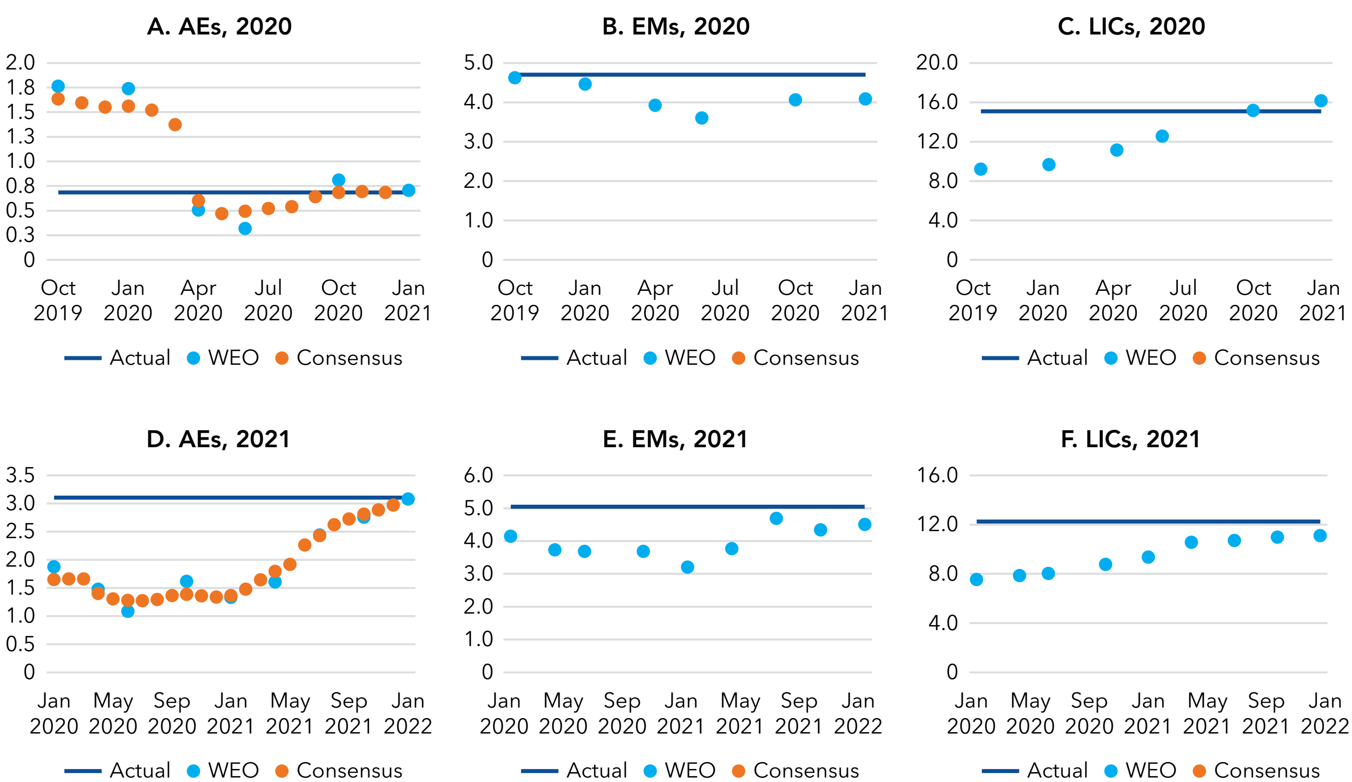
Source: Loungani and others (2023).
Note: Aggregates are constructed using GDP weights (PPP-based) for countries.

Recalibration of growth outlook. Over the coming months, however, even as the pandemic exerted a heavy death toll, its economic impact on the AEs appeared less severe and extended than initially expected. RES's guidance to country desks in preparation for the October WEO was to "assume a gradual recovery" in the third quarter of 2020 and also to assume—based again on conversations with epidemiologists and experts at the World Health Organization—that the public health response would move from stringent lockdowns to ramped-up testing and tracing, thus mitigating the impacts on economic activity. Reflecting these developments and assumptions, the IMF's October 2020 global growth forecast dialed back the pessimism expressed in June. This was driven by revisions to the forecasts for AEs, while for EMs and LICs the forecast revisions between June and October 2020 WEO were quite small (see Figure 2).

Outlook for 2021 recovery. Even in June 2020, as IMF forecasts for the year grew more pessimistic, the Fund's forecast for 2021 was that global growth would rebound to 6 percent as the economic drag from the pandemic dissipated. Subsequent editions of the WEO recalibrated this projection but the changes were small, particularly for the AE and EM country groups. For LICs, the pattern was different: forecasts for 2021 were almost steadily marked down, reflecting the greater constraints in their policy responses and in accessing effective vaccines.

Inflation forecasts. In internal notes, staff debated whether "supply breakdowns combined with large fiscal deficits and monetary financing would lead to a resurgence of inflation," despite the collapse in demand. Staff reasoned that in AEs, the impact of the demand collapse would dominate and lead to a drop in inflation rates. In contrast, in developing economies, where some countries were "witnessing sharp currency depreciations and without well-anchored inflationary expectations, inflation may spike despite the collapse in demand." Staff turned out to be broadly justified in this judgment as far as the forecasts for inflation for 2020 were concerned. Inflation fell in AEs and rose in LICs, on average by as much as staff's forecasts; inflation in EMs was not much affected on average (Figure 3, top panel).

FIGURE 3. EVOLUTION OF INFLATION FORECASTS FOR 2020 AND 2021



Source: Loungani and others (2023).

However, the inflation forecasts for 2021 turned out to be optimistic for AEs, EMs, and LICs, as the impact of supply bottlenecks combined with some recovery in demand amidst continued macro policy support brought about a widespread resurgence in inflation (Figure 3, bottom panel).

Scenario analysis. Recognizing the extreme uncertainty associated with the baseline forecasts during the pandemic, WEO reports in April 2020 and after provided extensive scenario analysis of the impact of the pandemic, almost always presented in a special "Scenario Box." For instance, even as the IMF's baseline forecast for 2020 growth grew more pessimistic, the June 2020 update discussed the upside risks from the possible "development of a safe, effective vaccine." In a similar vein, even as prospects were improving, the April 2021 WEO considered a downside scenario where supply bottlenecks in production and other logistical problems with delivering the vaccines would significantly delay reaching herd immunity.

C. POLICY ADVICE

IMF policy monitoring and advice. IMF policy advice is typically provided through Article IV consultations (which cover both bilateral and multilateral surveillance) and multilateral surveillance reports, including the WEO, the Fiscal Monitor (FM), the Global Financial Stability Report (GFSR), and inputs to the G20 process. The Fund's reprioritization to meet emergency needs meant that staff work on Article IV consultations was temporarily suspended, but Fund staff reported in interviews that they remained in close contact with country authorities to assess the pandemic's impact and provide advice (IMF, 2020). In addition, staff provided advice through a Special Series of notes on policies to address the challenges posed by the COVID-19 pandemic. These notes were greatly appreciated by country teams and authorities, though both felt that greater granularity of advice would have been welcome in some instances. The IMF also introduced widely appreciated policy trackers to share information on countries' policy choices across a wide range of countries.

Fiscal policy advice. The IMF's multilateral surveillance reports in April 2020 noted the human cost of the pandemic and urged that "government responses should be swift, concerted, and commensurate with the severity of the health crisis, with fiscal tools taking a prime role" (IMF, 2020d). Countries were encouraged to step up fiscal support spending both on necessary health interventions and in supporting vulnerable businesses and families. An accompanying blog co-authored by the Director of the IMF's Fiscal Affairs Department (FAD) stated what became an oft-cited characterization of the IMF's fiscal policy advice: "… fiscal policy is key to save lives and protect people. Governments have to do whatever it takes. But they must make sure to keep the receipts" (Gaspar, Lam, and Raissi, 2020).

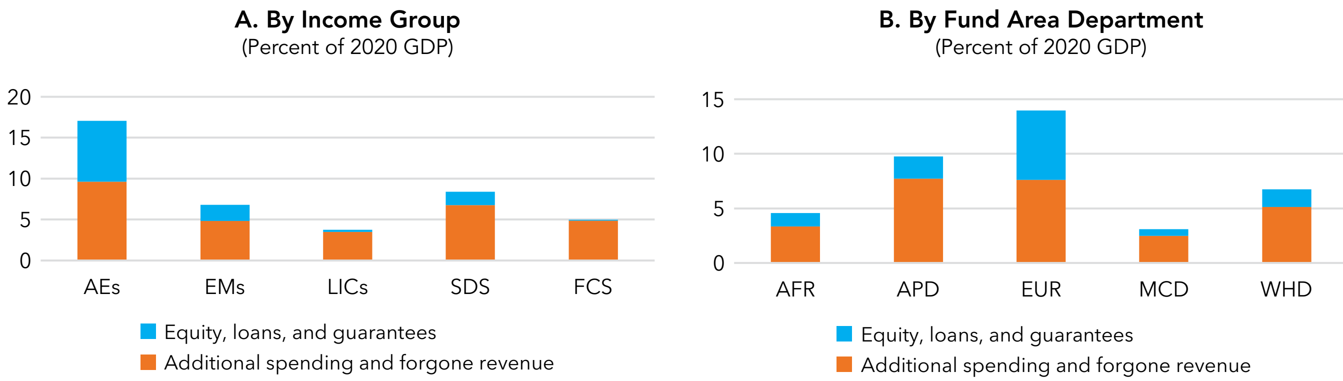
Advice for country groups. The April 2020 FM recognized that the fiscal room to do "whatever it takes" would differ across country groups, with AEs in general better placed than others (IMF, 2020d). The FM concluded that many EMs had the space to provide fiscal support, and a number of them had already announced new fiscal packages or adjusted existing fiscal programs in response to the needs of the pandemic. LICs were the most constrained in their fiscal space, and hence the FM emphasized the importance of international financial support in helping these countries carry out the Fund's policy advice. The extent of fiscal support did end up varying across country groups, with AEs providing much more ample support than other country groups (Figure 4).

Caution against premature withdrawal of fiscal support. As health, economic and inflation conditions evolved, fiscal advice in subsequent issues of the Fiscal Monitor gradually moved to advising a less expansionary stance, while cautioning against withdrawing support too quickly until recovery seemed secure. Specifically, by the time of the October 2020 FM, when economic prospects looked more promising in many countries than they had mid-year, the Fund emphasized "the importance of not pulling the plug of fiscal support too soon, in spite of the high levels of debt prevailing worldwide" (IMF, 2020k). The January 2021 FM update stated that policymakers should balance risks from large public debt "with the risks from the premature withdrawal of fiscal support, which could slow the recovery."

IMF's fiscal balance outlook. Based on its growth forecasts, the IMF expected a sharp collapse in government revenues during 2020, while there would be increased pressures on government spending, even if not all countries had the ability or willingness to go along fully with the

FIGURE 4. DISCRETIONARY FISCAL RESPONSE TO THE PANDEMIC

(In percent of 2020 GDP)



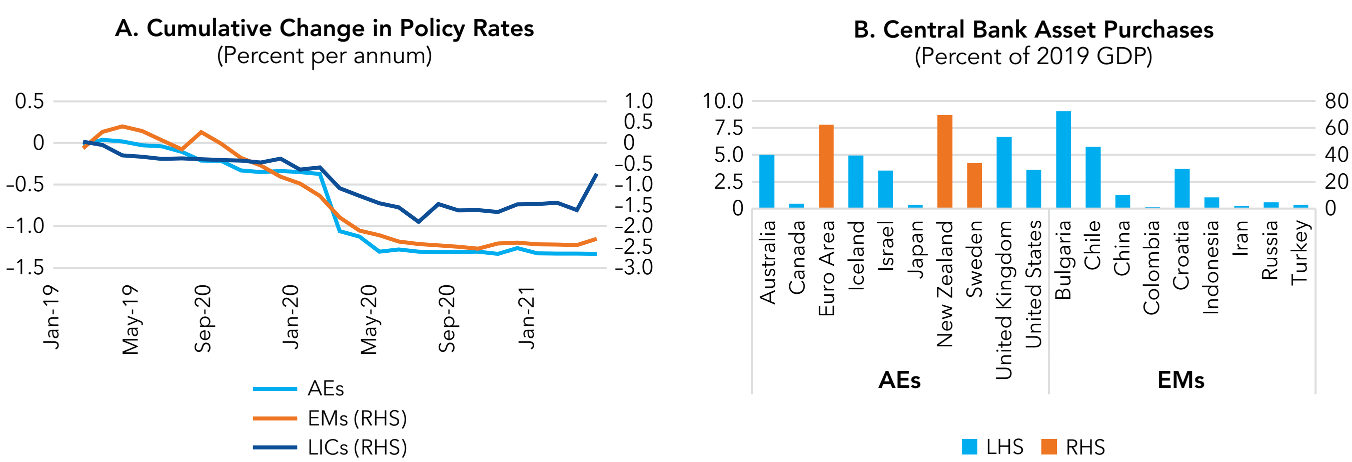
Source: Batini and Li (2023), using data from the IMF Fiscal Policies Database.
Note: Estimates are as of September 27, 2021. The fiscal measures include resources allocated or planned in response to the COVID-19 pandemic since January 2020, covering implementation in 2020–21 and beyond.

IMF's advice to spend liberally. The IMF thus forecast a sharp deterioration in fiscal balances in 2020, with greater deterioration expected where output declines were projected to be greater. As with the growth forecasts, the IMF's fiscal balance forecasts made in April 2020 were quite accurate on average, while the June 2020 forecasts reflected a pessimism that had to be dialed back over the course of the year.

Advice on monetary policies. Along with its strong recommendation for stimulative fiscal policies, the IMF also urged central banks, particularly in the AEs, to do their part to support aggregate demand in their countries, and globally, through easing of monetary policies. In internal memorandums to IMF management, and publicly in successive editions of the GFSR, Fund staff supported the steps taken by the major AE central banks to cut interest rates, implement UMPs, and extend cross-border liquidity lines to other major central banks as they had done during the GFC (Figure 5, Panel A).

Monetary policy advice to EMs. For EMs, the Fund supported policy interest rate cuts but was publicly reticent about how it viewed the use of UMPs by several central banks in these countries. By end-April 2020, about 20 EM central banks had launched or announced some form of government bond purchase program (Figure 5, Panel B), but this development was not discussed in the April 2020 GFSR (IMF, 2020e) and the June 2020 GFSR (IMF, 2020i) update only made a factual reference without offering

FIGURE 5. MONETARY POLICY RESPONSE TO THE PANDEMIC



Source: Batini and Li (2023).
Note: Announced central bank asset purchases are expressed relative to nominal GDP in 2019.

much in the way of endorsement or caution. In September 2020, a Special Series note discussed the use of UMP by EM central banks, concluding that "the balance of benefits and risks needs to be considered carefully on a country-by-country basis." The October 2020 GFSR provided an in-depth analysis of the various asset purchase programs (APPs) implemented by EMDE central banks. While giving a positive assessment to APPs in reducing market stress, the staff analysis highlighted several risks of open-ended programs, including weakened institutional credibility, distorted market dynamics, increased capital outflow pressure, and fiscal dominance.

Advice on dealing with capital outflows. The IMF's advice on dealing with the large net outflows EMDEs experienced in March 2020 was in line with the Institutional View on Capital Flows that in the face of an imminent crisis, capital flow management measures (CFMs) could be part of a broad policy package, but these measures should not substitute for warranted macroeconomic adjustment, including through exchange rate adjustments (IMF, 2020i). In an April 2020 internal note, Monetary and Capital Markets Department (MCM) staff offered more specific guidance on how, if they were needed, outflow CFMs should be designed and implemented and how to assess their cost-benefit tradeoffs. In the event, aided by actions by advanced economy central banks, capital outflow pressures eased significantly by May—only a few EMDEs resorted to outflow CFMs—and exchange rate movements were quite limited in contrast to the GFC period.

NPIs. The Fund's early analysis suggested that NPIs—though considered necessary by governments to contain the spread of the pandemic—were costly in terms of their impact on economic activity (Deb and others, 2020). Further work was carried out in an analytic chapter in the October 2020 WEO and elsewhere, which also confirmed the high economic costs of lockdowns and other NPIs but argued that "the recession was also largely driven by people voluntarily refraining from social interactions as they feared contracting the virus. Therefore, lifting lockdowns is unlikely to lead to a decisive and sustained economic boost if infections are still elevated, as voluntary social distancing will likely persist."[7] Overall, drawing on this evidence, the IMF supported the use of both mitigation and suppression measures to contain the health impact of the virus until a vaccine became broadly available.

Vaccines. With the approval of COVID-19 vaccines in AEs in early 2021, the Fund emphasized the need to ramp up vaccine production and urged global cooperation "to secure upfront financing and upfront vaccine donations" to avoid a multi-speed recovery in which many emerging markets and low-income countries fell behind (Agarwal and Gopinath, 2021). In her Global Policy Agenda for the 2021 Spring Meeting, the MD emphasized that "vaccine policy is economic policy," noting that the returns to vaccination far exceeded the costs.

D. ASSESSMENT

Strategy

Credit for bold strategic decisions. The Fund deserves great credit for recognizing early the potential scale and likely speed of the economic fallout from the pandemic and formulating an effective approach for providing rapid financial support to the broad range of countries affected by an unprecedented global shock. It quickly consulted with and brought on board the views of epidemiologists and other health experts and re-calibrated its emergency financing instruments to respond quickly to the needs of its member countries. As evidence of the continuing effects of the pandemic became clearer, the Fund considered the need for further reforms of its financing instruments (including a new pandemic facility)—some eventually supported by the Board, others not. Staff also deserve credit for making the case for an SDR allocation in 2020 and working on proposals for reallocation of existing SDRs. Though not successful that year, these efforts laid the basis for proposals that were successfully advanced the following year.

Recognizing some shortcomings and tradeoffs. With the benefit of hindsight, the expedited process for formulating and putting in place the pandemic response strategy inevitably involved some shortcomings and tradeoffs. Specifically: (i) staff's outreach to the full Board in the early days of the pandemic could have been more extensive;

[7] See "The Great Lockdown: Dissecting the Economic Effects," Chapter 2 in the October 2020 WEO, and the associated blog by Grigoli and Sandri (2020). Regional Economic Outlook (REO) reports by the Asia and Pacific Department (APD) and European Department (EUR) also tried to estimate the effect of NPIs on public health and economic activity.

(ii) the balance of risks from the chosen strategy could have been analyzed in greater depth and received more emphasis at the outset; and (iii) more could have been done to forge a strategic understanding with the World Bank on the approach to the provision of financing. Moreover, some of the initiatives had little practical impact—such as the introduction of the SLL, as demand for this instrument was likely dampened considerably by quick actions from major central banks to offer liquidity support through swap lines.

Consultations with the Executive Board. Our interviews with EDs and their advisors who were in office during 2020 indicate that most of them—and even some among the largest shareholders—felt less than adequately informed of the Fund's evolving views on the outlook and the Fund's strategic thinking in the initial months of the pandemic. Senior Fund officials indicated the need for the Fund to move boldly in extraordinary circumstances even if this did not allow for the usual extensive consultations. Nevertheless, an opportunity for formal consultation of the Board during February on the range of options for Fund assistance to countries would have been helpful in ascertaining the views of the full membership. While this may not have materially changed the actions the Fund ended up taking, an early discussion of the risks involved in the Fund's recourse to extensive use of EF and an early polling of the Board's appetite for innovations such as a new pandemic facility would have been desirable from a governance perspective.

Discussion of financial and enterprise risks. Reflecting the very rapid pace of decision-making in the early days of the pandemic, the discussion of financial and enterprise risks in the Board documents proposing key changes in policy, such as the doubling of the EF ceilings, was quite limited. Attention was largely focused on concerns related to the adequacy of the PRGT's lending and subsidy resources, which fed into major fund-raising efforts starting at the 2020 Spring meetings. While there was some recognition of operational and credit risks, these were judged to be outweighed by considerations of the strategic and reputational risks if the Fund did not move very quickly to help countries. There was increasing analysis and concerns related to such risks over time, as the ORM's mid-year risk update in June 2020 and ORM's full risk report and FIN's paper on the adequacy of precautionary balances in November 2020 appropriately raised concerns about escalating financial risks related to the surge in lending related to the pandemic and concerns about the possible misuse of the Fund's resources. However, some key sources of risk and related implications for credit exposure and capacity to repay, arising in particular for the PRGT—such as the rising share of borrowing through emergency facilities rather than UCT programs and the rising share of credits to countries with a high risk of debt distress—were still not examined in depth.

Partnership with the Bank on COVID issues. The Fund and Bank worked well together in pressing for official debt relief and multilateral vaccination support initiatives. However, interviewees from both Fund and Bank noted that strategic differences in the approaches for providing financial support across the two institutions affected the coherence of cooperation at the country level in some cases. The Fund generally emphasized disbursing rapidly through its emergency facilities to meet urgent needs while the Bank's continued reliance on lending largely through its policy-related instruments allowed for more concern for particular country policies but sometimes resulted in considerably slower disbursements (Ocampo and others, 2023). In other cases, the Bank provided financing when the Fund did not, reflecting greater flexibility in providing humanitarian aid. These issues are discussed further in Section IV.B.

SDR allocation. Turning now to initiatives that failed to come to quick fruition, our interviews indicate appreciation for management and staff's attempts to try to move the political constraints blocking an SDR allocation in 2020, and recognition that this was eventually a matter out of their control. Some observers felt that the Fund could have done more to analyze and publicize the costs to LICs in terms of lives and livelihoods from the failure to agree to an allocation, but they agree that this is unlikely to have changed the outcome. The pivot to agreeing on a large SDR allocation in the summer of 2021 presumably benefited from the earlier work on this topic—although this decision lies outside our evaluation period.

Pandemic facility. In July 2020, Fisher and Mazarei (2020) suggested that the IMF launch a new pandemic facility, particularly to help EMEs deal with the lingering effects of the COVID-19 pandemic (including possible debt restructurings). They argued that the pandemic-induced fiscal and BOP needs are different from those addressed by standard Fund programs since "at this point [programs] should place less emphasis on adjustment than would be the case with the Fund's more traditional lending instruments." Building on their internal deliberations, staff did put forward a proposal along these lines in September 2020. In hindsight, staff could have been more open to the idea of a new facility and window in their design of the initial strategy in February 2020 and early consultation of the Board on this option might have yielded a different outcome. That said, it is certainly the case that reaching quick agreement on a new facility or window would have been highly challenging.

Precautionary facilities. The use of the Fund's precautionary facilities did expand during the pandemic but the number of countries involved was still very small and largely confined to Latin America. The new FCL arrangements for Chile and Peru doubled the number of such arrangements during 2020, Colombia drew on parts of its FCL, and Morocco drew the full amount under its PLL. But there was no take-up of the SLL (until Chile in May 2022); in the end, staff's skepticism in internal discussions about take-up proved more accurate than the hope expressed at the time of Board approval of the SLL that commitments could amount to nearly $60 billion. Interviews with the Board and outside experts suggest that while considerations of stigma still held back some countries from approaching the Fund, other factors were also at play in dampening the demand for the Fund's precautionary facilities. The main factor was the prompt actions by the Fed, ECB, and other central banks in easing monetary conditions and providing swap lines to ease liquidity concerns in EMEs. These actions allowed for a quick reversal in EM capital flows by mid-2020, without which countries might have faced significant financing gaps. Further support for this line of reasoning comes from the fact that countries' recourse to regional financing arrangements (where stigma is presumably less of a concern) was also limited and that a short-term credit line set up by the European Stability Mechanism saw no take-up. Nonetheless, a number of observers have mentioned that certain features of the SLL, in particular the restriction of access to 145 percent of quota while still requiring an FCL-standard policy framework, likely made it unattractive to countries, and hence it is not at all clear that demand would have materialized even absent actions by the major central banks to stabilize international financial conditions.

Longer-term consequences of short-term focus. The Fund's focus on addressing the short-term financing needs of members necessarily introduced longer-term risks that are illustrated by the relatively slow transition from EF to UCT, concerns about the build-up of debt, and the depletion of the IMF's concessional resources despite major fundraising efforts in the context of donor fatigue. Section III discusses some of these risks but it remains too early to do a full assessment of this trade-off.

Growth and Inflation Outlook

Overview. All considered, the Fund did well in adapting the process for formulating its global and country growth forecasts to meet the challenges of the pandemic.

- Increased top-down guidance. There was increased reliance on top-down guidance to take on board an institutional view of the likely economic damage from the pandemic. Interviews with several country desks and a large majority of staff survey respondents suggest that they welcomed this guidance as there was scant country-specific information, at a time when there were no reported cases of COVID-19 in many countries, that could be bought to bear on assessing the likely impacts. We do not find evidence that the top-down guidance implied systematic errors across different types of countries.

- Pessimism in growth forecasts. The IMF's April 2020 forecasts for global growth, which reflected the top-down guidance, turned out to be close to the eventual outcomes. The further downward revisions in Fund forecasts in June 2020 turned out to be too pessimistic but they appear to represent the staff's best attempt to reflect its information and views at the time rather than an attempt to make a deliberately dire assessment of the outlook. The Fund's forecasts were broadly comparable to those of the private sector *Consensus Forecast* (which compiles individual forecasts for many larger countries largely from private sector institutions) and the World Bank, albeit noticeably more pessimistic in June 2020. Admittedly, there were some large forecast errors for the "top ten" economies; the direction of the errors was similar to the Consensus. Forecast errors were indeed large for Brazil, which complained publicly about the pessimism in Fund forecasts, but the Consensus also was pessimistic about growth in Brazil. And the Fund made substantial forecast errors on growth not only for Brazil but for France, Germany, Russia, and the United States.

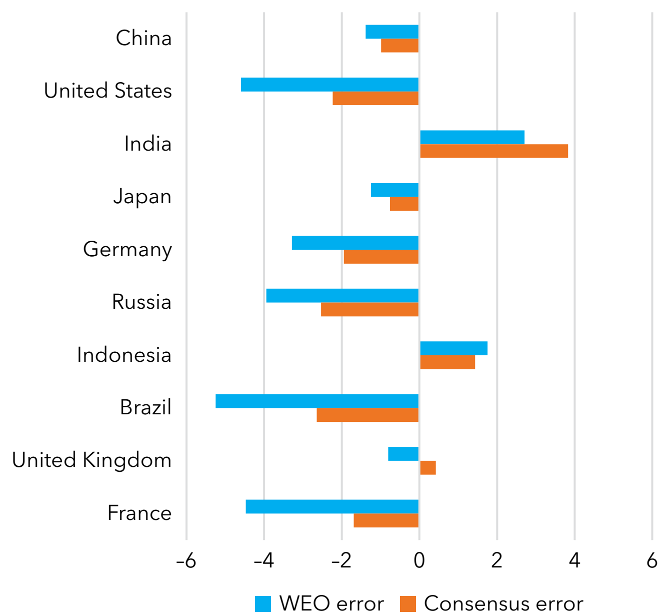
- Missing the 2021 surge in inflation. The IMF's judgment that weaknesses in demand would keep inflation low in 2020 despite supply bottlenecks turned out to be correct. But sticking to this judgment in the face of recovering demand and the growing impacts of supply disruptions led the Fund—along with major central banks—to miss the 2021 surge in inflation.

Pattern of forecast revisions. In past recessions, both IMF forecasts and Consensus Forecasts——have been slow in adjusting toward the eventual outcome after a shock. In contrast, during the 2020 recession, the IMF's forecasts were jagged, overshooting the outcome in June 2020 and then backtracking. It is actually the latter behavior that reflects an efficient forecasting process, whereas smooth revisions in forecasts would imply that forecasters are not incorporating all the news into their forecasts in a timely manner (IEO, 2014a).

Comparison with outcomes and other sources. Prior to the onset of the pandemic, the IMF and the Consensus had virtually identical expectations for global growth in 2020. In April 2020, both sources revised down their forecasts sharply, with the IMF noticeably more pessimistic. In June 2020 as well, the IMF was more pessimistic than the Consensus, but both sources overshot the eventual outcome and then backtracked. This pattern largely reflects the forecasts for AEs. For EMs, differences between the Fund, World Bank and the Consensus were small, though the Fund was more pessimistic than the Consensus and the Bank; for LICs, the Fund was more pessimistic than the Bank in June 2020.

Comparison of the 10 largest economies. The behavior of the global growth and AE and EM aggregates is driven in large part by forecasts for the 10 economies with the biggest weights in the aggregates. In all cases but one (India), the magnitude of the forecast error was greater for the WEO than for the Consensus (Figure 6). And it is striking that in all but one case (UK) the direction of the error was similar in the two sources. This similarity suggests that both IMF and private sector forecasters were reflecting the information available at the time about the pandemic's spread and likely impact, the spillovers from the collapse of trade and disruption of global supply chains, and conjectures about the impact of interventions such as lockdowns on economic activity. The IMF's increased recourse to top-down guidance may have affected somewhat the magnitude of the error but is unlikely to have been the dominant factor leading to what turned out to be pessimistic forecasts. Further evidence that top-down guidance is unlikely to have led to a systematic bias toward pessimism comes from looking at the distribution of forecast errors for all countries. This distribution (based on the June 2020 forecasts) is fairly symmetric—there are numerous countries for which the IMF forecast turned out to be too optimistic. Unlike in the past, when the Fund's forecasts have been subject to a growth optimism bias for countries with Fund-supported programs, there was also no evidence that forecast errors were larger for countries that received Fund financing.

FIGURE 6. FORECAST ERRORS FOR REAL GDP GROWTH IN 2020: 10 LARGEST ECONOMIES



Source: Loungani and others (2023).

Missing the inflation upsurge. In formulating its inflation forecasts, staff considered the relative strengths of the impacts of demand collapses and supply bottlenecks. Their judgment led to fairly accurate forecasts on average for all country groups for 2020 inflation. However, the Fund's Spring 2021 inflation forecasts turned out to miss the upsurge in inflation that got underway in 2021, as staff, in line with major central banks and the private sector Consensus, underestimated the strength of the recovery of demand relative to persistent strains in supply, even though some prominent commentators had begun to ring alarm bells by February 2021 (for example, Blanchard, 2021; Summers, 2021). Though the forecast miss can be explained as a judgment call that ended up off the mark, with hindsight it seems to represent another instance of Fund deference to conventional wisdom among major central banks (see IEO (2011 for concerns about groupthink at the Fund ahead of the Global Financial Crisis (GFC))).

Highlighting scenario analysis. The attention to scenario analysis in the WEO has grown over time, partly in response to the recommendations of a 2014 IEO evaluation of IMF forecasting (IEO, 2014a). The consistent discussion of scenarios in the WEO during the pandemic is welcome, and the scenarios were chosen to match well the uncertainties present at the conjuncture. The inclusion of this analysis in briefings prepared for the G20 usefully reminded policymakers of possible outcomes and the need to be ready to recalibrate policies if the baseline scenario did not unfold. More could have been done to also highlight this analysis in the Executive Summary of the WEO and in the Chief Economist's opening remarks at the press conference launching the WEO, since these are the primary sources through which the WEO's messages are disseminated to broader audiences. If scenario analysis and risks for forecasts were more prominent, it would have encouraged questions and media coverage would also turn in that direction.[8] The IMF's scenario analysis would also benefit from better ways of visualizing potential outcomes to communicate the results more transparently.

Policy Advice

Well-founded advice at a time of maximum stress. Fund staff deserve great credit for continuing to produce high-quality multilateral surveillance reports that provided member countries and the international community with comprehensive and coherent narratives on economic and financial developments. The Fund appropriately decided that strong fiscal support from governments was the key policy response needed to save lives and maintain livelihoods. The advice was arrived at after adequate internal discussions and once agreed on was communicated clearly to country authorities and the broader policy community. The Fund's COVID policy tracker and "How-To" notes were much appreciated by country teams and authorities, particularly at a time of high uncertainty and limited opportunities for in-person meetings, although in interviews with the IEO some suggested that the content of some notes could have been more granular to increase value added. Staff attributes the tracker's success to verification of the data by Fund experts (including classification of measures above or below the line) and frequent updating—the tracker was updated on a quarterly basis until October 2021.

Assessing the process for formulating fiscal policy advice. Judging the eventual costs and benefits of the IMF's fiscal policy advice will require balancing short-term and longer-term consequences, which is beyond the scope of this evaluation. However, some early reflections can be offered on the Fund's processes for formulating and offering advice and the extent to which the Fund attempted to correct past deficiencies in its advice.

- "Do what it takes …": The Fund deserves praise for quickly formulating its policy advice in the April 2020 FM after sufficient internal discussion of the costs and benefits of alternative policies. Departmental comments on the draft FM show that staff were well aware of the medium-term risks for public debt sustainability of advocating a policy of "do what it takes" but felt that the humanitarian and economic needs of the moment

[8] In opening remarks launching the July 2022 WEO update, the Economic Counsellor stressed the importance of paying attention to an alternate scenario, prompting questions from the media on the likelihood of that scenario unfolding and how policies would need to be adapted in that event.

were paramount. While the headline message was to do "whatever it takes," the Fund also emphasized that spending should be targeted and temporary to avoid a build-up of fiscal risks.

- "… but keep the receipts": The Fund correctly urged countries to monitor carefully where the spending was ending up. While this was always part of the Fund's corporate message on fiscal policy, its implementation at the country level in IMF programs got off to a slow start. As discussed further in Section III, the guidance became more granular and was strengthened over time as some on the IMF's Executive Board and some CSOs raised concerns about the potential misuse of government funds. In hindsight, a quicker incorporation of the corporate message into country level financing discussions would have been desirable.

External views on IMF fiscal policy advice. In our interviews with country officials, there was general praise that the IMF had rapidly adapted its advice to the needs of the pandemic. Some country authorities, however, found the IMF's advice to "do what it takes but keep the receipts" as not sufficiently nuanced to their fiscal situations, particularly as they felt that the first part of the message ended up receiving greater attention in political circles than the second. The IMF's advice may thus have sometimes encouraged fiscal support that went beyond what could be readily absorbed in countries with inadequate frameworks for fiscal discipline and governance safeguards over public spending. CSOs were supportive of the Fund's general exhortation to spend, but they too felt that inadequate attention was being paid to the processes for "keeping the receipts." CSOs also argued that the IMF's advice to spend was not adequately reflected in the IMF's country level advice.

Premature withdrawal: The Fund's caution against premature withdrawal of fiscal support, which was a theme of the October 2020 FM and April 2021 FM update, was a recognition of the scale and unique nature of the pandemic shock. But it also appears to have been partly motivated by a desire to avoid the post-GFC experience, when many countries turned toward fiscal consolidation in 2010 based on a G20 commitment for consolidation built on forecasts of recovery that proved too optimistic. The IEO's 2014 evaluation of the IMF's response to the GFC (IEO, 2014b) was critical of the Fund's support for this premature turnaround in fiscal stance. Public interviews given by the MD and FAD Director suggest that avoiding a repeat of the post-GFC experience was on the minds of management and senior staff. As with the formulation of the initial fiscal policy advice, there was active departmental review of this position and some divergence in views on how strongly it should be pushed.

Assessment of formulation of monetary policy advice for emerging markets: Fund staff moved quickly to lend support to the actions of major advanced economy central banks to ease policies through interest rate cuts and UMPs. In contrast, interactions with EM central banks which were contemplating or launching asset purchase programs were far more limited. MCM senior staff noted that while there were active discussions within the department on the issue, there was a lack of consensus. Some staff were sympathetic to the notion that EM central banks had to support their economies through unconventional means given the gravity of the situation while others were concerned about the risks to inflation and financial stability from such policies in environments where inflation expectations were less well-anchored and central bank independence not fully secured. Some EM country teams where such policies were being announced did approach and receive tailored guidance from MCM staff on the risks and benefits of asset purchase programs, and these policies were also discussed during meetings of the Monetary Policy Advisory Group, an internal group set up in response to recommendations of the IEO's 2019 evaluation of *IMF Advice on Unconventional Monetary Policies* (IEO, 2019). However, these discussions remained largely out of the public eye, and interviews with some market participants and monetary policy experts suggest that the Fund could have weighed in more quickly and openly on an important new policy development. They felt that, as in the case of the use of negative interest rates during the GFC, the IMF's first public judgments on the use of unconventional monetary policies by EMs came too long after countries had already taken these steps. Moreover, where advice was given, it largely emphasized the long-run risks associated with UMP measures—which observers felt were self-evident to the central banks taking these actions.

Assessment of formulation of advice on dealing with capital flows: The IMF was careful to provide advice on dealing with capital flows that was aligned with the Institutional View (IV). At the same time, it was prepared to provide granular advice on capital outflow measures which extended the quite limited guidance provided in the IV (IEO, 2020). While appropriately refraining from public discussion of the need for outflow controls when EMDEs were facing massive outflows in March and April 2020, internally Fund staff offered both general guidance and country-specific advice on the use of outflow CFMs should they turn out to be needed. In an April 2020 presentation, MCM staff answered questions from area department staff—many from countries facing outflows—on how effective CFMs would likely prove in their particular country circumstances. MCM staff also report having confidential discussions with a few country authorities on the efficacy of outflow CFMs in their particular circumstances.

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

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

A. FRAMEWORK FOR FUND EMERGENCY FINANCING

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

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

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

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

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

- First, staff have to judge the country to be eligible for EF by establishing an urgent BOP need and finding that the country is either unable to implement a UCT program or faces only a short-term external imbalance and does not require adjustment policies. These requirements are intended to avoid "facility shopping" by countries—i.e. requesting the Fund resources with the least policy conditionality attached.
- Second, although there is no ex-post conditionality, RFI and RCF requests require a letter of intent (LOI) from the authorities indicating: (i) the general policies that they plan to pursue to address their BOP needs; (ii) a commitment not to introduce or intensify exchange and trade restrictions; (iii) a willingness to undergo a safeguards assessment by Fund staff; (iv) a commitment to provide Fund staff with access to its central bank's most recently completed external audit reports; and (v) an authorization for the central bank's external auditors to hold discussions with Fund staff.
- Third, the MD may ask for prior actions (PAs) where it is critical that macroeconomic or governance measures be taken upfront, for instance to help ensure that the financing is used for intended purposes and provide a source of protection to the Fund's own balance sheet.
- Fourth, as in other forms of Fund financing, it has to be assessed that the country has adequate capacity to repay the Fund and a debt sustainability analysis (DSA) needs to demonstrate that the Fund is not lending into an unsustainable situation.
- Last but not least, annual and cumulative access limits on how much EF the Fund can provide also serve to limit the risk to the Fund. Additional use of Fund resources would require a UCT arrangement.

B. FUND FINANCING DURING THE PANDEMIC

Scale, Type, Speed, and Access Levels

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

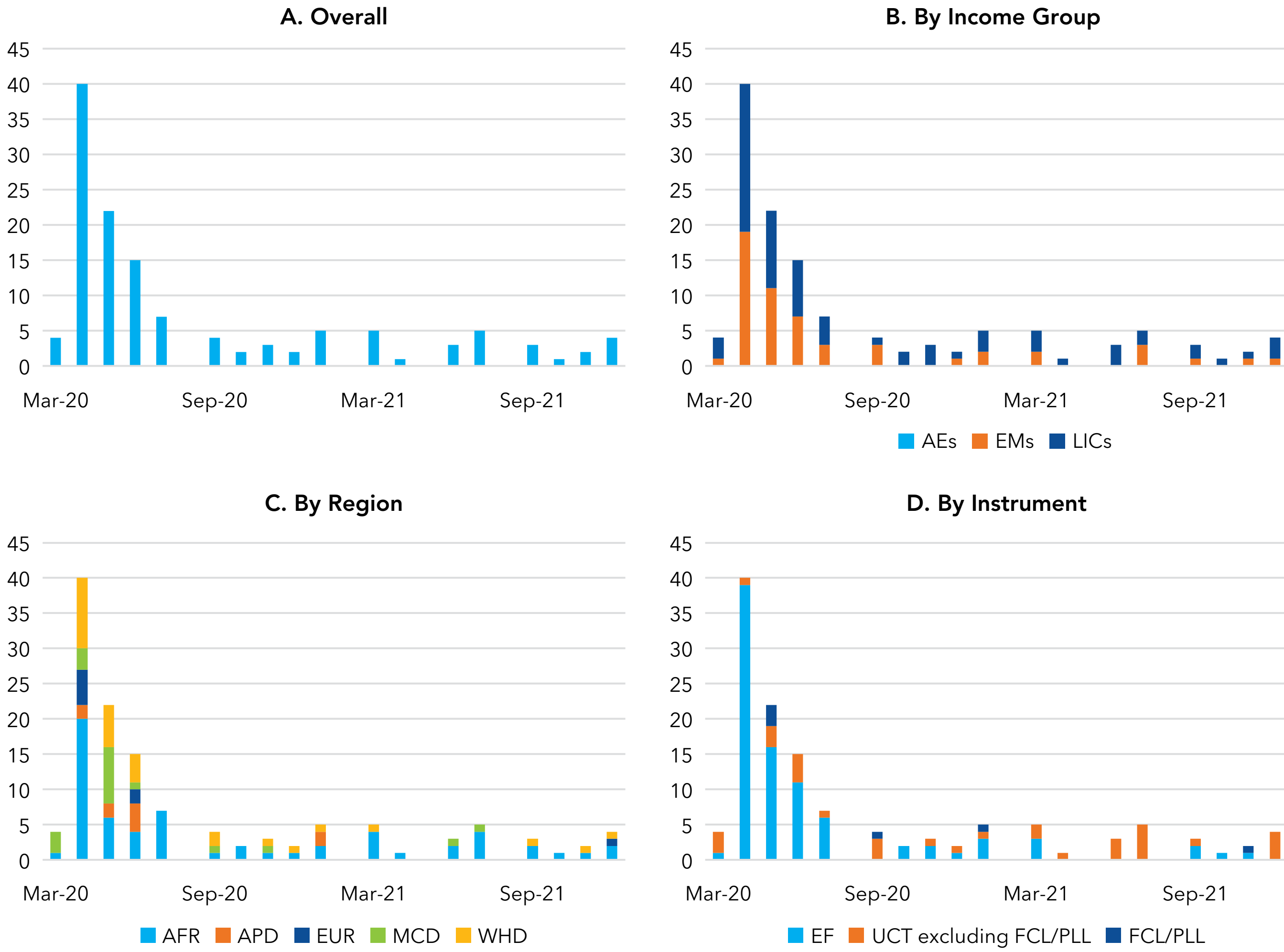
Scale and type. From March 2020 to December 2021, the Fund approved commitments for US$160 billion for COVID-19-related financial assistance.[11] Of this amount, US$29 billion was in the form of EF, US$30 billion in new UCT arrangements (plus US$3 billion in augmentation of existing UCT arrangements), while precautionary arrangements made up the remaining US$98 billion (around 60 percent of the total). In terms of the number of new financial commitments, the Fund approved 128 COVID-19-related financial commitments by end-2021, of which 88 were EF.

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

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

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

FIGURE 7. NUMBER OF APPROVALS OF USE OF FUND RESOURCES BY INCOME GROUP, REGION, AND TYPE



Sources: IMF; IEO calculations.

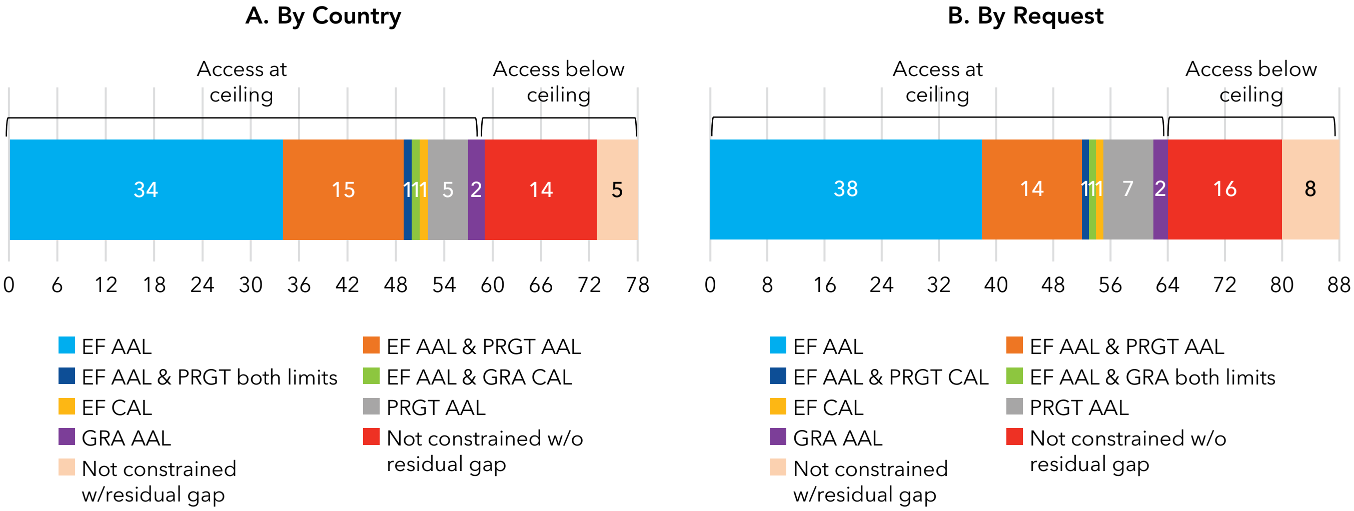
Access limits. Access limits on Fund financing—both EF and UCT—were raised several times over the course of the pandemic as described earlier.[12] In the case of EF, 56 out of the 78 countries receiving assistance exhausted the maximum amount of EF available under the various access limits at the time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

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

Countries that did not access Fund financing. Notwithstanding the breadth of Fund lending during the pandemic, many countries did not access IMF financing.

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

FIGURE 8. ACCESS LIMITS AND ACCESS LEVELS



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

Among the 57 EMDEs that did not obtain IMF financing during 2020–21, the main explanatory reason (about three-quarters of cases), according to interviews with senior area department staff, was lack of demand related to the countries' ability to borrow from international capital markets or obtain alternative official (bilateral and multilateral) resources (Figure 9). Large EMs, such as Brazil, China, India, Indonesia, and Russia, were in this group. The lack of access in the other cases reflected a variety of reasons, including policy/governance concerns (Belarus, Iran, Libya, Mauritius, Venezuela, Yemen) and concerns about debt sustainability (Antigua and Barbuda, Argentina, Republic of Congo, Eritrea, Lebanon, San Marino, Sri Lanka, Zambia, Zimbabwe).

Qualification Criteria and Letters of Intent

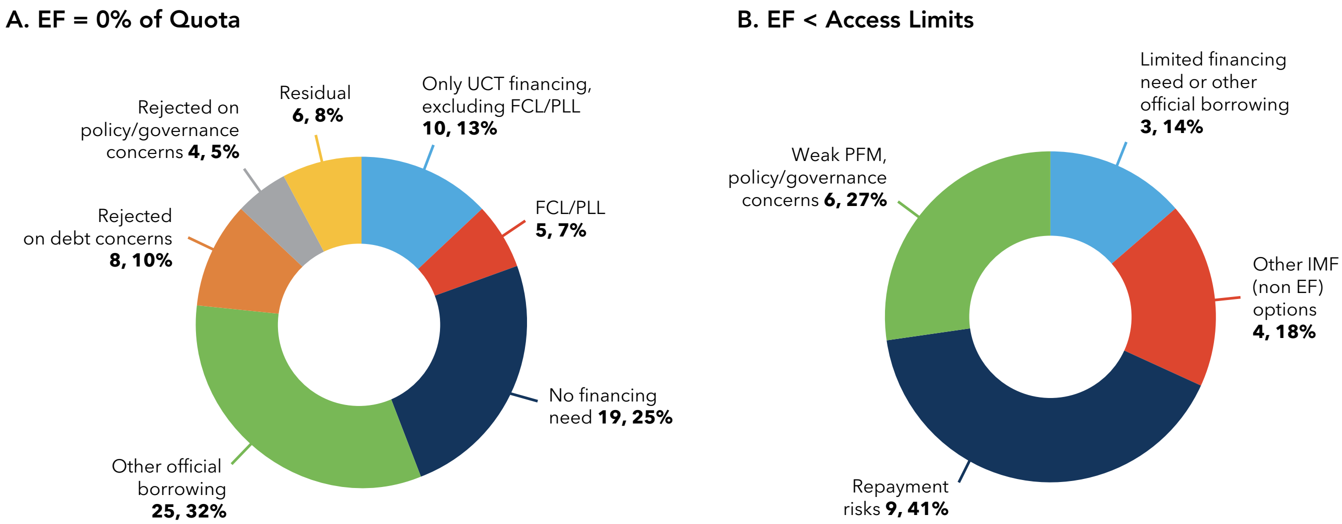
Qualification criteria during the pandemic. Each of the 88 staff reports for RCF or RFI assistance provided information to demonstrate that the country requesting EF faced an urgent BOP need which would be disruptive if not addressed. In 68 cases (nearly 80 percent of total requests), staff stated that the country lacked the ability to implement a UCT-quality program owing to their urgent BOP need, although several staff reports mentioned other factors that also limited policy implementation capacity (for example, due to political or security issues). In 10 cases (12 percent of total requests), staff stated explicitly that they expected the BOP need to be resolved within 12 months without any major policy adjustments being necessary, but often with limited discussion of the reasons for this judgment.[13]

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

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

FIGURE 9. REASONS FOR LACK OF ACCESS OR PARTIAL ACCESS

(Number of countries; percent share of all reasons)



Sources: Staff interviews; IEO calculations.

Prior Actions: Use and Rationale

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

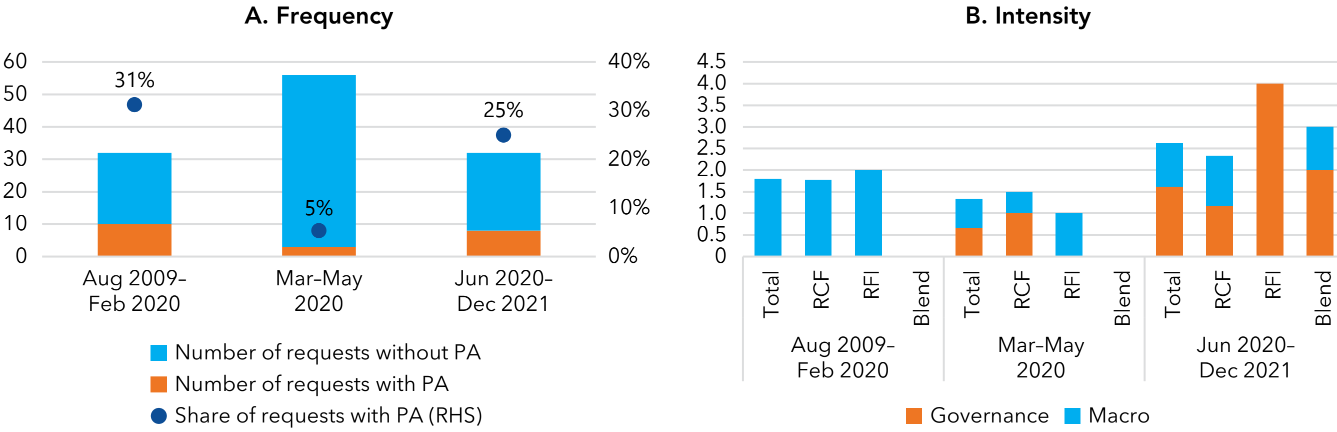
Frequency and intensity of PAs. Compared to previous years, PAs were used less frequently during the pandemic, particularly for requests approved before June 2020. Only 5 percent of these requests included PAs compared to 30 percent before the pandemic. The intensity (the number of PAs per request) was also initially lower, with an average of 1.3 PAs for requests approved before June 2020 compared to 1.8 before the pandemic. From June 2020 onwards, however, resort to PAs became more frequent, with 25 percent of requests including PAs, and the intensity of PAs increased to higher than in the pre-pandemic period, with on average 3 PAs per requests (Figure 10).[14] Interviews with staff suggested that the pattern reflected a desire to move EF requests quickly, unless there were serious concerns, which then required a longer period of negotiation to resolve through PAs. The same pattern persists when the sample is split by RFI, RCF, and RFI-RCF.

Rationale for PAs. The nature of PAs also differed compared to the pre-pandemic period. Before the pandemic, the main economic rationale for PAs was "macro" in nature, for instance, to control spending commitments or strengthen the external position (see Figure 10; Panel B). In contrast, more than half of PAs during the pandemic were related to governance safeguards to reduce the risks that EF was misused.[15] Six of the PAs in the evaluation period pertained to commitments that had not been implemented in a pre-existing UCT-supported program but many of these actions were also related to addressing governance and transparency issues.

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

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

FIGURE 10. PRIOR ACTIONS IN EMERGENCY FINANCING REQUESTS



Source: Kincaid, Cohen-Setton, and Li (2023).

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

Debt Sustainability Assessments

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

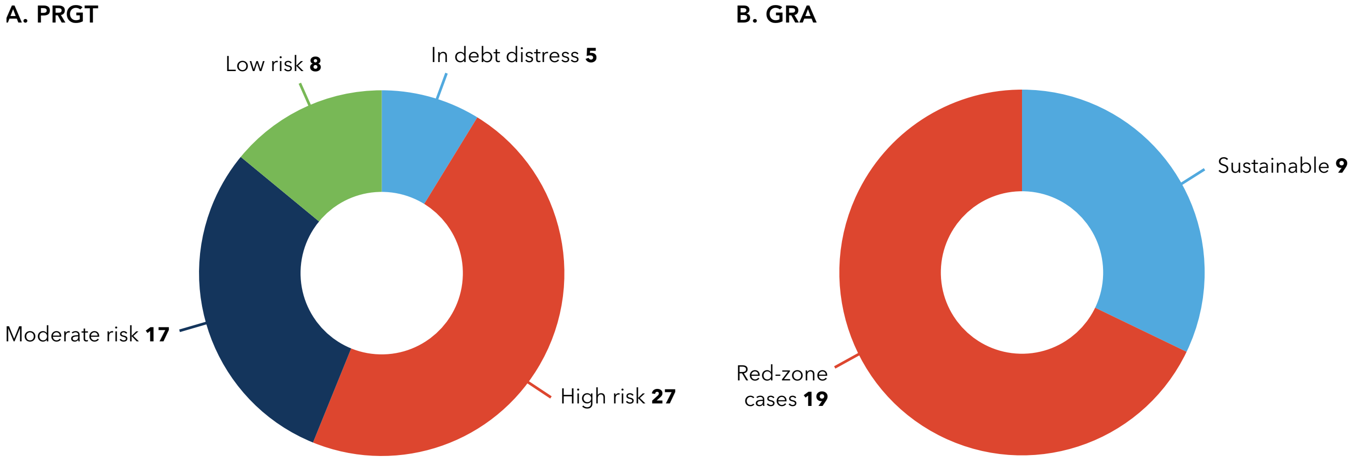
Debt sustainability judgments. While debt was judged to be sustainable for most countries requesting EF, staff flagged the high risks involved in both PRGT and GRA lending to highly indebted countries (Figure 11). All RCF requests (including those joint with RFI) from LICs provided a joint Bank-Fund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

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

Lack of access due to debt concerns. There were eight cases where countries were unable to access EF due to concerns about debt sustainability. For example, at the conclusion of the 2020 Article IV consultation, Zimbabwe's debt was deemed unsustainable due, in part, to the lack of modalities and financing to clear arrears and to undertake reforms. Lackluster program performance under the 2019 Staff Monitored Program seems to have played a role as well. Zambia was also deemed to be on an unsustainable debt path, after a staff visit in November 2019, owing to past weaknesses in economic governance and public financial management.[16]

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

FIGURE 11. DEBT SUSTAINABILITY FOR EMERGENCY FINANCING BORROWERS
(Number of countries)



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

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

C. GOVERNANCE SAFEGUARDS

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

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

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

in 2018 (IMF, 2018). This report contained a matrix with a country-by-country description of the commitments made by country authorities on governance measures pertaining to crisis-related spending. This matrix was made publicly available on the IMF's website, and has since been updated regularly.

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

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

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

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

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

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

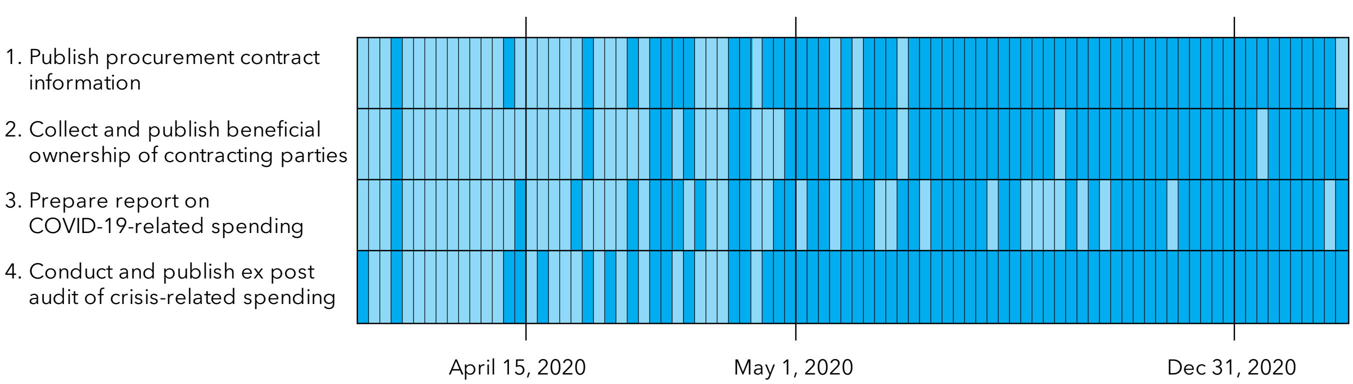
By mid-May 2020, most EF requests included all four governance commitments (Figure 12), with commitments made more often in RCF and blend RCF/RFI requests than in RFI requests. The most common commitment was to undertake an independent audit, which was undertaken in 80 percent of RCF (or blended) cases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

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

D. INTERACTION BETWEEN EMERGENCY FINANCING AND UPPER CREDIT TRANCHE FINANCING

Overview. An issue raised by some observers is that by providing EF on easy terms with no ex-post conditionality, the Fund allowed countries to "shop among facilities" and postpone needed adjustment that would have been required by a UCT-quality program. It is hardly surprising that the doubling of the annual EF ceilings induced more members to use EF instruments than to use UCT arrangements as the former are more

FIGURE 12. GOVERNANCE COMMITMENTS IN EMERGENCY FINANCING LETTERS OF INTENT



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

conducive to rapid deployment in a crisis by their design. As to the interaction between EF instruments and traditional Fund arrangements, the evidence provides a mixed picture. To sum up the evidence before getting into the complicated details:

- For members whose existing UCT arrangements had a remaining duration longer than three months, EF assistance was often followed by subsequent UCT purchases. In contrast, for members whose UCT arrangements were near expiration (less than three months remaining), EF appears to have frequently substituted for a follow-up UCT arrangement.
- Only about one-quarter of countries that used EF, and where the BOP need was not expected to resolve itself within 12 months without any major policy adjustments being necessary, subsequently had an UCT arrangement. Only one country that was judged to have only a short-term BOP need subsequently had a UCT arrangement.
- That said, the total number of countries with (non-precautionary) UCT arrangements at end-September 2022 (32 countries) was virtually the same as two years earlier (33 countries). Hence, at least in the aggregate, EF did not act as either an "on ramp" (transitioning to UCT arrangements) or an "off ramp" (discouraging subsequent use of UCT arrangements).

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

- Among the 10 countries with UCT arrangements that were scheduled to expire in the early months of the pandemic (by end-June 2020), all but one (Sri Lanka) received EF and only one (Jordan) obtained a new UCT arrangement. For these members, rapid EF by the Fund may have substituted for a new Fund UCT arrangement.
- Among the 21 members with existing UCT arrangements that extended beyond June 2020, the experience was somewhat different. Fifteen of these members were also granted RCF/RFI assistance, of which 11 members made at least one subsequent purchase under a UCT arrangement by December 2021. This suggests that the use of EF did not undermine a country's subsequent implementation of its UCT program in nearly three-quarters of the relevant cases.

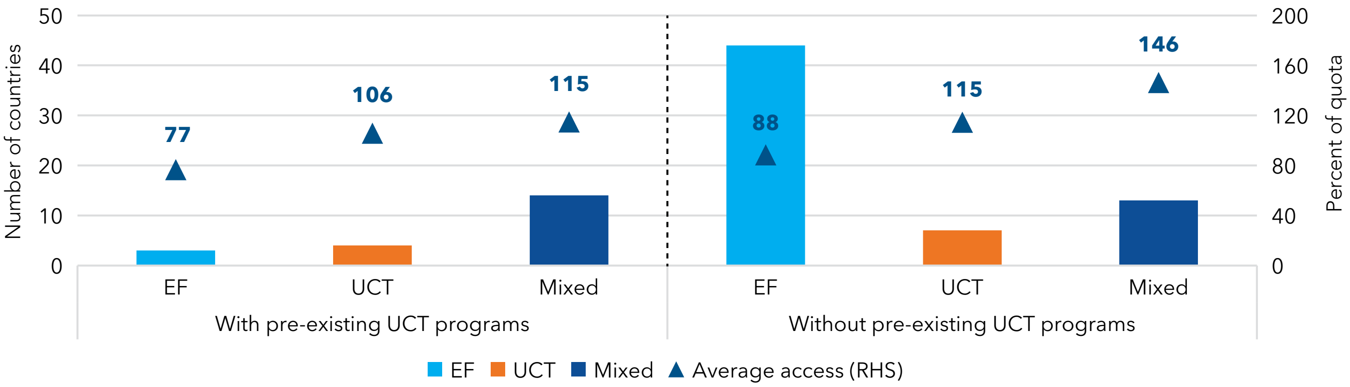
Countries without UCT arrangements at the onset of the pandemic. Among the 64 countries without a UCT arrangement in February 2020 (Figure 13; right panel), 44 (or two-thirds) relied exclusively on EF, 7 countries relied exclusively on UCT arrangements, and 13 others drew on both EF and a UCT arrangement.[17]

Financial incentives. In terms of new UFR commitments, access practices encouraged members to seek UCT arrangement independent of whether there was a pre-existing UCT arrangement. Specifically, for countries with non-precautionary pre-pandemic UCT arrangements, average access (at 77 percent of quota) for countries that switched from UCT to EF was lower than for countries that either obtained additional financing exclusively through UCT (106 percent) or through a mix of UCT and EF resources (115 percent of quota)—Figure 13; left panel. Similarly, for countries without pre-existing UCT arrangements, average access (at 88 percent of quota) for countries that relied exclusively on EF was lower than average access for countries that received IMF financing exclusively through UCT programs (115 percent) or relied on both EF and UCT programs (146 percent)—Figure 13; right panel.

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

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

FIGURE 13. AVERAGE ACCESS LEVELS FOR EMERGENCY FINANCING AND UPPER CREDIT TRANCHE FINANCING
(March 2020–December 2021)



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

subsequently requested a UCT program by end 2021. Thus, many more countries that utilized EF when BOP need was long-lived subsequently transitioned to a subsequent UCT program compared to countries where the BOP need was expected to be resolved within 12 months without any major policy adjustments being necessary.

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

E. ASSESSMENT

Balancing of risks and rewards. Overall, the Fund's EF framework worked well during the pandemic to offer timely and deeply appreciated help to countries while being prepared to accept some greater than usual risks to the Fund. Despite time pressures and streamlined review procedures, country reports adhered to process and qualification criteria in all cases, such as establishing the extent of BOP needs and obtaining an LOI from the authorities.

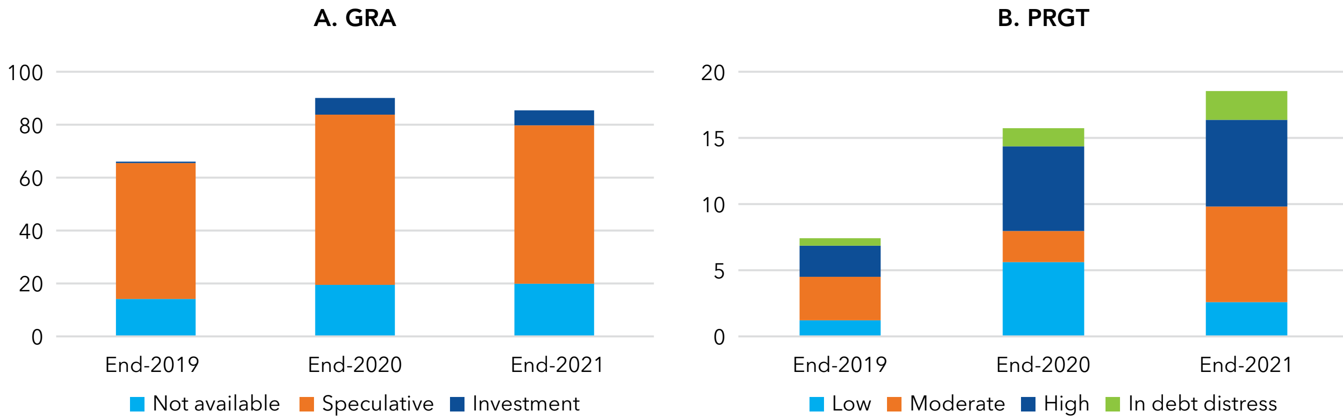
The exigencies of the pandemic were recognized by scaling back prior actions relative to their use in the past and giving countries the benefit of the doubt in some difficult judgments about debt sustainability. While these and other sources of risk to the Fund's own balance sheet were not ignored in the early months of the pandemic, attention to them increased by mid-2020, though by this time the bulk of EF requests had been approved. Moreover, the scale of the financing provided—US$29 billion by end-2021—while not insignificant was limited in comparison to the US$98 billion provided in the form of precautionary arrangements to a small number of countries or to that provided in some of the Fund's larger UCT programs.

Deteriorating PRGT balance sheet. Nonetheless, the credit quality of the IMF's balance sheet deteriorated significantly during the first year of the pandemic—especially for PRGT credits (Figure 14).[18] Non-concessional GRA credit outstanding increased from SDR 66.1 billion at end-2019 to SDR 85.5 billion by end-2021, with the bulk continuing to be accounted for by countries classified by credit rating agencies as "speculative" (as opposed to "investment") grade. Concessional credit outstanding under the PRGT Trust more than

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

FIGURE 14. FUND EXPOSURE TO CREDIT RISK

(In billions of SDR)



Sources: FIN, S&P500, Fitch; IEO calculations; Kincaid, Cohen-Setton, Li (2023).

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

doubled, rising from SDR 7.4 billion end-2019 to SDR 18.6 billion by end-2021. Among them, PRGT credit outstanding to countries in high risk of debt distress or in debt distress under the IMF's LIC-DSF assessment doubled to SDR 8.7 billion by the end of 2021. Moreover, the bulk of the increase in PRGT exposure was due to disbursements of EF, without the assurance of ex post conditionality. The situation was further aggravated by subsequent multiple shocks in 2022. While to date the increasingly difficult situation of debt borrowers was not reflected in payment arrears to the Fund, helped by the long maturities for PRGT loans, a rising number of countries face serious questions of debt sustainability that is hindering new access to IMF resources.

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

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

- First, most authorities felt that the level of financing was not commensurate to their needs, despite the welcome raising of access limits. While appreciating that staff were constrained by the Fund's risk framework, many expressed disappointment that a way could not be found to provide greater financing tailored to the needs of those subject to the largest shocks.
- Second, there were perceptions of lack of evenhandedness in the provision of Fund EF. While the necessity for staff judgments about governance, debt sustainability and other policies were recognized, a number of authorities felt these considerations were waived in some instances but became barriers in others. Similar sentiments also surfaced in some of our interviews with Executive Directors' offices.

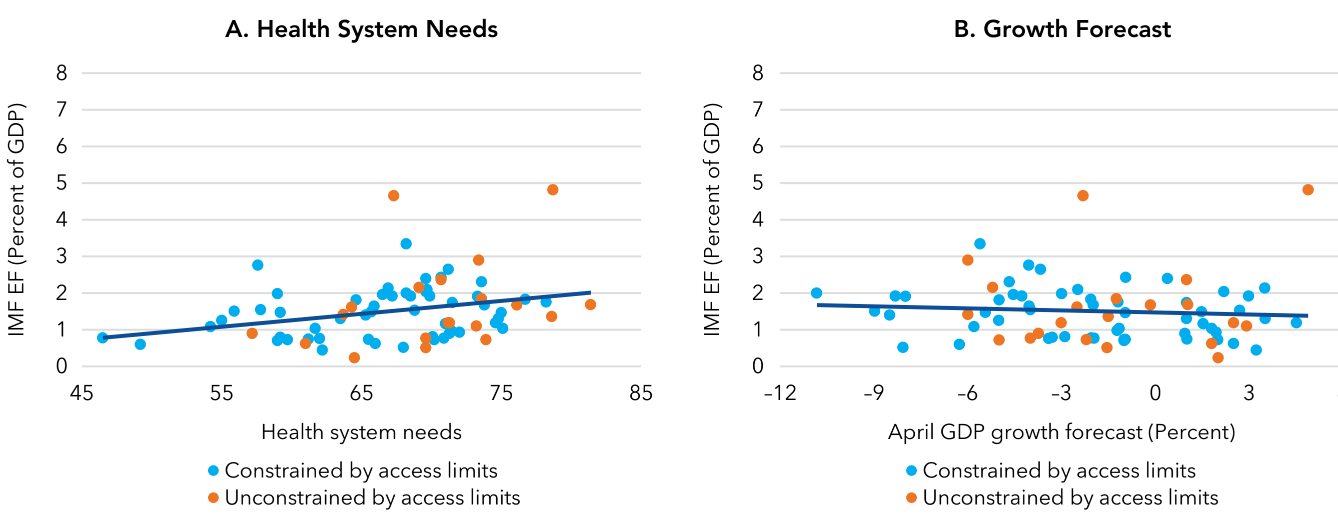
- Third, and despite the provision of technical assistance, authorities felt that implementation of governance safeguards was often difficult in their country circumstances, particularly the commitment to disclose beneficial ownership. Some area department staff also worried that in the absence of capacity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

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

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

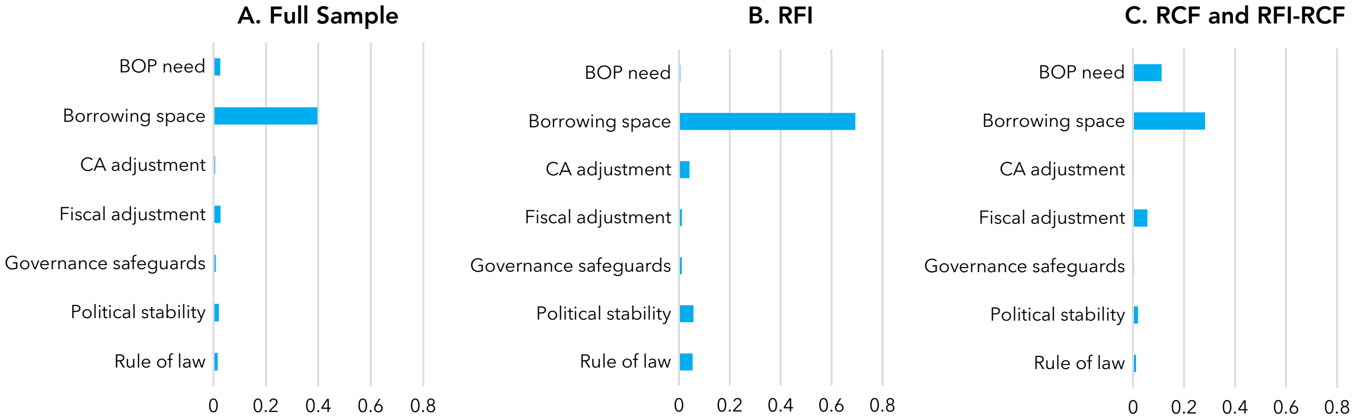
Tendency towards binary outcomes. Overall, the evidence suggests that the application of the Fund's framework for provision of EF implied rather binary outcomes, with most countries either receiving full access up to the limit or no access at all and did not permit much tailoring to country circumstances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

FIGURE 15. FUND FINANCING RELATIVE TO NEEDS



Source: Batini and Li (2023).

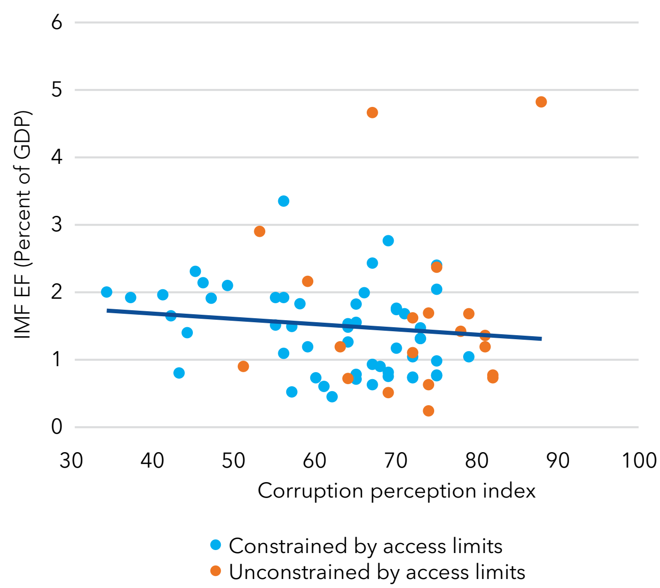
FIGURE 16. FACTORS EXPLAINING VARIATION IN ACCESS LEVELS



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

Concerns about evenhandedness. Another concern expressed by a number of authorities was whether the Fund's judgments about countries' governance and political situation and assessments of debt sustainability were applied across countries in an evenhanded way in making access decisions and requiring prior actions.[19] On the face of it, there is little correlation between the countries' financing levels and external perceptions of corruption (Figure 17). In interviews, Fund staff working on the country cases—as well as staff in reviewing departments—noted that access decisions rested on a number of delicate considerations. In the case of governance, in addition to looking at external indicators, staff used internal assessments of governance (based on perceptions of previous mission chiefs, views of technical assistance missions that had visited the country, and other sources). In addition, though they stay away from a country's internal politics, staff nevertheless also had to make judgments about whether political transitions (for example, as a result of an upcoming election) raised or lowered risks to the Fund by influencing policy choices and thus impinging on the country's ability to repay the Fund. Another "intangible" that staff noted was the quality of engagement with the authorities, which was better in some cases than others due to several factors, including when the country had last been in program discussions with the IMF and the track record of previous IMF programs.

FIGURE 17. FUND FINANCING AND CORRUPTION PERCEPTIONS



Source: Batini and Li (2023).

Reputational risks for the Fund. In looking across the country cases, it seems that Fund financing decisions seem in line with the letter of policy guidance, taking into account the complex considerations, some of which cannot be discussed publicly by Fund staff. Having said that, the evaluation is left with the distinct impression that there were variations across countries in the way that

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

policy guidance was applied, in particular the degree to which countries were given the benefit of the doubt when difficult judgments had to be made in the inevitable grey zones that sometimes arise—and that such variations at least in part related to political considerations among major shareholders. In a few cases, it does seem that a lack of evenhandedness in treatment led to delay or limits on access. While not widespread, this experience clearly raises reputational risks for the Fund.

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

Being prepared. The experience with governance commitments during the pandemic suggests the importance of building up country capacity and emergency preparedness in governance areas—in line with the Fund's overall approach on governance approved in 2018. Particular attention will be needed to ensure that safeguards are well suited to a country's circumstances, particularly the disclosure of beneficial ownership which has caused difficulties in many cases. Interviews with staff in FAD, Legal Department (LEG), and SPR with responsibility for monitoring implementation note that this is indeed being done, with staff teams—particularly from LEG—providing guidance on the value of the safeguards and advice and technical support on how best to implement them in particular country circumstances.

4

IMPACT OF IMF FINANCING[20]

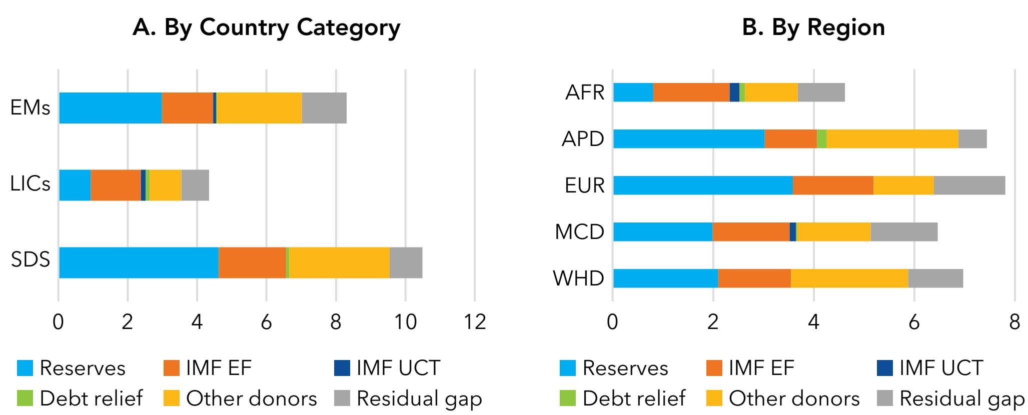
Roadmap. This section provides evidence on the role of Fund financing in addressing BOP financing needs (Section IV.A), marshaling financing from other sources such as other official agencies and private capital markets (Section IV.B), and mitigating output losses (Section IV.C), followed by an assessment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

A. ROLE OF FUND SUPPORT IN ADDRESSING BOP FINANCING NEEDS

Role of Fund financing in addressing BOP needs. Fund decisions on lending are based on assessments of a country's BOP needs at the time of approval, taking account of policies the country has taken or is planning to take to address its economic situation. Documents supporting all requests for use of Fund resources are required to present estimates of financing (and fiscal) needs and how such needs are to be met, including through Fund credits.[21]

Expected role of Fund financing. At the time of the approval of Fund financing (EF and UCT arrangements) in 2020, the average ex ante financing gap in EMs was about 8 percent of GDP. The Fund contributed about 1 percent of GDP toward closing this gap, with other sources of financing (about 2 percent of GDP) and reserve drawdowns (about 2½ percent of GDP) making up much of the rest (Figure 18). In LICs, the Fund's share was expected to be proportionately larger, contributing about 1 percent of GDP toward closing an average financing gap of slightly

FIGURE 18. EX ANTE IMF FINANCING RELATIVE TO OTHER SOURCES, 2020
(In percent of GDP)

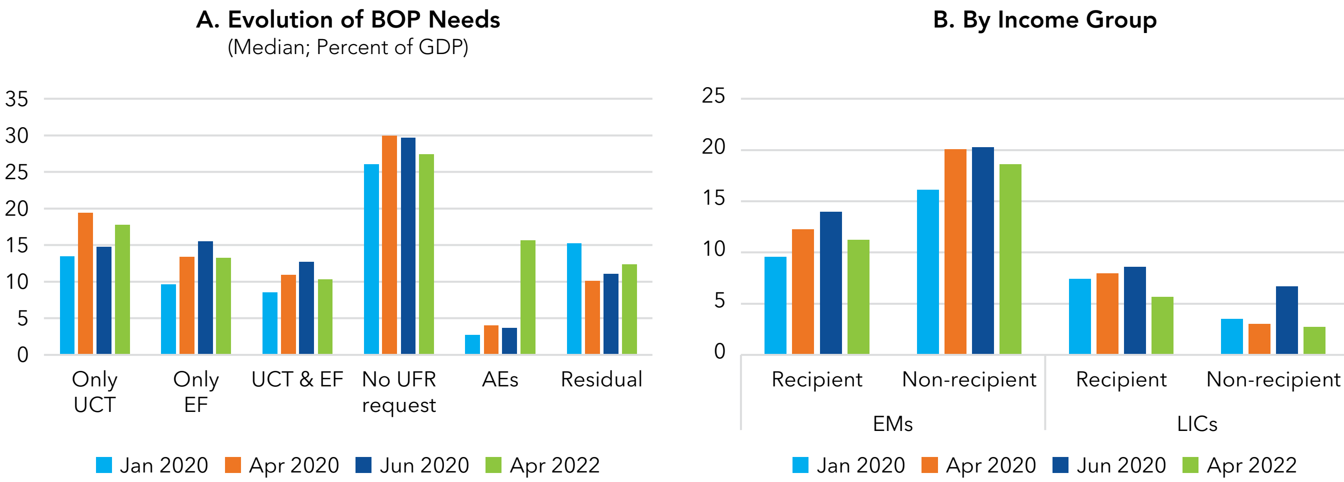


Source: Batini and Li (2023).
Note: Other identified sources include financings from the World Bank. UCT arrangements for Sudan and Somalia are excluded because they received extremely large HIPC debt relief relative to BOP gaps.

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

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

FIGURE 19. EVOLUTION OF 2020 BOP NEEDS BY FUND FINANCING AND INCOME GROUP
(Median; in percent of GDP)

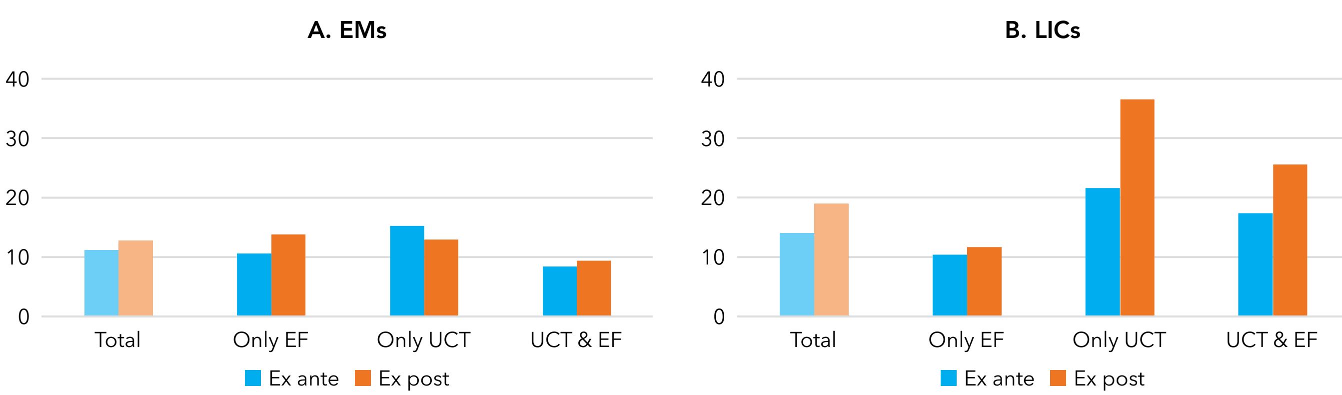


Source: Batini and Li (2023).

over 4 percent of GDP, with other financing sources and reserve drawdowns each playing a roughly similar role. For small developing states in particular (which span middle-income countries and LICs), the IMF's share was relatively low as the anticipated gap for these countries averaged over 10 percent of GDP, reflecting their greater vulnerability to the pandemic. Looked at by region, the role of Fund financing was more significant relative to other sources in the African region than elsewhere.

From ex ante to ex post developments. The Fund's decisions on lending are, by necessity, based on its best estimates of the financing needs at the time that the country's financing request is being considered. These estimates require judgments about developments that are difficult to forecast accurately, such as autonomous capital flows and financing disbursed by other donors. Hence, ex post, BOP needs can differ from initial estimates and the Fund may end up financing a larger or smaller share of the financing gap than it had envisaged. Nevertheless, for countries that requested Fund financing, the ex-post values of BOP needs (using April 2022 WEO data) turned out generally close to albeit a little below the initial 2020 estimates (using April 2020 WEO data), though with some variation among income groups and among countries based on the kind of Fund financing they accessed or did not access (Figure 19).

FIGURE 20. EX ANTE VS. EX POST SHARE OF FUND FINANCING OF BOP NEEDS, 2020
(In percent)



Source: Batini and Li (2023).
Note: Ex ante shares of Fund financing to total financing needs are calculated based on data from the April 2020 WEO, while ex post shares are calculated based on data from the April 2022 WEO.

Ex-post share of Fund financing. For EMs, the Fund ended up financing, on average, roughly the share of BOP needs envisaged ex ante. For countries receiving EF the ex-post share was a bit higher than the 10 percent ex-ante share, while for countries receiving only UCT the ex-post share of 15 percent was somewhat higher than initial estimates. For LICs, the picture is different. While in countries receiving only EF there was little difference between ex-post and ex-ante shares, countries receiving only UCT ended up with nearly 40 percent of their BOP needs met by Fund financing, nearly twice the ex-ante share, and countries receiving both EF and UCT had about 25 percent of needs met, also considerably higher than expected (Figure 20).

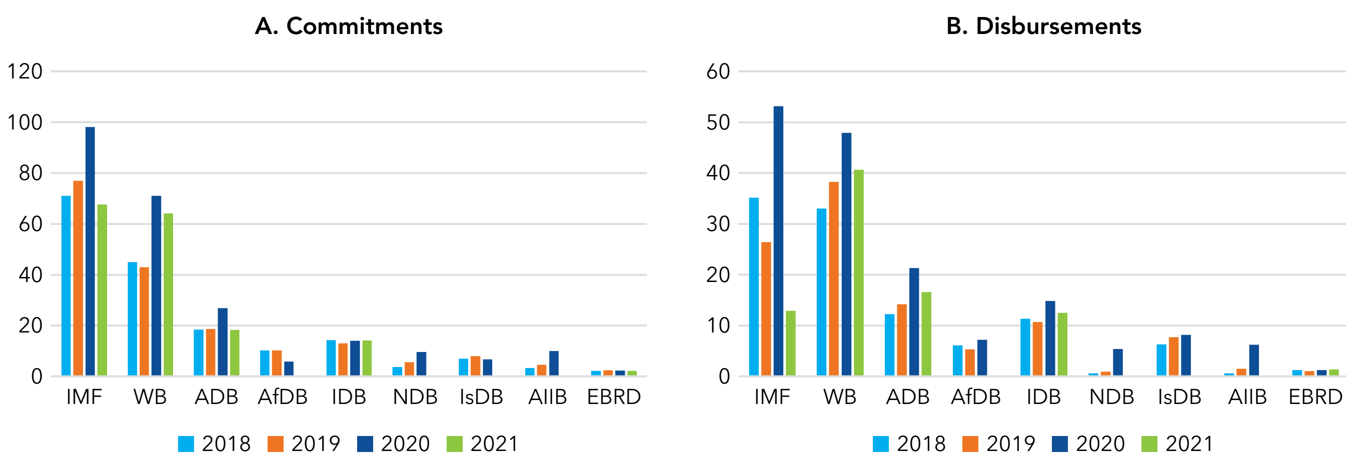
B. MARSHALLING SUPPORT FROM OTHER SOURCES

Collaboration with Partners

Fund support as part of a package. The Fund's support for a country can help meet financing needs in several ways beyond the financing it provides directly. First, when considering a country's request for support, the IMF provides an estimate of the country's BOP gap and of the fiscal financing gap—which are useful to other partners as measures of the extent of help that a country needs—and works with other potential lenders to identify ways of filling the gap. Second, the signal provided by the provision of Fund financing, and/or the Fund's positive assessment of a country's macroeconomic framework and policies, can help unlock funding from other official sources. Third, the Fund's support can have a catalytic effect on private capital flows, again because of reassurance of availability of financing and quality of the policy framework. Fourth, the Fund works with official partners (for example, G20, Paris Club) to mobilize debt relief, and, if necessary, debt treatments, to ease financing gaps.

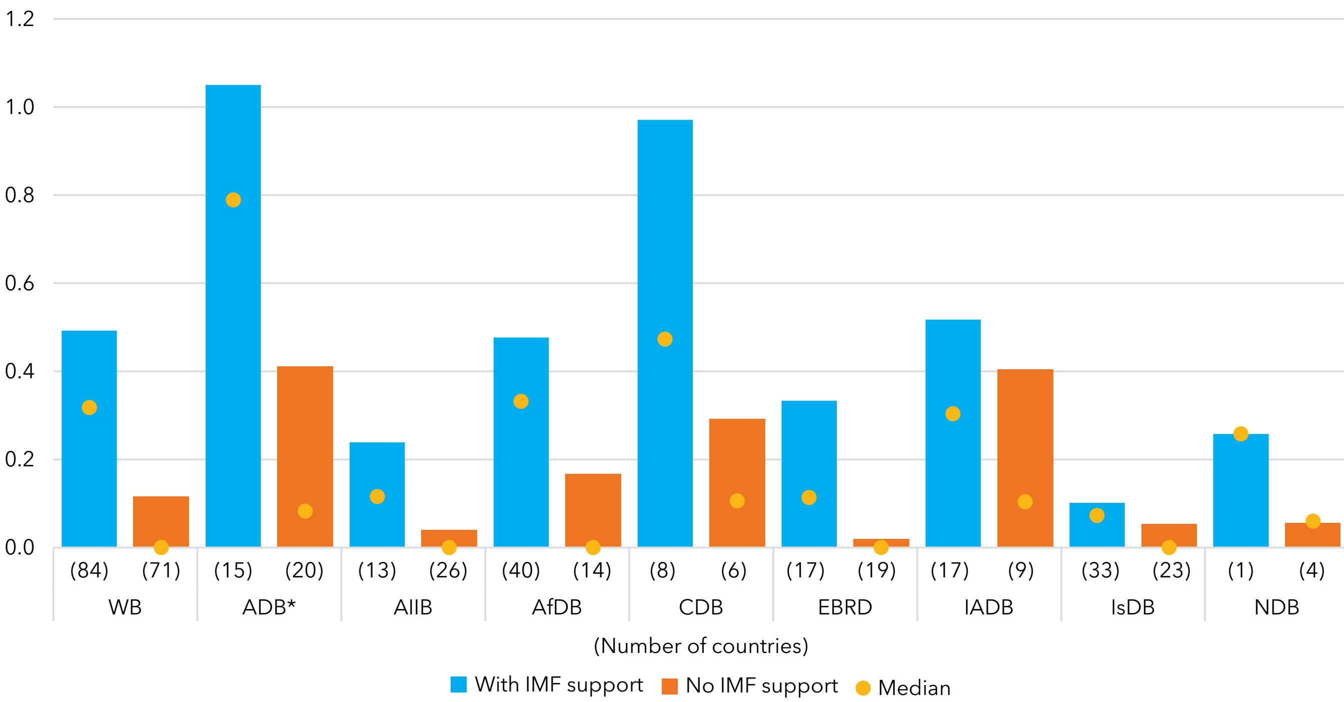
Financing by the Fund and multilateral development banks (MDBs). Alongside the Fund, MDBs provided important additional financial support in 2020–21, with total commitments of around $145 billion and disbursements of around $112 billion in 2020 (Figure 21). Of course, not all of this financing was directly related to the COVID-19 pandemic: some of this financing corresponded to ordinary operations that had already been approved before the pandemic and some corresponded to new operations that would have been approved and disbursed even in the absence of COVID-19. That said, the additional support is evident from the large increase of 40 percent in aggregate MDB financial commitments and of 33 percent in disbursements in 2020. Among MDBs, the World Bank accounted for 70 percent ($28 billion out of $41 billion) of the increase in MDB commitments and 30 percent ($10 billion out of $33 billion) of the increase in MDB disbursements in 2020.

FIGURE 21. OFFICIAL LENDING: IMF AND OTHER MULTILATERAL LENDERS
(In USD billions)



Sources: Ocampo and others (2023); IEO calculations using data from IMF and World Bank and other MDBs.
Note: Financing includes all total commitments/total disbursements to sovereign (not just strictly COVID-19-related). FCL and PLL are included in total IMF financing.

FIGURE 22. COVID-19 FINANCIAL COMMITMENTS TO EMDEs BY SELECTED MDBs
(In percent of GDP)



Source: Ocampo and others (2023).
* Excludes six outliers that distort the average.

Relationship between Fund support and MDB financing. Fund and MDB support tended to go hand in hand. Average COVID-related financial commitments to EMDEs from other official institutions, including the World Bank, were substantially higher for countries that received Fund support than in cases of no Fund support, across the spectrum of MDBs (Figure 22).

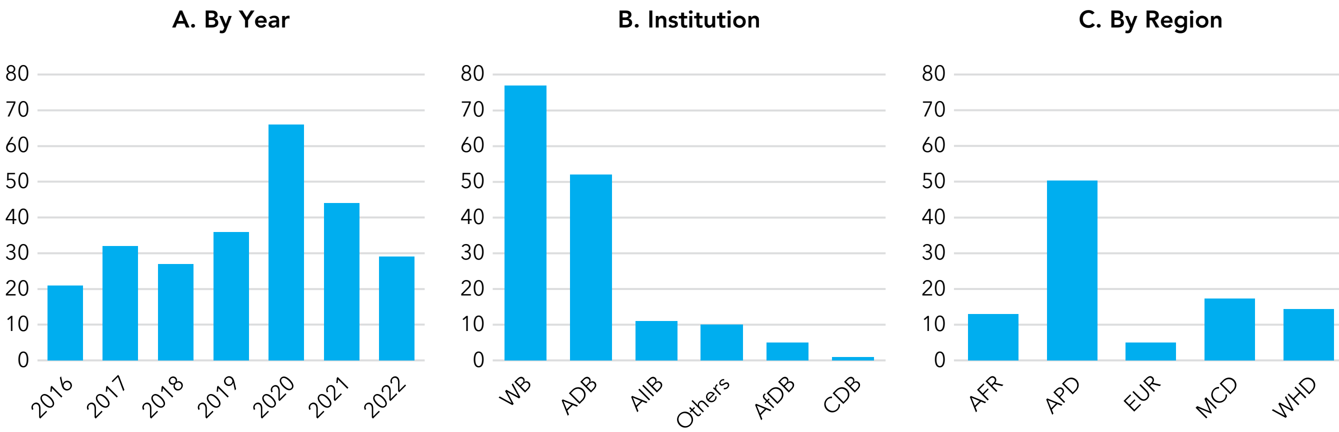
Provision of assessment letters. The Fund collaborated with many of these multilateral agencies during the pandemic, typically at the level of country teams working in different institutions. As reported in the country case studies, cooperation and information exchange at the team level was generally good, although on occasions there were difficulties in receiving information on likely financing from different institutions. There was also a substantial pick-up in the volume of assessment letters provided by the IMF, which provide assurance to other lenders about a country's macroeconomic framework (Figure 23). Most letters were provided at the request of the World Bank and Asian Development Bank (ADB), but letters were also provided to newer agencies like the Asian Infrastructure Investment Bank (AIIB). The share of assessment letters by country was particularly high for EMDEs in Asia, which may reflect that these countries used Fund resources less than others. Interviews with staff at the ADB indicate that Fund staff were perceived as trying to provide letters in a "very timely manner" during the pandemic.

Collaboration with the World Bank. Over half of the EMDE member countries of the Bank and the Fund received COVID-related financial assistance from both institutions over March 2020-June 2021.[22] In another quarter of cases, neither institution provided financial support, reflecting either a lack of interest from the country or lack of access to financing from both institutions. Hence, in about 75 percent of countries, there was alignment between the provision of financing (or lack of it) between the two institutions (Figure 24). Moreover, as shown in Figure 22, Bank commitments for countries also receiving Fund support was substantially greater (about five times relative to GDP).

[22] COVID-related financial assistance includes all IMF financial support, and financial support for COVID-related lending from the World Bank based on data provided by the World Bank—see Ocampo and others (2023) for details on how COVID-related financial assistance was identified.

FIGURE 23. ASSESSMENT LETTERS PROVIDED BY THE IMF

(Number)

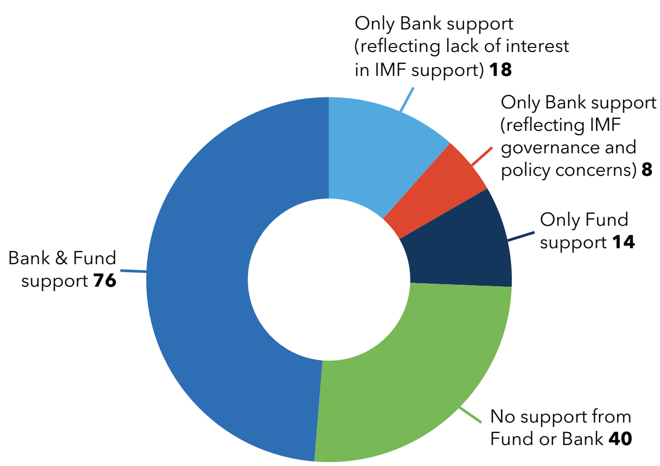


Source: Ocampo and others (2023).

Note: Some assessment letters were provided jointly to two institutions and are counted under both institutions in the middle and right-hand side charts but only counted once in the left-hand side chart.

FIGURE 24. FUND AND BANK COVID-19 FINANCIAL ASSISTANCE DISBURSED TO EMDEs, MARCH 2020–JUNE 2021

(Number of countries)



Source: Ocampo and others (2023).

Note: Ocampo and others (2023) explains the methodology used to identify disbursements of COVID-19 financial assistance for the two institutions.

Understanding deviations in alignment of IMF and World Bank support. In the remaining 40 cases, representing a quarter of the total, a country received COVID-related disbursements from one institution but not the other (14 received support only from the Fund, 26 only from the Bank) during the period covered by this analysis. There were a number of factors leading to these deviations:

- Stronger policy requirements for Bank disbursement. In six of the cases of Fund support without Bank support (Armenia, Cameroon, El Salvador, Guatemala, Madagascar, and Nigeria), the Bank approved COVID-19 financial assistance before the end of its fiscal year (which ends in June in the case of the Bank) but did not disburse it before June 2021. For example, in the case of Nigeria

(Christensen, Kayizzi-Mugerwa, and others, 2023), the financing approved was not disbursed by the Bank because the PA regarding the harmonization of Nigeria's exchange rate regime was not met.

- Later approvals of new Bank financial commitments. In another six countries (Angola, Chile, Guinea-Bissau, Somalia, South Africa, South Sudan), the difference arises because the Bank's COVID-19 financing was approved substantially later than Fund financing. For these cases, the new commitments related to the pandemic were approved only after June 2021.

- More flexibility in Bank financing. In 26 countries (8 LICs and 18 middle-income countries), the Bank provided COVID-related financial support, but the Fund did not. In 8 of these cases (4 LICs, 4 middle-income countries), the Bank provided support, notwithstanding issues related to debt sustainability, governance, and health policies that prevented the provision of Fund support, in some cases providing relatively small amount of humanitarian support based on highly concessional loans and grants. In the 18 other cases (4 LICs, 14 middle-income countries), there was no demand for Fund financing despite the demand for Bank financing, possibly due to concerns about stigma of borrowing from the Fund. Altogether, this suggests that the Bank may have benefitted from a more flexible set of lending instruments with less stigma to help countries address COVID-related issues. This appears especially true for middle-income countries, which represent 70 percent of the countries that only received Bank support.

Collaboration among Bank-Fund country teams. Both the IEO country case studies and those conducted by the World Bank's Independent Evaluation Group (IEG)[23] suggest that there was excellent technical collaboration during the pandemic between Bank and Fund country teams. This finding is supported by the fact that a large majority of respondents to our staff survey indicated that collaboration with the World Bank was intense or very intense. Two examples of countries where collaboration was rated as strong by either an IEO or IEG case study are Morocco and Serbia. The Bank's continued presence in the field was particularly useful to Fund staff in some instances to provide trusted information on local conditions such as the spread of the pandemic. However, country teams also reported that in some difficult cases they perceived a lack of agreement on the appropriate country strategy at the more senior levels of the two institutions. Indeed, nearly 40 percent of staff survey respondents felt that the coherence of approaches to financing between the two institutions was somewhat effective or not effective.[24] These differences contributed to tensions that could delay Fund financing and leave continued uncertainty about meeting BOP needs.[25]

Helping with Debt Burdens

Debt Service Suspension Initiative (DSSI). Following a joint call for action by the World Bank President and the IMF Managing Director for additional resources to bolster the crisis mitigation efforts of LICs, G20 Finance Ministers endorsed a DSSI covering official bilateral loans on April 15, 2020. The initiative, which was also supported by the Paris Club, Kuwait, and the UAE, covered 73 IDA-eligible and UN Least Developed Countries with debt service payments to the IMF and World Bank. Participating countries were encouraged to seek similar debt service relief from private creditors. In 2020, 43 countries benefited from US$5.7 billion in debt service suspension. The IMF and the World Bank also assisted beneficiaries of the DSSI to put in place a monitoring framework for their fiscal efforts in response to the COVID-19 crisis; the framework was endorsed by the G20 in June 2020 and developed and put in place soon thereafter.

[23] The evidence comes from IEG's case studies conducted as part of the early-stage evaluation of the WBG's COVID-19 economic response (World Bank, 2023). The evaluation examined the Bank Group's early response to the crisis, defined as interventions over the 15 months of April 2020 through June 2021. Although the case studies cover the whole evaluation period, the portfolio analysis considers a subset of the evaluation period, from April 2020 to April 2021, based on Bank Group COVID-19 response data availability.

[24] The corresponding figure for other MDBs was over 50 percent, suggesting even greater issues with collaboration.

[25] For example, in one case where Fund staff had drafted its country report on assurances that Bank support would play a major complementary role to Fund financing, a late decision at the senior levels of the Bank to withdraw the assurances left Fund staff scrambling for alternatives to fill the gap. However, this did not disrupt the good relationships between the country teams.

Common Framework for Debt Treatments. A Common Framework for Debt Treatments beyond the DSSI was developed by the G20, with the Paris Club, the IMF, and World Bank, and agreed in November 2020 as a structure for guiding agreements on debt treatments for eligible countries. Requests for debt treatments by Chad, Ethiopia, and Zambia are now being processed under the Framework. However, progress was minimal during the evaluation period, in part because of different interests among creditors.

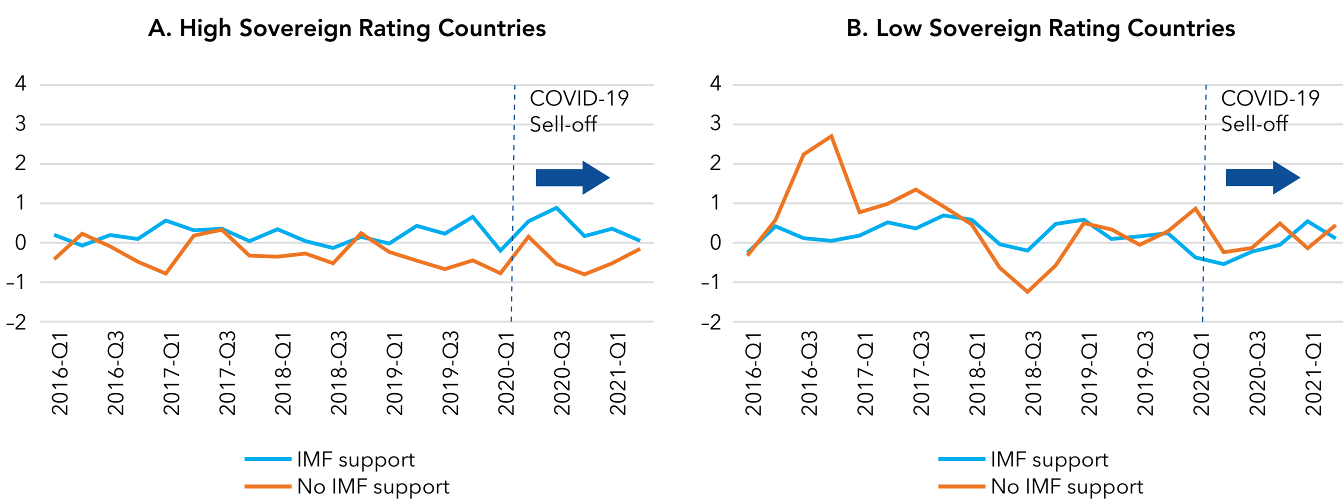
Catalytic Effect on Private Capital Flows

Seeking catalytic effects. Beyond providing direct support for a country's BOP needs, Fund financing can help relax countries' external constraints by increasing their net access to private sources of finance through a catalytic effect—as Fund financing provides assurances about a country's macroeconomic policies.[26] However, it is difficult to establish the catalytic effect of Fund financing in the best of circumstances given sample selection bias (countries with strong policies are less likely to need Fund financing). One common approach relies on comparing the behavior of capital flows in the "treatment" group (the group receiving financing) with that of a "control" group (similar countries that did not receive financing). However, the difficulties of finding an appropriate control group, or adequately controlling for other factors that may be affecting the two groups, make inference difficult. This was particularly so during the pandemic because there were many countries in the treatment group and few in the control group. Moreover, actions by the major central banks played a significant role in calming financial conditions and facilitating the resumption of capital flows, making it difficult to sort out the Fund's role. Given these difficulties, we use various data sources and cuts of the data to look for robust evidence of a catalytic effect of Fund financing.

High vs. low credit ratings. As a simple measure of the Fund's impact, we compare the behavior of net portfolio flows in EMDEs that received Fund financing and those that did not, looking separately at countries that have high credit ratings and those with low credit ratings (Figure 25). From this cut of the data, it is unclear whether Fund support had any impact on the pace at which net portfolio flows bounced back in mid-2020. In fact, a catalytic effect is harder to discern in the countries with a low credit rating—just those countries where in principle the IMF seal of approval should have the greatest catalytic value.

EMs vs. LICs. Splitting countries by income group also does not uncover much evidence of a possible catalytic

FIGURE 25. NET PORTFOLIO FLOWS BY SOVEREIGN RATING: ROLE OF FUND SUPPORT
(In percent of lagged GDP; median)



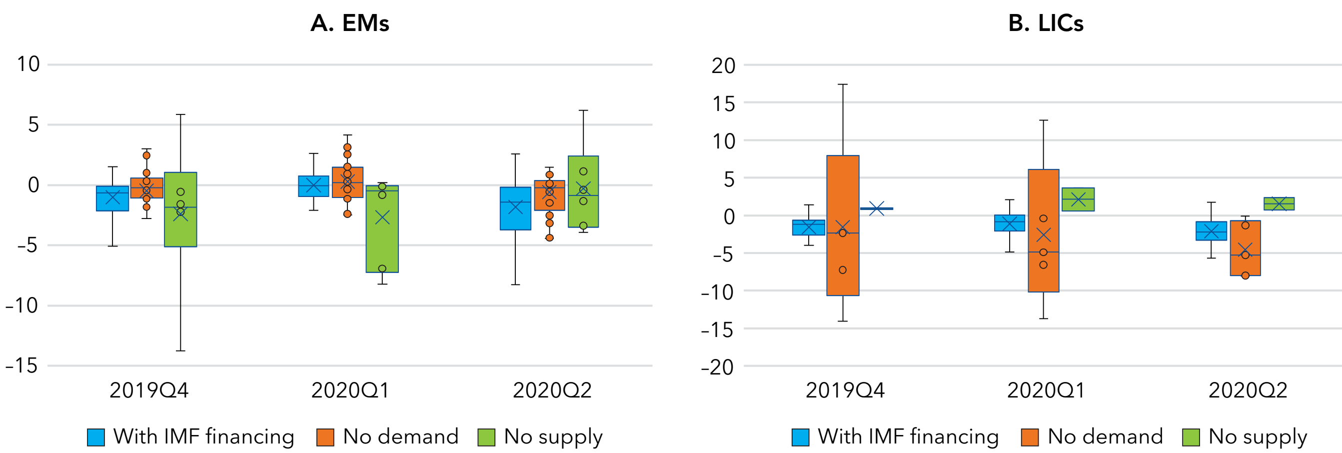
Source: Batini and Li (2023).
Note: Positive values indicate net inflows.

[26] In principle, such a catalytic effect is likely to be strongest for a UCT arrangement but may also occur for emergency financing given the ex-ante conditions that must be satisfied for such financing to be provided, including positive debt sustainability and capacity to repay assessments.

effect of Fund financing in 2020Q1-Q2. Data suggests that in median terms, there is little difference in net outflows between EMs that did not request Fund financing and those from EMs supported by the Fund. However, EMs with unmet requests experienced much larger outflows in net terms than the average EM. In the case of LICs, a different pattern emerges: the median (and average) LIC that requested but did not receive Fund financing experienced a net inflow of capital, while the median (and average) LIC that either received Fund support or did not ask for it both experienced capital outflows in net terms (Figure 26).

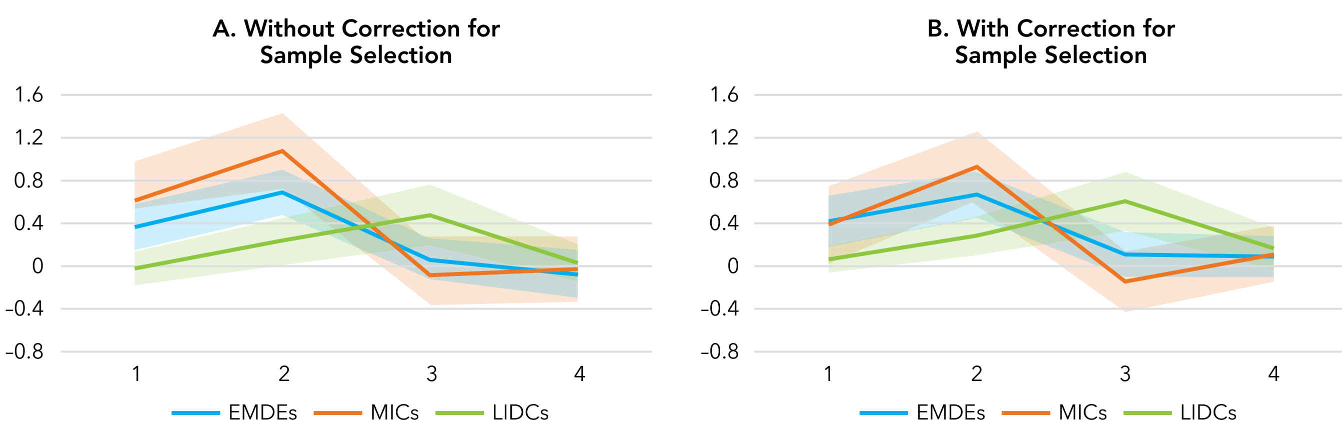
Adjusting for country characteristics. The above data need to be interpreted cautiously because of sample selection bias: countries that used Fund resources are likely to be those that suffered the greatest economic shock and the greatest difficulty sustaining access to international capital markets. To correct for this bias, we applied more sophisticated econometric techniques estimating the response of portfolio flows for a panel of 83 EMDEs over the period 2018–2021 (comprising 60 EMs and 23 LICs) using quarterly BOP data. This analysis uncovers somewhat more consistent evidence in favor of a catalytic effect of Fund financing, both when we estimate a simple fixed-effect panel model and when we correct for country characteristics using a covariance-balance propensity score (CBPS) approach (Figure 27). Once more the effect appears stronger for EMs than LICs both on impact and in the subsequent quarter, but also dissipates faster. These differences in the catalytic effect of Fund financing between middle-income and LICs may reflect different market perceptions with respect to Fund loans to these two groups, as well as the

FIGURE 26. IMF FINANCING AND NET PRIVATE CAPITAL FLOWS—EMs AND LICs
(In percent of GDP)



Source: Batini and Li (2023).

FIGURE 27. RESPONSE OF PORTFOLIO FLOWS TO FUND EMERGENCY FINANCING



Source: Batini and Li (2023).

differential impact of Fund financing in countries with different income fundamentals.

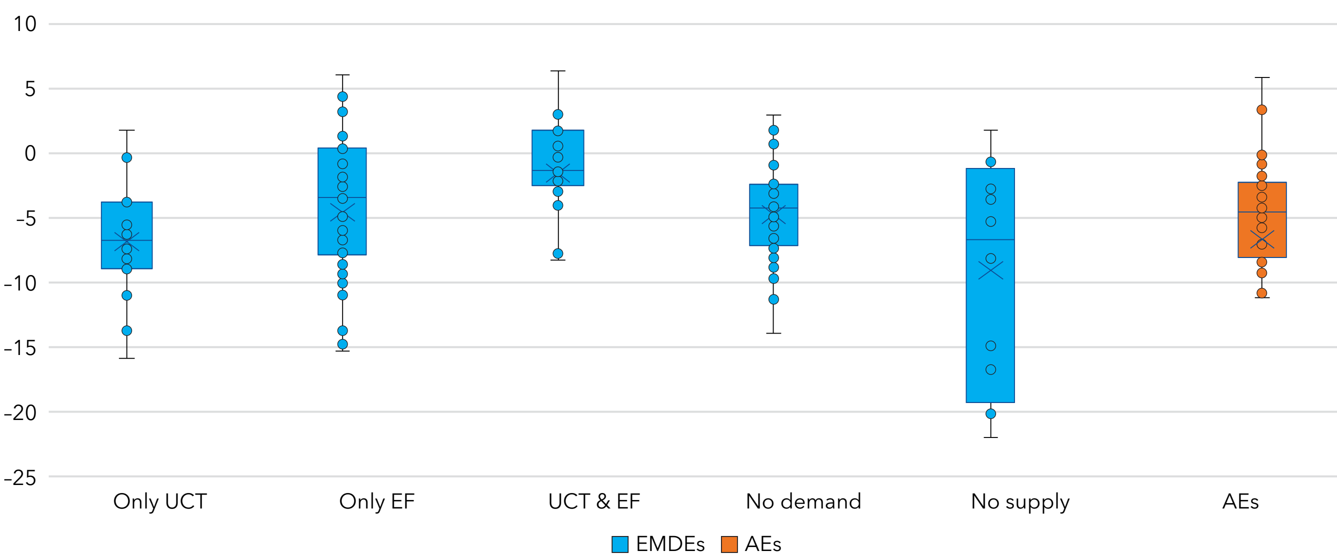
C. MITIGATING THE COVID-19 SHOCK

Impact on macroeconomic outcomes. Estimating the impact of Fund financing on macroeconomic outcomes is challenging, but it is important to make an attempt as financing is not an end in itself but intended to help mitigate economic losses. A first look at the data clearly shows differences in economic outcomes according to the support received from the Fund (Figure 28). In terms of real growth, on average countries that received emergency Fund financing (either in isolation or blended with UCT financing) experienced smaller contractions than countries that asked but did not receive financing. Moreover, the negative tail of outcomes experienced by countries that were unable to access Fund financing was more dispersed. Among recipients of Fund support, those which obtained a combination (either simultaneous or sequential) of emergency and UCT financing seemed to have fared better on average than all other groups, including those which never requested financing, outperforming AEs as well. In light of this, the fact that a very large share of EF recipients did not eventually shift to a UCT program points to a missed opportunity.

Explaining growth differences. The difference in growth performance was primarily related to the fact that, on average, private consumption in 2020 was weaker in countries that requested but were not provided with IMF funding. Conversely, countries with lack of access to funding (as well as those that never requested it) had to adjust government expenditure and current account balances more than countries with access to IMF financing. Reserve drawdowns were also larger in countries with no access to Fund financing, notwithstanding their stronger current account outcomes.

Evidence from econometric analysis. The mitigating role of Fund financing is confirmed by an econometric analysis of the determinants of post-COVID output loss in countries—measured as the deviation of a country's real output level from its pre-COVID trend—using a panel of 128 EMDEs (74 EMs and 54 LICs) comprising both recipients and non-recipients of Fund financing over the period March 2020 to end-2020. The evidence suggests that Fund financing mitigated losses in recipient countries even after controlling for a long list of other factors that may have influenced output loss during the pandemic.[27] Emergency financing is estimated to have reduced economic losses relative to a scenario of no financing. And when EF was followed by UCT arrangements (or UCT arrangement

FIGURE 28. GDP GROWTH BY ACCESS TO IMF FINANCING, 2020



Source: Batini and Li (2023).

[27] The list of other factors includes: the stringency of NPIs; oil exporter status; measures of countries' fiscal space and fiscal stimulus; international reserves adequacy and reserve drawdowns; the degree of trade openness; and a measure of exchange rate rigidity.

pre-dated EF), the reduction in the economic downturn is estimated to have been even larger; surprisingly, however, financing based on UCT programs alone did not result in statistically significant reduction in losses. Like any econometric analysis, these results need to be interpreted with caution given omitted variable bias (though the long list of controls already included should mitigate this concern) and endogeneity bias arising from correlations between, for example, Fund financing and other variables (though we use a specific lag structure to alleviate this bias).

D. ASSESSMENT

Broadly positive view. Establishing cause and effect is a difficult exercise in any setting in economics and demonstrating an impact from Fund financing on eventual outcomes is no exception. Many developments can transpire between the time that the Fund's financing decisions are made and the time of the measurement of outcomes and many factors other than Fund financing can influence outcomes. Moreover, econometric results can be sensitive to the methodological approach, the data used, and modeling choices. Keeping all these caveats in mind, the evidence presented here nevertheless provides a broadly positive view of the impact of Fund financing: it fulfilled its expected role in helping countries meet their BOP financing needs, it helped relax external constraints by catalyzing support from other sources, and it mitigated output losses arising from the shock. The impact is particularly clear when comparing countries that received Fund financing with those that requested financing but did not receive it.

Fund's role in assisting members to solve their BOP problems. The evidence suggests that Fund financing ended up playing, at least on average, its envisaged role in help addressing BOP financing needs. For EMs, and for LICs receiving EF, the Fund provided the expected 10–15 percent of the financing gap; for LICs receiving UCT financing or both emergency and UCT financing, the Fund's share ended up larger, 25–35 percent on average. As noted in Section III, there is still a question about whether the overall scale of Fund financing was commensurate with the needs of member countries during the pandemic, particularly for countries with exceptionally large needs. Some countries, like small developing states, had a smaller share of needs met from the Fund and thus made larger recourse to their international reserves. Hence, one could still argue that in particular cases, stronger Fund support would have helped countries moderate the adjustment they ended up making through reserve drawdowns or macroeconomic policy choices, although an assessment would need to take account of the risks involved and the role played by partner agencies.

Marshalling support from other official sources. Interviews with staff at evaluation offices at other multilateral institutions suggest that the Fund's financing was perceived as providing a very helpful signal to others in the official sector. This is consistent with the substantially higher commitments made by MDBs in the presence of Fund support than otherwise, particularly in the case of the World Bank. The increased provision of assessment letters was also appreciated, particularly for countries not receiving financing from the Fund, including many in Asia. Evidence from our country cases suggests that in virtually every case, authorities felt that Fund support had a catalytic effect on funding from other multilateral agencies. Hence, the concern expressed by some that there was competition among agencies to provide financing rather than cooperation, which did surface in some of our interviews, does not receive much support.

Challenges in Bank-Fund collaboration. Interviews and staff survey responses do suggest, however, some tensions in the approaches to country financing decisions between the Bank and the IMF. Fund staff felt there was a greater concern with debt sustainability issues and ensuring appropriate medium-run policy settings at the Bank than prevailed at the Fund. At least in part, such tensions seem to have reflected the early strategic decisions at the Fund to rely on emergency financing for COVID-related support while the Bank mainly relied on policy-related lending. As noted, in a number of cases, such tensions complicated the Fund's financing decisions amid uncertainties about how financing gaps would be filled and contributed to much later disbursements by the Bank than by the Fund. At the same time, there were a number of cases where the Bank but not the Fund provided financial support, which seems to have reflected more flexibility in their financial instruments (especially to provide resources on highly concessional terms for humanitarian purposes) and less stigma involved in using Bank lending, particularly in middle-income countries. The collaboration at the level of country teams nevertheless appears to have worked well according to the evidence from case studies and the staff survey. Last but not least, the Bank and the Fund collaborated well on advocating for and operationalizing official debt relief initiatives, such as the DSSI, under the auspices of the G20.

Catalyzing financing from markets. The empirical evidence on whether Fund financing had a catalytic effect on private sector flows is mixed. But it does appear that EMs that requested but were unable to access Fund resources experienced significantly greater net capital outflows. Moreover, our most careful econometric analysis does find modest evidence that recipients of Fund EF experienced higher net portfolio inflows on average than a control group, with the immediate effect stronger for EMs than LICs. Country case studies also suggest that the authorities in most cases felt that Fund financing helped calm financial conditions and assisted in their return to market financing.

Mitigating the COVID-19 shock. Bearing in mind again the caveats associated with establishing causality, our econometric evidence supports the view that emergency financing played a role in mitigating output losses during the pandemic, especially compared to countries that requested but did not gain access to IMF loans.

5

CORPORATE RESPONSE[28]

Roadmap. The outbreak of the COVID-19 pandemic implied drastic changes in the Fund's operations and working environment, which necessitated a wide-ranging institutional response. This section discusses some of those changes including human resource policy initiatives to manage staffing needs and alleviate work pressures (Section V.A); immediate budgetary steps to address crisis needs (Section V.B); and a massive remote-work experiment (Section V.C); followed by an assessment (Section V.D).

A. HUMAN RESOURCE POLICY RESPONSE

Reallocation of Staff

Off-the-bat measures. When the crisis broke out, rapidly building demands on staff were met initially through overtime and a temporary reallocation of staff within departments. In area departments, staff working in less critical areas were asked to volunteer for one-off assignments with teams on countries more affected by the pandemic. Meanwhile, functional departments with traditionally heavy CD activity, like FAD, responded by redeploying specialists internally from CD projects to work as fiscal economists on country teams.

Informal redeployments. While area departments and certain functional departments, like FAD and SPR, were facing increasing demands on their time, other functional departments, namely, the Institute for Capacity Development (ICD) and the Statistics Department (STA), found themselves with reduced workloads due to the unique nature of the crisis and the inability to travel.[29] Eager to help their co-workers and utilize their skills, a significant number of staff in ICD and STA volunteered to support crisis work in other departments. These informal "donations" of staff time quickly started thanks, in large part, to the match-making skills of Strategic Human Resources Partners (SHRPs) in various departments. By mid-April 2020, over 50 ICD staff and 10 STA staff were reallocated on an informal and temporary basis to provide direct support primarily to teams in area departments, RES, and SPR.

Temporary Workforce Increase

Recruitment plans. It quickly became clear that addressing the sharply increased workload for crisis needs would require more sustained staffing support for frontline departments. Thus, the IMF undertook several initiatives to increase temporarily the overall size of its workforce. Two early initiatives were allowing the rehiring of IMF retirees on contractual appointments and permitting the extension of contractual employees' contracts reaching

28 This section draws on background papers by Batini and Wojnilower (2023) and Koh and Wojnilower (2023).

29 Although ICD and STA as a whole experienced reduced workloads, certain divisions within these departments remained very busy during the early stages of the pandemic.

the four-year rule.[30] In practice, only 5 Fund retirees were rehired while 48 contractual employees had their contracts extended (IMF, 2020n).

Increase in authorized headcount. The most impactful HR initiative was the temporary increase in authorized headcount, which was raised by 52 full-time equivalent (FTE) staff positions in June 2020 and further in October 2020 to provide a total of 128 additional staff positions on a temporary basis to meet crisis-related needs. The total was raised once more in April 2021 to provide a total of 135 additional staff positions, of which 85 were for fungible economists (46 for area departments) (Table 1).

Slow progress in hiring. Unfortunately, progress in new hiring was quite slow (see Table 1). In total, only 12 additional economist staff were hired on a net basis by end-June 2020 and only 46 by end-March 2021. Moreover, frontline departments in desperate need of additional staff, like African Department (AFR) and SPR (which received the largest allocation of crisis positions), did not manage to increase their number of economist staff at all in the six months through end-September 2020, as new hires were offset by separations and transfers to other departments. HRD staff indicated that there were multiple factors challenging the ramping up of hiring including the recent reorganization and centralization of the HR service delivery model, the need to learn to use effectively new systems such as Workday and My HR, and the generally heightened pressures on HRD from handling the multiplicity of initiatives to respond to the work pressures from the crisis (see below). Some HRD staff suggested that the slow pace of hiring also reflected the Fund's cumbersome hiring process and lack of an up-to-date map of staff's individual skills available across departments.

Market-driven process. The slow pace of build-up in headcount in front-line departments also owed, in part, to a decision to maintain the usual market-driven staff allocation process rather than override it to ensure that departments most in need obtained additional staff. This allowed departments to follow their preference for hiring internal rather than external candidates, since new hires from the latter group typically take more time and effort to get up to speed. This created a "musical chairs" effect, where the specific staff members in various seats changed but the total number remained the same.[31] This effect is illustrated in Figure 29, which shows gross staffing flows during the first six months of the pandemic.

TABLE 1. ADDITIONAL HEADCOUNT: CRISIS ALLOCATION AND NET CHANGES
(Headcount)

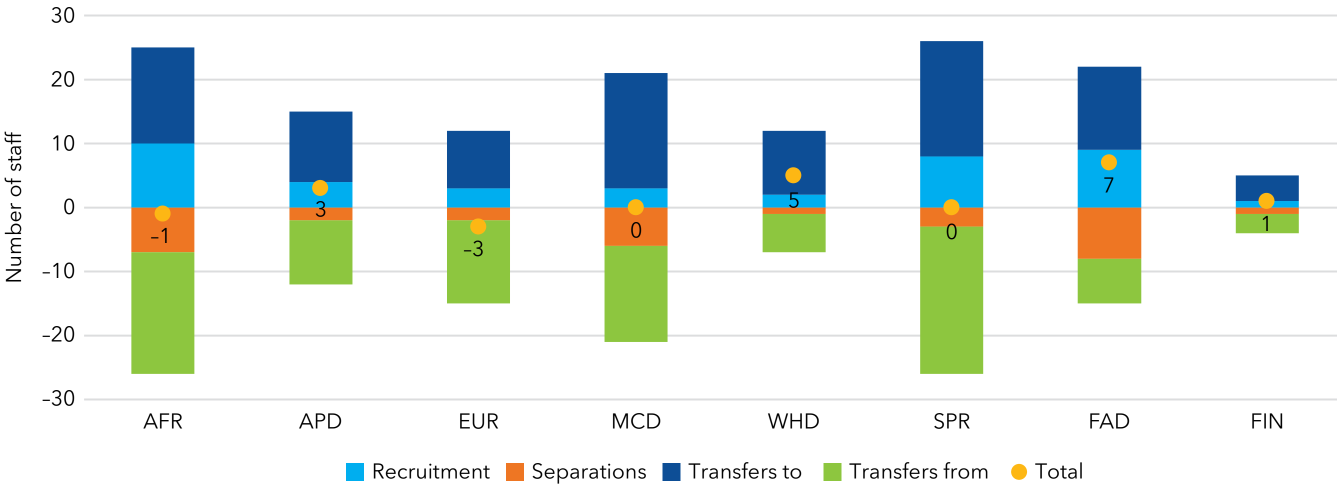
	TOTAL CRISIS ALLOCATION	END 2020Q2 VS. END 2020Q1	END 2020Q3 VS. END 2020Q2	END 2021Q1 VS. END 2020Q1	END 2021Q4 VS. END 2020Q1
AFR	18	0	–1	9	19
APD	7	2	1	4	5
EUR	5	1	–4	1	–5
MCD	6	4	–4	11	17
WHD	10	2	3	3	4
SPR	19	–6	6	0	6
FAD	14	4	3	8	11
FIN	14	–2	3	3	7
All IMF	135	12	20	46	104

Sources: Total Crisis Allocation from Table 6 (IMF, 2021b); net headcount changes by department derived from HRD data on recruitment, separations, and interdepartmental transfers of staff in the economist career stream.

30 Under normal circumstances, the maximum term of employment for contractual research officers and assistants is four years. However, given travel restrictions at the time, it was decided on humanitarian grounds that contractual employees reaching the end of their term could have their contracts extended for up to six months.

31 Although this form of musical chairs did not help reduce work pressures, it did positively jumpstart a flow of interdepartmental mobility that had become stagnant.

FIGURE 29. IMF STAFF FLOWS, END-2020Q1 TO END-2020Q3
(Number of staff)



Source: IEO staff calculations using HRD data on recruitment, separations, and interdepartmental transfers of staff in the economist career stream.

Transfers overshadowed recruitments. The number of interdepartmental transfers dwarfed the number of external recruits during the early stages of the pandemic (see Figure 29). Departments like AFR and SPR experienced particularly heavy staff losses during this period and thus had to rely more on new hires from the midcareer pipeline. These departments were thus not able to raise their headcount and disproportionately bore the responsibility for onboarding new staff and ensuring progress on institutional diversity goals (IMF, 2021a).

Midcareer pipeline and structured recruitment framework. HRD was cognizant of the recruitment issues and took steps to improve the process. First, HRD accelerated replenishment of the mid-career pipeline, which largely had been exhausted by the first round of crisis hiring.[32] This replenishment, the single largest at the time, was concluded in September 2020 with 38 additional midcareer candidates added to the list (IMF, 2021a). According to staff, the replenishment speed as well as the quality and diversity of new candidates was excellent. The mid-career pipeline was replenished again in April 2021, after the second round of crisis hiring, this time with 53 mid-career candidates (IMF, 2022a). Second, HRD developed a structured recruitment framework to expedite the process and spread the task of absorbing new recruits. One aspect of this framework, designed to facilitate a broader distribution of external hires across departments, involved departments agreeing to hire a minimum percentage of crisis positions from the midcareer pipeline, i.e., 25–50 percent (IMF, 2021a). Other aspects of this framework were designed to speed up internal recruitment, recognizing the long lags required by compliance with existing internal recruitment processes.

Workday's still limited recruitment functionality. Besides the lengthy administrative protocols presiding over intra- and inter-departmental staff movements, some HRD staff attribute the slow and quantitatively unsatisfactory redeployment of Fund staff during the crisis to the lack of a system to identify staff by skills quickly and dependably. Workday—the Fund's novel Cloud-based system for human capital management—provides a centralized repository of job market ads, but remains a work in progress. Even today, it offers Fund recruiters only a basic recruitment function which does not provide details about a job candidate's skill set nor specify their working and/or functional experience.[33] This is limiting, especially during a crisis when

[32] The midcareer pipeline comprised 26 candidates at the end of 2019.

[33] Workday software offers considerably more in terms of potential functionalities with regard to skill identification, but these functionalities are currently not activated at the Fund.

the Fund needs to move fast and quickly identify staff with a specific set of capabilities and experiences (for example, emergency or program financing, regional knowledge, or languages) for strategic assignments or assignment to more durable crisis positions.

Impact of uncertainty. The hiring process also was held up to some extent by uncertainty over the likely duration of the crisis and the availability of crisis positions. When the second, fuller round of crisis positions was allocated in October 2020, it was unclear whether a budget augmentation for the following year would be approved to sustain the higher headcount (see Section V.B). Departments were warned at the time that some approved staffing authorization could be clawed back or that the additional expenses could require strict limits on travel and events (which were expected to become feasible) (IMF, 2020m). Thus, some departments chose a slower recruitment process while waiting for greater clarity about the longevity of the pandemic and its budgetary impact.

B. BUDGETARY RESPONSE

FY2020 Budget Updates and Underruns

April 2020 staff proposal. As part of the regular budget process, in early March 2020 staff briefed the Board informally on preliminary proposals for the FY2021–FY2023 medium-term budget (IMF, 2020a).[34] The FY2021 budget proposal maintained the flat real resource envelope and did not mention the possible implications of the COVID-19 pandemic on Fund resources, which were hard to assess at the time. However, the significant impact of the COVID-19 crisis on the FY2020 budget outturn and FY2021 budgetary needs quickly became apparent. Staff submitted an initial paper to the Board in April detailing supplementary information on FY2020 and revised proposed decisions for the FY2021 budget. This paper noted an estimated "underspend in FY2020 of about $10 million (relative to the expectation of full execution prior to the crisis), driven largely by reduced travel and the shift to virtual Spring Meetings (IMF, 2020b).[35] In addition, it highlighted that streamlining and reprioritization opportunities were limited following substantial efforts in recent years.

Higher carry forward ceiling and budget augmentation. The April 2020 budget supplement proposed a two-stage strategy to address the likely sustained crisis-related demands. The first stage included "an increase in the carry forward ceiling from 3 percent to 5 percent of the Fund's general administrative expenses, on an exceptional basis for the next three years" (IMF, 2020b). This increase would allow the IMF to use the estimated FY2020 underspend towards increase demands in FY2021. When combined with other existing buffers, i.e., a contingency reserve of $8 million and estimated travel savings of $10–12 million in FY2021, these additional resources were judged as likely to be sufficient to meet the pressing needs during the initial phases of the pandemic. At the same time, however, these resources were assessed as likely to be insufficient to meet anticipated needs stemming from the pandemic over FY2021 as a whole, as well as into FY2022 and potentially FY2023. The second stage therefore would entail "an exceptional and temporary increase in structural resources" (IMF, 2020b). A more formal proposal for this exceptional augmentation was expected to be provided in a few months as the crisis impact became clearer.

FY2021 Budget Reallocation and FY2022 Augmentation Proposal

Resource reallocation. With the FY2021 budget approved, including the increased carry forward limit, staff turned their attention to addressing extraordinary demands on frontline departments. An "immediate needs" round was started in May 2020 to allocate approximately $30 million in available resources for the hiring of additional regular staff and contractual employees (IMF, 2020h). The end-year FY2020 Accountability Framework was then repurposed to update each department's budgetary needs and lay the groundwork for an initial allocation of crisis positions as well as a supplementary budget request, to be discussed with the Board later in the year (IMF, 2020g).

[34] The IMF's fiscal year runs from May 1 to April 30.

[35] The actual overall underspend was $8 million.

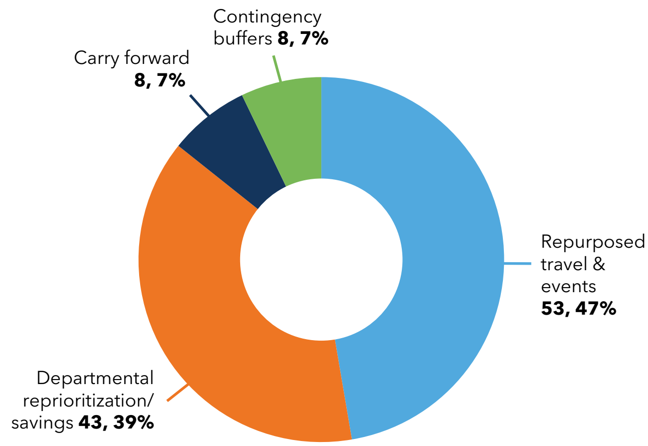
Budget allocations for crisis positions. As part of the repurposed FY2020 Accountability Framework, departments requested an additional 101 FTE staff and 43 contractual positions that, in total, would have cost approximately $48 million (IMF, 2020j). Given that only about $30 million was available under the FY2020 budget envelope, Office of Budget and Planning (OBP) proposed allocations that prioritized direct country support for intensified program engagement as well as policy and analytical work on crisis issues, among other factors. The Board approved the proposal in June 2020, which provided for an additional 52 FTE staff and 23 contractual positions. While some departments had all or most of their requests fulfilled, others only received a small percentage of the positions requested.

Proposed supplemental budget request. In October 2020, OBP led an informal Board discussion on the FY2020 budget outturn and FY2021–FY2022 budget strategy (IMF, 2020l). Staff estimated that gross crisis-related resource needs of $112 million, including a further sizable increase in staffing and a return to 50 percent travel and events in Q3 and Q4 of FY2021, could effectively be met through $43 million in savings from reprioritization of work streams and $69 million of available resources from existing buffers as well as reallocation of travel and events budgets (Figure 30). Although additional budgetary resources would not be needed for FY2021, given these assumptions and the accompanying depletion of buffers, staff expressed the likely need for a temporary increase in budgetary resources in FY2022 above the flat real budget ceiling.

Lack of clear Board support. While several Board members expressed support for a further, temporary increase in staffing and an exceptional budget augmentation for FY2022 if needed, the majority were either unable or unwilling to make a decision at that time. Nevertheless, management approved authorization of the proposed sizable, temporary staffing increase alongside the need "to identify specific fallback measures that ensure adherence to a flat FY2022 budget, if needed" (IMF, 2020m).[36]

FIGURE 30. FY2021 CRISIS NEEDS, SOURCE OF FUNDING

(In USD millions; percent)



Source: IMF (2020l).

Benign budget prospects. Fortunately, at least for the budget, as FY2021 progressed it became increasingly clear that travel and events would remain on hold for a longer time period and that it would take longer to fill all the authorized crisis positions. Actual spending in FY2021 therefore fell considerably relative to FY2020 and the need for a structural increase to address COVID-related needs in FY2022 abated. Eventually, a structural budget augmentation was approved in early 2022, but this was driven primarily by the need to provide additional resources for newly emerging priority areas such as work on climate and fragile states (IMF, 2021b).

C. CHANGES TO THE WORKING ENVIRONMENT

Emergency Logistical Governance and Strategy

Corporate logistical strategy. From the crisis onset, management tasked the Crisis Management Team (CMT)[37] with leading the IMF's institutional health and safety response to the pandemic and put it in charge of all operational decisions regarding the Fund's working environment

[36] Such measures could include limits on travel/events and a claw back of some crisis positions.

[37] CMT is a body composed of ten standing principals from various Fund functional departments and the Staff Association, headed by the Director of the Corporate Services and Facilities Department (CSF), which was established in 2011 primarily to deal with emergencies in the field.

and its premises. The CMT worked closely with the World Bank Health and Safety Directorate to obtain guidance on health and safety issues. HQ and most offices in the field were closed until further notice as of March 16, 2020. For staff in the field, a decision was made quickly to allow staff to voluntarily move back to HQ or their own countries, or to work remotely in the duty station. In the end, about 200 staff were relocated to their preferred location. In addition, all staff were given greater flexibility to work outside their duty station. In June 2020, CMT concluded it would not be safe to reopen HQ quickly and developed a framework for a gradual return to HQ that would be updated as health conditions and mitigation measures allowed. Reopening of field offices followed a similar approach calibrated to local conditions.

Evolution of the framework. The CMT met regularly over the course of 2020–21 to oversee the implementation of the gradual return plan (a process that is still underway although all offices have now returned to on-site operations in a phased manner using a hybrid model combining in-person and remote work). A robust communication campaign was arranged in conjunction with the Communications Department (COM) following all decisions, including holding regular virtual townhall meetings, to ensure staff were aware of upcoming changes. Briefings to the Board at first were quite infrequent and information was provided mainly in written form, leaving little opportunity for an informed discussion with the Board. While informal Board meetings became more frequent, CMT staff in interviews explained that responsibility for decision-making on these issues was in the realm of management, and the need for quick actions had limited the scope for Board engagement in early months. Several Board members lamented the lack of greater involvement in these large-impact operational decisions and wished for greater transparency about the rationale guiding decision-making for the plan to return to office, especially with respect to its timing and modalities. As the pandemic progressed, the CMT made considerable effort to engage with the Board before any major decisions were made by management.

Shift to Virtual Work

Real-life stress test for remote work. The IMF already was relatively well placed to shift to a remote work environment because infrastructure and work practices had been established to enable most staff to work from home during the IMF's Annual and Spring Meetings as well as to operate overseas regularly during missions. The shift was facilitated by the Fund's work during 2017–19 on a Crisis Management Plan, as part of which guidelines were designed for rapid modifications to work and to Fund closure due to epidemic and pandemic events.[38] With the pandemic's onset, aggressive steps were taken to further enhance staff's connectivity and equipment. Efforts were made to improve access to laptops and videoconferencing equipment for staff that previously had not been issued such devices. Online collaboration tools were launched and improved to allow teams to collaborate effectively while physically apart. Remote simultaneous interpretation solutions also were introduced to aid virtual missions and high-level meetings (IMF, 2021b).

A relatively smooth shift. Interviews with staff and country officials suggest that the shift to remote engagement with officials in member countries was achieved relatively smoothly, a remarkable achievement in the circumstances, and even came with some advantages. Videoconferencing in many cases provided greater flexibility in defining the length of missions and greater scope to front-load and increase the number of technical discussions. In some cases, country officials felt this enabled staff to prepare better for subsequent policy discussions, and thereby improve their focus and quality.

Advantages of remote work. From staff's perspective, the fact that missions could take place over a longer period meant the number of meetings each day could be reduced, giving more time to absorb information and making it easier to meet the challenge of working across time zones. The virtual environment also meant that it was easier and cost effective to arrange for functional experts and to integrate field staff in a subset of meetings, improving the quality and depth of discussions. Moreover, country officials found the move to remote working meant

[38] "Administrative Guidelines for Epidemic and Pandemic Events Associated with Infectious Diseases" (IMF, 2017). In June 2018, the Fund carried out a weeklong high-level strategic exercise of critical crisis response and business continuity procedures. In February 2019, the Fund had convened a symposium to understand the impacts of antimicrobial resistance and pandemics.

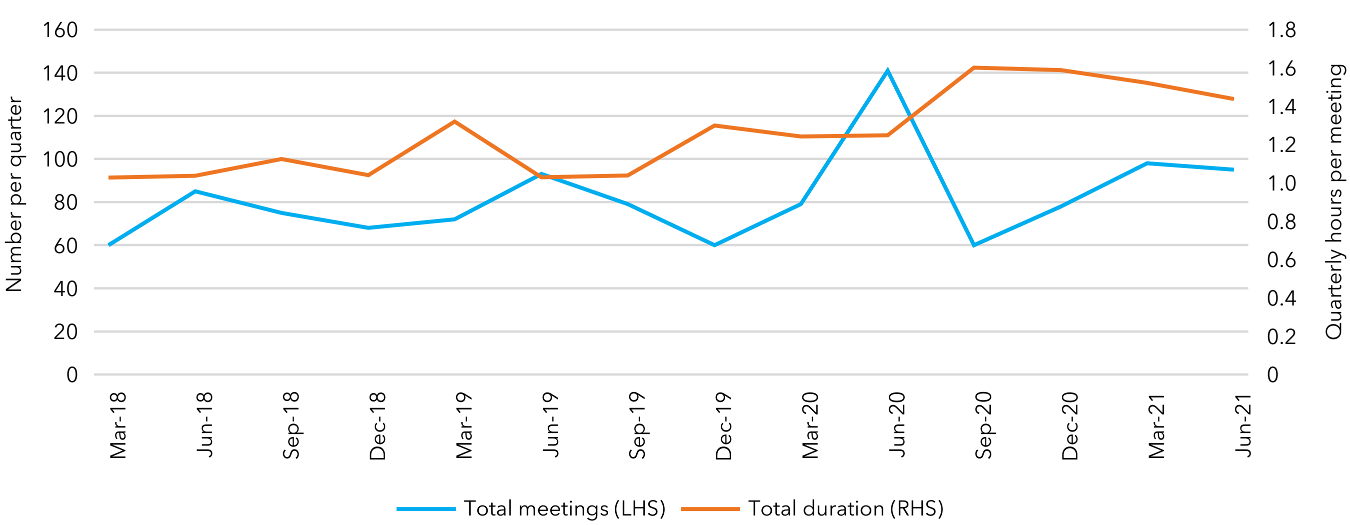
that it became more natural to maintain informal contact with staff, something that was particularly important during the period when staff's work on Article IV consultations was suspended and consultation cycles were extended.

Challenges of remote work. Despite these successes, the work-from-home environment also posed challenges for both staff and their counterparts. Staff's need to work across time zones and the fact that videoconferencing with country authorities tended to lengthen mission engagements, coupled with the large volume of lending and other activity, caused a sharp increase in overtime and a decline in leave usage. Pressures on staff with young children at home were particularly intense. Additionally, country teams mentioned less depth and access to information than typically gained through in-person interaction, particularly where relationships were not well established and for complex negotiations, like UCT programs.[39] Some country officials reported that their home internet connections were unstable, undermining the functionality of videoconferencing (IMF, 2021).

A virtual Board. The Board's shift to a virtual environment required a formal Board decision since there is a legal requirement for the Board to meet in person. The initial transition benefitted from the pre-existing IMF Connect platform, which allowed for relatively seamless document sharing and meeting scheduling. The IMF also shifted to a Webex platform for virtual Board meetings, which entailed better security features, a chat function, and an ability to designate a single host, making it easier for SEC to manage meetings.

Responding to the increased workload. The Board and staff also had to cope with a sharp increase in the workload, including in the number and length of meetings required to address pandemic-related lending requests and other matters (Figure 31). To help manage the processing of pandemic-related lending requests, various procedures were streamlined such as the adoption of a four business-day review period for RCF and RFI requests and for stand-alone requests for assistance under the CCRT (IMF, 2020f). The Chair's summing up and gray statements were expected to be relatively short as well. More broadly, a series of initiatives were launched on a temporary basis to help alleviate work pressures on staff and provide additional support, including a major streamlining of the annual talent management exercise, changes to benefit policies and processes, support for flexible work arrangements, and additional healthcare benefits. The Appendix to Batini and Wojnilower (2023) provides further information on these initiatives, although their assessment lies outside the scope of this evaluation.

FIGURE 31. VOLUME AND LENGTH OF EXECUTIVE BOARD MEETINGS
(Quarterly)



Source: IEO staff calculations using SEC data.

[39] Country teams also reported heightened sensitivity to sharing of confidential information, due to potential cyberattacks and security breaches as well as domestic legal restrictions.

Initial challenges. The Board and staff faced initial challenges accessing and adapting to the virtual environment. Many individuals did not have adequate home Wi-Fi connections at the outset of the pandemic and had not yet been issued IMF laptops or cell phones. Many individuals at the Fund also required extensive training on the use of WebEx and other virtual systems.

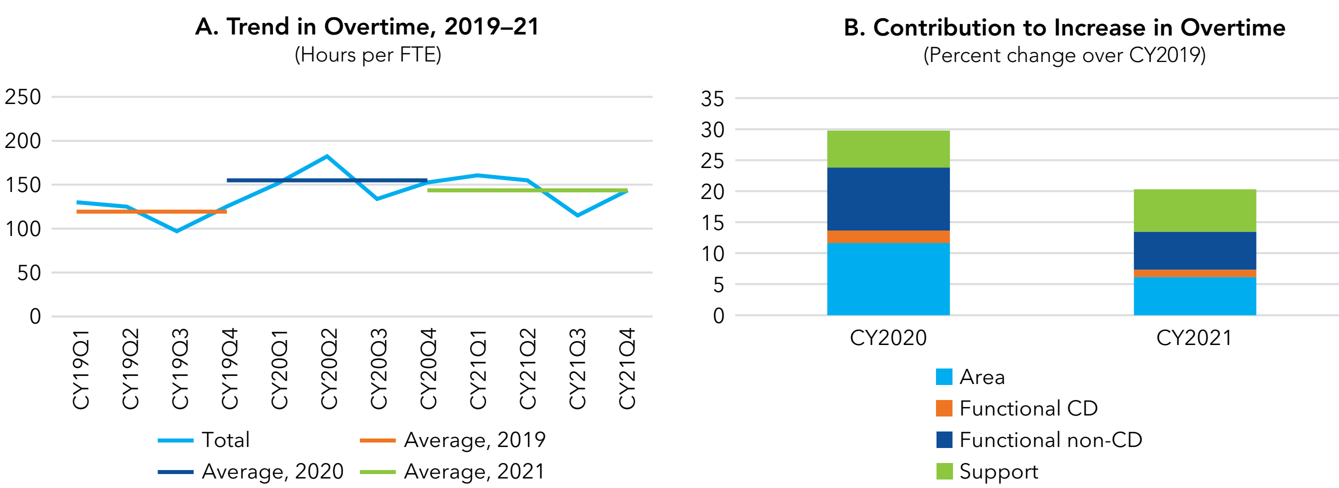
Shift to remote working largely successful in terms of ability to deliver work product. Over time, the Board, management, and staff became comfortable operating in the virtual environment and the scale and quality of operational work and Board oversight does not appear to have suffered greatly. Moreover, the fact there were no major glitches in the shift to a virtual environment nor any major security breaches is a strong testament to the success of the IMF's response. At the same time, however, the extended lack of field presence did complicate relationships with some countries. Moreover, in interviews, some Board members noted that interactions with staff in a virtual setting were not as effective as provided by an in-person setting, leading to frustration building as the period of remote work extended.

D. ASSESSMENT

Remarkable adaptability. The IMF's corporate response to the pandemic demonstrated impressive commitment and flexibility in adapting to a crisis like no other. Numerous HR and budgetary initiatives were quickly introduced to support the Fund's crisis response, and the shift to remote work occurred almost overnight without impairing the Fund's capacity to respond to the pandemic related needs of its members. In making decisions, the Fund clearly gave priority to protecting the health and safety of staff, while taking necessary steps to ensure that the Fund was able to fulfill its operational mandate in the face of an unprecedented crisis.

Work pressures. While applauding the overall success of the corporate response in terms of helping the Fund achieve its immediate work priorities, it should also be recognized that the COVID-19 pandemic, like prior post-shock and crisis periods, put huge stress on the institution and particularly its staff that could not be fully mitigated. Staff surveys conducted by CMT in April, May, and December 2020 signaled heightened risks to staff morale as well as work pressures, particularly for staff in front-line departments and those with dependents. Around 40 percent of Fund staff experienced difficulties in balancing work and life pressures through all of 2020. These struggles stemmed, at least in part, from an increase in overtime hours due to the heavier workload. Specifically, overtime hours per FTE in CY2020 increased by 30 percent over CY2019, with a peak in the second quarter of CY2020 (Figure 32, Panel A). Overtime hours have declined since then but remained nearly 20 percent above CY2019 rates in CY2021. The increase in overtime was particularly pronounced in area and functional non-CD departments, which comprises COM, FIN, RES, and SPR (Figure 32, Panel B).

FIGURE 32. INCREASING OVERTIME



Source: IEO staff calculations using OBP data.

IEO Staff Survey. Results from the IEO staff survey corroborate these findings. Ninety-four percent of respondents felt that significant additional overtime hours, beyond the pre-COVID norm, were required to complete their tasks during the crisis. Relatedly, 82 percent of respondents personally felt extraordinary stress because of the very heavy work pressures during the evaluation period, and 79 percent of respondents felt their work-life balance was hindered by time differences with counterpart country officials. Less than 40 percent of respondents felt country teams were staffed adequately to meet extraordinary needs and only 45 percent felt that HR policies and practices were adjusted in meaningful ways to help reduce excessive strains on work-life balance.[40]

Human resource strengths. The pandemic, in many ways, showcased several of the IMF's institutional strengths. Its dedicated workforce went above and beyond the call of duty, logging substantial overtime and foregoing leave, to help member countries navigate the crisis. Countless staff also volunteered for one-off assignments within and across departments, coordinated by SHRPs, to ease the burden on departments and teams hit hardest. HRD, meanwhile, expedited hiring practices and rapidly replenished the midcareer pipeline.

HR management challenges. The fact that a large share of the workforce was logging at least 20 percent overtime for lengthy periods and experiencing significant strains on work-life balance highlights that the IMF relies on the discretionary effort of staff to handle a crisis. It also points to the challenges faced by HR management across HRD and other departments, particularly in augmenting and redeploying staff resources. The fact that the Fund was still adjusting to a new centralized HR delivery model and that the new HR management system was a work in progress and provided limited information on staff experience and expertise certainly complicated these challenges. The limited information available on staff experience and expertise underlines the urgent need to complete the transition. It also suggests a broader need to review Fund hiring mechanisms and to streamline recruitment procedures. Moreover, while a demand-driven internal labor market may work well to facilitate job matching and individual career development during normal times, a more top-down approach, approved temporarily during a crisis period, could help to address the shifting needs and reduce staff work pressures. Failing to address these issues exacerbates the risk of greater staff burnout and a decline in the IMF's attractiveness as an employer.

Budget flexibilities and constraints. The crisis also required substantial additional spending to meet crisis needs, including for a temporary expansion of the workforce. The budget response was managed nimbly, without requiring any ad hoc increases in the budget envelope, thanks to quick reprioritization and use of available buffers in the budgetary system, and the substantial budgetary savings from reduced travel and event expenses. Nevertheless, there are limits to the flexibility within the system, creating a persistent risk during crisis periods of a situation where additional funds are needed but the emergency buffer and carry forward resources are depleted or exhausted. While in principle a supplementary budget can be approved if needed, obtaining Board approval can take time and involve periods of uncertainty. The costs involved in 2020 were shown by the fact that the actual allocation of funds was delayed and uncertainty about the duration of additional resources slowed the hiring process.

Logistical strengths. By repurposing and empowering the CMT, an existing crisis operational team, and leveraging advice from the World Bank Health and Safety Directorate, the Fund managed to make decisions rapidly about access to Fund premises and repatriation of staff aimed at ensuring personnel health and safety. This way the Fund also ensured business continuity in serving the membership during the crisis, while the health and safety of the staff always received priority. A two-year plan was also developed for a gradual return to work in a new hybrid format at HQ and in the field and adapted over time in response to the shifting trajectory of the pandemic and related health risks. A robust communication campaign followed all decisions to ensure personnel were aware of the upcoming changes.

Logistical challenges. The shift to a virtual environment and the subsequent drawn-out re-entry process involved a number of challenges to IMF practices and processes. While decisions were taken in record time, the CMT as

[40] Koh and Wojnilower (2023). While the survey response rate was relatively low, the 234 completed responses, the majority from staff working in front-line positions in responding to the pandemic, do provide relevant evidence on staff concerns.

constituted has limited resources to deal with high-impact, large scale, and/or permanent corporate logistical decisions. Staff interviews revealed that during 2020 this led to a situation where the team often felt overwhelmed relative to the multiple and urgent tasks at hand, had to rely heavily on World Bank guidance on the key health and safety decisions, and had limited available time for advance communication or more frequent interactions with the Board on key strategic choices. In addition, interviews and surveys suggest that numerous logistical decisions taken by the team could have been more flexible. For instance, the Fund's phased reentry plan in 2021 was both more drawn out and comparatively more cautious than many peers. Although these choices made through an abundance of caution met the preference of a large portion of staff, they did have some consequences in terms of operational work, particularly where a restoration of field presence would have been useful for bolstering country relationships, and of the Board's capacity for effective oversight. More active communication and consultation with staff could have enhanced transparency and buy-in regarding decision-making for the return to HQ.

6

CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

Agile and effective response. Even for an institution used to dealing with crises, the COVID-19 pandemic represented "a crisis like no other." The Fund deserves great credit for its effective and agile response to provide early financial support to a broad range of members at a time of urgent need and high uncertainty. Our case studies indicate deep appreciation from the country authorities receiving emergency financing for the speed of the Fund's reaction.

Strategy

Rapid deployment. Over the course of February 2020, Fund staff and management worked on a pragmatic strategy to address the needs of the situation, taking into account likely constraints posed by the preferences of the membership. The Fund placed a premium on saving lives and livelihoods by providing quick financing support through its existing emergency financing facilities and urging countries to use the Fund's precautionary instruments, including a newly introduced short-term liquidity line. As a result, a record 62 countries received very rapid support—within the first three months of the onset of the pandemic—and two-thirds of these countries received support on concessional terms. The Fund also deserves credit for continuing to adapt the chosen approach in response to new developments.

Benefits and costs. While the bold strategy delivered impressive benefits, it should be recognized that the speed of decision making and reliance on the existing toolkit also had costs. These included constrained consultation, incomplete understanding with key partners, limited use of precautionary instruments, limited assessment of risks to the Fund, and operational challenges in applying emergency financing facilities as the main financing channel.

Constrained consultation. While the IMF's strategy was discussed with the IMFC and the Board during March 2020, and bilaterally with some shareholders and officials, our interviews with Executive Directors suggest that many within the membership did not feel adequately consulted on the Fund's emerging strategy in the initial weeks. For instance, the Fund's initial announcement of $50 billion in support of countries became known to many through news reports. Interviewees appreciated that management and staff were unusually pressed for time and that the ultimate strategy adopted may not have been altered much by broader consultation. Nevertheless, an early consultation with the full Board would have provided broader ownership of the strategy, allowed for a more open airing of the challenges it involved, and offered an early indication of support for the full range of possible options, such as the introduction of a new pandemic facility.

Partnership challenges. The IMF worked closely with the G20 and other international organizations in the early months of the pandemic to develop a wide-ranging response to the unprecedented challenges across the international community. Early engagement with the Fund was particularly appreciated in the UN system. The partnership with the World Bank was effective in advocating for and supporting an important G20 debt service suspension initiative. However, the Fund and Bank did not reach a full understanding on the overall financing strategy to be followed, which led to some strains at the country level, as discussed below.

Limited take-up of precautionary facilities. The use of the Fund's precautionary facilities did expand during the pandemic but the number of countries involved was still very small and there was no take-up of the newly approved SLL until two years later. Stigma may have played a role in keeping some countries from approaching the Fund, although it should be recognized that demand was also dampened by the prompt actions by the Fed, ECB, and other central banks in easing monetary conditions and providing swap lines to ease liquidity concerns in EMs. These actions allowed for a quick reversal in EM capital flows in mid-2020, without which more countries may have faced significant financing gaps.

Risks to the Fund. As discussed further below, the pragmatic reliance on the existing framework for EF led to risks to the Fund and operational challenges. There was a strong acceptance across the institution and its shareholders that as the premier multilateral responder to international economic crises the Fund should be prepared to take on heightened risk to its own balance sheet. Indeed, not doing so would have clearly created adverse reputational risks for the Fund. At the same time, considerable attention was paid to assessing the adequacy of loan and subsidy resources for the PRGT, leading to major fund-raising efforts. However, there was less attention to the extent of credit risks for the IMF's balance sheet especially the PRGT as the Fund's crisis response strategy was put in place in the initial months of the pandemic. While there was increasing analysis of such risks in subsequent reports, some key sources of risk—such as the rising share of borrowing through emergency facilities and the rising share of credits to countries with high risk of debt distress—were still not examined in depth. While the need for rapid decision making in a highly uncertain environment would have certainly complicated in-depth analysis, it is nevertheless striking that decisions with major consequences for the Fund's balance sheet were made without deeper attention to the risk implications of key decisions, for example, to double the access limits on EF.

Outlook

Quick revision of outlook. Fund staff quickly revised their global economic outlook, consulting with epidemiologists and health experts on the likely duration and spread of the pandemic and its economic impact. Staff's early estimate during February–March 2020 that global output would decline by 3 percent turned out be quite accurate. The staff's ability to rapidly adapt its forecast for a major unprecedented shock was much appreciated but, as with the strategy, some on the Board felt they could have been better informed about evolving views on the outlook in the initial weeks, based on direct briefings from staff rather than press reports and G20 surveillance notes.

Increased top-down guidance. There was greater recourse to top-down guidance from RES during the forecasting process to ensure shared assumptions about the duration and economic impact of the pandemic. Interviews with area department staff and survey responses suggest that they accepted the need for increased top-guidance and, by and large, did not feel that it hindered their ability to adjust their forecasts for country circumstances. Some staff and Board members feel that the initial top-down guidance made the implicit assumption that output impacts of lockdowns in EMs and LICs would be similar to that in AEs, which they felt was incorrect and affected the quality of forecasts for EMs and LICs. However, we did not find systematic evidence for this when looking at forecast errors across country groups.

Pessimism in June 2020 growth forecasts. In contrast to fears expressed in policy and media circles in the early months of the pandemic that the IMF's forecasts were too rosy, the IMF's June 2020 forecasts ended up being much more pessimistic than the eventual outcome. The forecast errors were particularly large for the "top ten" countries—the countries with the highest weights in the global forecast. However, the reason for this excessive pessimism cannot all be attributed to increased top-down guidance on the extent of cuts to make in EM and LIC forecasts or on assumptions about the impact of lockdowns in EMs. In fact, forecast errors were much larger for AEs than for EMs and LICs. For the latter country groups, the IMF's 2020 growth forecasts turned out to be reasonably accurate on average, though errors were large for EMs among the "top ten." Private sector consensus forecasts also shared the pessimism of the

IMF's forecasts, though not to the same extent. In our view, the pessimism resulted from staff's attempt to best reflect the information on hand at the time rather than a deliberate attempt to make a dire forecast.

Surge in 2021 inflation missed. A bigger forecast miss was the failure to anticipate the sustained surge in inflation starting in 2021, a concern starting to be flagged by some outside experts by spring 2021. Staff had accurately forecast that 2020 inflation would be subdued based on their judgment that demand weakness would outweigh the effects of supply disruptions. However, their judgment that 2021 inflation would remain subdued proved inaccurate as circumstances began to shift in early 2021, including due to the strength of continued policy stimulus as economies were recovering quite rapidly. The Fund shares this failure with forecasters at the Fed and other major central banks. Though the Fund's forecast miss can be explained as a judgment call that went wrong, it also seems to mark another instance of Fund deference to conventional wisdom among major central banks.

Policy Advice

Fiscal policy. The Fund quickly urged countries to "spend but keep the receipts." We broadly share the view of many that the Fund's advice was bold, appropriate for the circumstances, clearly communicated, and avoided past mistakes. While the headline message was to do "whatever it takes," the Fund also emphasized that spending should be temporary and targeted to avoid a build-up of fiscal risks. But some country authorities feel that the Fund's advice came across as too broad-brush to be suitable in all country circumstances and that it provided political cover for governments that were inclined to follow the advice to spend without consideration for other aspects of the Fund's advice. The full costs of the Fund's policy stance will not become clear until much later when the consequences of public debt build-ups have to be tackled, and this evaluation is too early to offer a full cost-benefit analysis. But it is clear that the Fund's fiscal policy guidance was made with awareness of future risks and after considerable internal consultation and Board review, notably during the Board discussions of Fiscal Monitor reports.

Monetary policy. The Fund broadly supported the stimulative policies adopted by central banks in AEs and EMs, and also recognized their positive spillovers for the global economy. However, while internally debating the pros and cons of the use of unconventional monetary policies by EMs, the Fund refrained from a timely public stance beyond reporting on developments; some policymakers and market participants would have preferred that the Fund weigh in more quickly and openly on a major new monetary policy development. The Fund could have been more active as a forum for public discussion of the issue, in part drawing on analysis by its monetary policy experts group (formed in response to a recommendation in an earlier IEO evaluation). It would have been particularly useful to bring in more external EM monetary policy experts—which should have been facilitated by the switch to working in a virtual environment.

Advice on dealing with capital outflows. Staff was careful to follow the Institutional View's guidance on managing volatile capital flows, including emphasis on the role of flexible exchange rate management. The Fund appropriately refrained from public comment on the use of capital flow management measures during the months of sharp outflows from EMs and LICs at the start of the pandemic, which could have added to market volatility, while being more open internally to supporting use of such measures should the situation continue to deteriorate. Functional department experts engaged with country teams, and in a few cases confidentially with country authorities, on what measures would be most effective in their country circumstances should they be needed.

Policy tracker and policy guidance notes. The IMF deserves much credit for launching a widely appreciated policy tracker to share information on policies put in place by governments around the world to deal with the unique challenges of a joint health and economic crisis. The tracker was launched on March 25, 2020 and by April was already one of the most visited items on the IMF's website. The Fund also scrambled to produce an extensive series of "How-To" notes on policies to respond to the unprecedented circumstances of the pandemic, which was generally appreciated by both staff and country officials, although more granularity would have been helpful in some of these notes.

Fund Financing: Access, Tailoring, and Evenhandedness

Balancing risks and rewards. For the most part, the Fund's reliance on its EF framework worked effectively during the pandemic to offer timely and deeply appreciated financial help to a wide range of countries while accepting some greater than normal risks to the Fund. The exigencies of the pandemic were recognized by quickly pivoting from UCT to EF financing, scaling back PAs relative to their use in past EF, and giving the benefit of the doubt to countries in some difficult judgments about debt sustainability. While these and other sources of risk to the Fund's own balance sheet were not ignored in approving EF requests in the initial months of the pandemic, attention to them increased after mid-2020, although by this time the bulk of EF requests had been approved. Nonetheless, the quality of the IMF's balance sheet deteriorated during the first year of the pandemic—especially for PRGT credits—with an increasing share of the portfolio owed by countries at high risk of debt distress on financing provided without the usual UCT program framework.

Lack of access or limited access. While the Fund provided swift financing to a record number of countries, 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. For example, as discussed in our regional background papers, Belarus did not receive financing because of concerns about its health policies, Iran for concerns about governance and economic policies, and Zambia for concerns about debt sustainability, while Nicaragua's access to EF was considerably delayed until stronger assurances on policies were provided. This experience suggests that while displaying flexibility in the face of an unprecedented global health emergency, Fund management and 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, as discussed further below, some decisions did lead to perceptions of lack of evenhandedness in a few cases and raise concerns about the Fund's ability to support some members in very difficult circumstances.

EF and UCT arrangements. Under the Fund's adopted strategy, rapid deployment of EF was expected to be followed by UCT arrangements for countries needing further economic adjustment and additional financial support. However, some observers worried that by providing EF on easy terms with no ex post conditionality, the Fund allowed countries to 'shop among facilities' and thus avoid necessary policy adjustments. And the regional background papers highlight a number of countries in which mission teams felt that more attention should have been paid to avoiding policy slippages in discussions over EF requests, even without formal ex post conditionality. It is hardly surprising that the doubling in annual access limits induced more members to use EF instruments than to use UCT arrangements as the former are available for rapid deployment in a crisis by design. Moreover, it is not clear that the provision of EF in 2020 had any lasting impact on use of UCT programs. The total number of countries with (non-precautionary) UCT arrangements at end-September 2022 (32 countries) was virtually the same as two years earlier (33 countries), notwithstanding the further infusion of liquidity through the large SDR issue in July 2021. Hence, at least in the aggregate, EF did not act as either an "on ramp" (transitioning to UCT arrangements) or an "off ramp" (discouraging subsequent use of UCT arrangements).

Tailoring and Scale of Emergency Financing

Tailoring of access. Overall, the evidence suggests that the application of the Fund's framework for provision of EF generated rather binary outcomes. Most countries either received full access up to the limit or no access at all, which did not provide much tailoring to country circumstances and needs. In quantitative terms, IEO analysis shows that 'borrowing space'—the maximum amount available given various access limits—alone explains the bulk of the variation in access across countries, particularly for RFI requests (nearly 75 percent of the variation). In RCF and blended requests, there was a somewhat closer relationship to BOP needs (accounting for around 20 percent of the variation), suggesting greater fine-tuning of access in the more difficult cases of countries accessing concessional financing. However, the level of Fund financing shows little correlation with other factors that could have affected a country's needs during the pandemic, such as the country's spending needs (as proxied by the preparedness of its health systems) or staff's own forecast of the pandemic growth impact.

Scale. As noted above, authorities interviewed for our case studies generally felt that the overall scale of Fund financing was not commensurate with their needs during the pandemic. Outside observers also noted that Fund financial support during the pandemic was much lower than could have been provided out of the Fund's GRA resource envelope (although PRGT finances were certainly stretched by the extensive use of the RCF). On balance, however, higher across-the-board access to EF would not, in the IEO's view, have been appropriate given risks involved and the need in many countries for policy adjustments best suited for a UCT program. Nevertheless, a more tailored approach to access (with access related to both need and the strength of the policy framework) could have been helpful. In particular cases, like some small developing states that were heavily hit by the economic effect of the pandemic, the option to provide higher Fund support than allowed by the standard ceiling would have helped countries by moderating the adjustment they ended up making through reserve drawdowns or macroeconomic policy choices. At the same time, countries with particularly high risks could be kept to access well below the standard ceiling, until such risks were adequately addressed.

Concerns about evenhandedness. Authorities' concerns about lack of evenhandedness in providing emergency financing are difficult to fully resolve. Fund staff noted that decisions on access or prior actions required with access rested on a number of complex considerations, not just a mechanical application of standard indicators. In reaching judgments about the severity of governance concerns, staff supplemented the use of external indicators of governance with internal assessments based on perceptions of previous mission chiefs, views of technical assistance missions that had visited the country, and other sources. Staff also had to make judgments about whether political transitions (for example, as a result of an upcoming election) raised or lowered risks to the Fund by influencing policy choices. Another "intangible" was the quality of engagement with the authorities, which was better in some cases than others due to factors such as the track record of previous IMF programs.

Reputational risks. While recognizing the complexity, the IEO is still left with the distinct impression that there were variations across countries in the way that policy guidance was applied, in particular the degree to which countries were given the benefit of the doubt when difficult judgements had to be made in the inevitable gray areas that sometimes arise—and that such variations at least in part reflected political considerations among major shareholders. In a few cases, there does seem to have been a lack of evenhandedness in treatment leading to delays or limits on access to EF, which, while not widespread, clearly raise reputational risks for the Fund.

Fund Financing: Governance Safeguards

Scaling up of governance safeguards. In response to concerns expressed by the some on the Executive Board and in civil society about possible misuse of financing, Fund staff scaled up attention to governance safeguards from May 2020 onwards, culminating in Board-endorsed guidance on governance safeguards in October 2020. While it would have been better to engage with the Board formally on this issue in February–March 2020, as part of a discussion with the full Board on the Fund's strategy and its risks, it is nevertheless the case that by mid-May 2020, most EF requests included several governance commitments. The most common commitment was to undertake an independent audit of crisis-related spending, which was provided in 80 percent of RCF (or blended) cases and two-thirds of RFI cases.

Implementation of governance safeguards. At this point, it is still too early to provide a full assessment of countries' implementation of safeguards commitments. As indicated in the country case studies, subsequent staff monitoring in Article IV reports and other information suggests that many countries did indeed follow through with commitments. In other countries, however, implementation has fallen short, in some cases because of lack of commitment or ownership, but also because some safeguard commitments may have been too ambitious or onerous. Even where commitments have been implemented, further study will be required to assess the impact on governance standards.

Being prepared. The experience with governance safeguards during the pandemic suggests the importance of building up country capacity to implement governance safeguards as a general objective—in line with the Fund's overall approach on governance approved in 2018. Particular attention will be needed to ensure that safeguards are well suited to a country's circumstances, particularly the disclosure of beneficial ownership which has caused difficulties in many cases. Interviews with staff suggest that this is indeed being done, with staff teams providing guidance on the value of the safeguards and their implementation.

Impact of Fund Financing

Positive impact on outcomes. Our evidence provides a broadly positive view of the impact of Fund financing: it fulfilled its expected role in meeting BOP financing needs, it helped marshal support from other sources, and it mitigated output losses arising from the COVID shock. The impact is particularly clear when comparing countries that received Fund financing with those that requested financing but did not receive it.

Addressing BOP financing needs. The Fund's decisions on lending are, by necessity, based on its best estimates of the BOP financing needs at the time that the country's financing request is being considered. These estimates require judgments about developments that are difficult to forecast accurately such as the extent to which capital flows might reverse or how much financing is available from other donors. Hence, ex post, the Fund may end up financing a larger or smaller share of the financing gap than it had envisaged. Our evidence suggests that financing needs were broadly in line with and sometimes below ex ante projections, implying that Fund financing ended up playing, at least on average, its envisaged role in filling BOP gaps. For EMs, and for LICs receiving EF, the Fund provided the expected 10–15 percent of the financing gap; for LICs receiving UCT financing or both emergency and UCT financing, the Fund's share ended up larger, 25–35 percent on average. However, for small developing states facing large shocks, the share was lower.

Marshalling support from other official sources. Interviews with evaluation offices at other multilateral institutions suggest that cooperation with Fund staff at the country level was very helpful to staff at their institutions, and that Fund financing was perceived as providing a helpful signal about a country's policy framework, even in the absence of a full UCT program. In many cases where the Fund did not provide financing, it did provide useful assessment letters. Evidence from our country cases suggests that in virtually every case the authorities felt that Fund support had a catalytic effect for other official financing. However, interviews with these sources also surfaced broader concerns about the lack of a common platform that could be used to share information on how much financial support was being provided across multilateral institutions.

Productive collaboration overall with World Bank. In 75 percent of cases, countries received (or did not receive) COVID-related support from both institutions, and, on average, the Bank's financial commitments to countries that received Fund support were substantially higher than in cases of no Fund support. The collaboration at the level of country teams also worked well according to the evidence from both IEO case studies and those of the World Bank's IEG. The Bank and the Fund also successfully collaborated on advocating for and operationalizing official debt relief initiatives, such as the DSSI, under the auspices of the G20.

Some tensions emerged in some cases related in part to strategic differences. In about a quarter of the total cases, countries received COVID-related disbursements during the period March 2020 to June 2021 from the Fund or the Bank but not the other. There were 14 cases in which the Fund provided COVID-related financing but not the Bank; in most of these cases the Bank eventually disbursed but with considerable delay. Interviews suggest that there was greater concern with debt sustainability issues and ensuring appropriate medium-term policy settings at the Bank than prevailed at the Fund. At least in part, differences in approach seem to have reflected early strategic decisions—the Fund emphasized quick disbursement in the early months of the pandemic through emergency financing, while the Bank placed greater reliance on policy-based instruments. In a number of cases, such tensions complicated the Fund's financing decisions amid uncertainties about how financing needs would be met. At the same time, there were also several cases where the Bank but not the Fund provided financial support, reflecting more flexibility in their financial instruments, especially to provide resources on highly concessional terms for humanitarian purposes and less concerns in some EMs about stigma in accessing Bank rather than Fund financing.

Catalyzing market financing and mitigating output losses. The evidence on whether Fund financing had a catalytic effect on private sector flows is mixed. Nonetheless, it is clear that a group of EMs that requested but did not receive Fund financing did experience significantly greater capital outflows. Moreover, our most careful econometric analysis does find modest evidence that recipients of Fund EF experienced higher net portfolio inflows on average than a control group, with the immediate effect stronger for EMs than LICs. Country case studies generally suggest that the authorities in most cases felt that Fund financing helped calm financial conditions and assisted in their return to market financing. Our econometric evidence also supports the view that Fund financing played a role in mitigating output losses during the pandemic, especially compared to countries that requested but did not gain access to IMF loans.

Corporate Response

Remarkable adaptability. The pandemic elicited a widespread corporate response, with numerous HR and budgetary initiatives to support the Fund's crisis response and the abrupt shift to remote work. The experience also showcased one of the IMF's main institutional strengths: its dedicated workforce. Staff went above and beyond the call of duty to help member countries navigate the crisis, working overtime, adapting to a virtual work environment, forgoing leave, and volunteering for one-off assignments to ease the burden on departments.

Work pressures. Despite the wide-ranging corporate response, the pandemic put huge stress on the institution and particularly its staff, as reflected in the associated stresses on work-life balance observed in staff surveys. For example, the fact that a large share of the workforce was logging at least 20 percent overtime for lengthy periods highlights that the IMF relies on the discretionary effort of staff to handle a crisis.

HR management challenges. While a higher burden on staff is to be expected during a crisis, it does raise a valid question about whether the Fund's HR system could be better prepared to deal with the stresses of a crisis. It is striking that although the frontline departments were quickly allocated additional headcount, it took considerable time for the additional staff resources to materialize where they were most needed. While multiple factors seem to have contributed to this slowness, including the fact that recent upgrades to key HR systems and processes were still "works in progress", the recent experience raises concerns about the complexity of Fund hiring mechanisms, the need for more effective centralized mechanisms to direct staff internally where they are most needed in the midst of a crisis, and the adequacy of data on staff experience and expertise that could be available when the institution is faced with the need for rapid staff redeployment.

Budget flexibilities and constraints. The crisis required substantial additional spending to meet crisis needs, including for a temporary expansion of the workforce. The budget response was managed nimbly, without requiring any ad hoc increases in the budget envelope, helped by quick reprioritization and use of available buffers in the budgetary system, including an emergency buffer and the carry forward of previously unspent funds. However, while such mechanisms were largely adequate for the purpose in this case, it should be recognized that budgetary pressures were eased by the forced cuts in travel and events spending. Thus, the concern remains that during future crisis events where additional spending is needed, the emergency buffer and carry forward resources could be insufficient. While a supplementary budget is an option, it can take time to propose and approve with adverse effects on the speed and effectiveness of the crisis response. Even on this occasion when a supplementary budget was not ultimately needed, the actual reallocation of funds was delayed and uncertainty about the duration of additional resources slowed the hiring process.

Logistical strengths and challenges. The Fund's crisis management team made decisions rapidly about access to Fund premises and repatriation of staff at the start of the pandemic, the shift to remote work, and the eventual return to office—while consistently giving top priority to the staff's health and safety needs. The Fund also ensured business continuity in serving the membership during the crisis, with staff and the Board adapting literally overnight to the need to work in an entirely virtual environment, benefitting from earlier planning exercises. Nonetheless, the shift to a virtual environment, and the subsequent drawn-out re-entry process involved a number of challenges to IMF practices and approaches. The CMT's resources were clearly stretched in handling a high impact and extended health emergency. Moreover, the Fund's conservative approach to re-entry, while clearly in line with the preferences of a large portion of staff, did have some consequences for operational work, particularly where more presence in the field would have been helpful for country relationships, and for the Board's capacity for effective oversight. Finally, more actual communication and consultation with the staff could have enhanced transparency and buy-in.

B. RECOMMENDATIONS

Key takeaway. The key takeaway of the evaluation is that notwithstanding the IMF's remarkably pragmatic response to an unprecedented crisis using its existing lending toolkit and policies, the experience did involve a number of strains and challenges. Thus, although this evaluation ends up with a largely positive assessment of the crisis response, the Fund should nevertheless be prepared to review some aspects of its policies and procedures to ensure that as an institution it is fully prepared for dealing with the global crisis events that seem likely to recur with as much or even increasing frequency in the years ahead. By adapting in advance rather than in the heat of the next crisis, the process can be more deliberate and coherent, with less need for recalibration as new issues crop up. It can also be the result of a more open and transparent and participatory consultation process with the Board and the full membership instead of relying on hurried consultation with a limited set of shareholders.

High-level recommendations. For this purpose, we make two high-level recommendations (Box 2). First, the Fund should develop a toolkit of special policies and procedures that could be quickly activated to help address the particular needs and circumstances of a global crisis. Such policies and procedures could be triggered at the onset of a global crisis, allowing for a broad set of lending and corporate responses that may be needed on a temporary basis in an emergency context that would not be appropriate in more normal times. Second, the Fund should take steps to reinforce institutional preparedness to deal with global crises and other large shocks. Each of the recommendations comes with a number of suggestions on how the underlying purpose of the recommendations could be achieved. Together, these recommendations build on the early lessons contained in our March 2022 midpoint presentation to the Board. They incorporate the feedback received from the Board on these lessons, as well as further analysis and consultation.

BOX 2. HIGH-LEVEL RECOMMENDATIONS

Recommendation 1: Develop a toolkit of special policies and procedures that could be quickly activated to address the particular needs and circumstances of a global crisis.

Recommendation 2: Take steps to reinforce institutional preparedness to deal with global crises and other large shocks.

Important caveat. It is worth reiterating that this evaluation was designed to provide an early assessment of the Fund's emergency response to the pandemic. It thus covers only the initial stages of the pandemic in any depth and does not consider the full range of Fund activities or the longer lasting consequences of the pandemic response, for example on countries' debt sustainability or the depletion of the IMF's concessional resources despite major fund-raising efforts. Accordingly, the high-level recommendations are deliberately limited in number and cast at a very general level. The specific suggestions are more numerous but must also be considered in light of subsequent experience and the broader context of the continuing challenges faced by the Fund in helping members deal with a global environment that remains very difficult.

Recommendation 1. Develop a toolkit of special policies and procedures that could be quickly activated to address the particular needs and circumstances of a global crisis. Global crises by their scale and scope can overwhelm the 'business as usual' processes of institutions, although every crisis presents unique challenges which require steps that cannot be predicted or decided in advance. To be ready to reach quick decisions on exceptional measures, while retaining flexibility to respond to the particular needs of a given crisis, we suggest developing a toolkit of special crisis policies and procedures in a number of areas that could be quickly calibrated and activated as part of a crisis response strategy. Specific suggestions include the following:

- Participatory consultation with the full Board at an early stage of a global crisis on the strategy and broad set of institutional steps to help member countries deal with very challenging circumstances. Such consultation could include consideration of work streams that could be temporarily given less attention, as well identifying areas of high priority, to help alleviate inevitable work pressures.

- Activation of temporary modifications to the lending framework to help countries meet the financing needs implied by the crisis while accepting higher levels of risk tolerance for the Fund. Options could include:

- higher access limits for EF (but more tailored to country circumstances—as suggested in recommendation 2);
- activation of a temporary "global crisis-response window" for UCT programs (similar to staff's earlier proposal for a "pandemic window") that would allow greater focus on crisis needs with longer EFF repayment terms;
- activation of a crisis-only precautionary facility (without ex post conditionality) that would provide access for countries with strong fundamentals but not reaching the full standards required to qualify for FCL/SLL access;
- streamlined review procedures;
- temporary modification of the IMF's surcharge policy to avoid imposing additional charges on borrowing related to the global crisis.

▸ Activation of a framework for temporary budget flexibility. A framework could be established to provide for a short-term temporary budget increase in exceptional circumstances while respecting a medium-term budgetary envelope. This could be similar to the existing mechanism in the World Bank, and aim at providing a more expedited, less uncertain process for obtaining additional funds that may be needed to respond to a global crisis.

▸ Steps to facilitate the HR response to the global crisis could include temporary recourse to a centralized mechanism for redeployment of staff resources rather than the normal reliance on a free internal market. Under such an approach, authority would be temporarily ceded to Management working with HRD to direct staff moves across departments to address crisis needs, while being careful to ensure alignment with existing HR policies, maintaining evenhandedness across departments and business areas, and avoiding staff grievances.

▸ Reinforced Crisis Management Team. During a global crisis, the existing CMT could be reinforced with additional resources to buttress the Fund's ability to provide a timely and expert logistical response. Particular crisis-related tasks would include determining potential risks and limiting impacts on staff's physical and psychological health and regular consultation and communication with staff and Board.

Recommendation 2. Take steps to reinforce institutional preparedness to deal with global crises and other large shocks. This recommendation encourages review of the Fund's regular policies and procedures that would be useful to increase the Fund's capacity to support countries deal with large external shocks in general, and would also enhance the Fund's capacity to support countries in a global crisis. Consideration could be given to the following:

▸ Review of emergency financing policy and practice. During the pandemic, access to EF was very binary, with most requests providing access up to the limit or nothing at all. An approach that provides for greater tailoring of access to country financing needs and capacity to repay may be helpful for dealing with future large external shocks. For example, the EF framework could allow for higher access above the normal limit for countries with particularly large financing needs where they can be supported by a high standard macroeconomic framework and governance structures that provide adequate safeguards for Fund resources. More tailoring of access could also limit initial access to EF for countries with weaker policy and governance frameworks, while offering some limited access on humanitarian grounds. It would also be useful to consider approaches that would provide for a clearer path to UCT programs for members with more protracted BOP needs but that need emergency financing in the face of the urgency of responding to a large external shock.

▸ Further development of the toolkit of precautionary instruments. Consideration could be given, in the context of the upcoming review of the precautionary lending frameworks, to explore the scope for making the existing precautionary toolkit more attractive to a wider range of countries with suitable policy frameworks to encourage broader take-up of such instruments.

- Governance safeguards. The Fund could develop an initiative building on the upcoming review of the 2018 Framework for Enhanced Fund Engagement on Governance to support country efforts to strengthen governance measures, particularly related to crisis-related spending, including for example on social safety nets and healthcare.
- Collaboration with partners. Steps could be taken to foster a more coherent approach to strategic partnerships with the World Bank and other official institutions. It would be useful to have deliberated on the respective crisis-response roles of the different multilateral institutions to facilitate heightened collaboration when it is needed. One concrete step could be the launch of a 'financing tracker'—a common platform to share information on the support that official institutions are providing to their member countries that would be particularly important in the context of a global crisis but also useful during more normal times.[41]
- Table-top exercises and a crisis playbook. The Fund could play out how the institution would respond to a developing global crisis, with participants from management, staff, the Board and key partners such as the World Bank, contributing to developing a crisis "playbook" of issues to be taken into account and steps to be considered when a global crisis occurs. Such exercises could provide useful insights into how to ensure that the decision-making process and the forecasting framework consider the full range of issues and take account of the alternate viewpoints across the institution.

Managing enterprise risks. Discussing and implementing the recommendations of this evaluation would also help mitigate future enterprise risks. As summarized in Annex I, the Fund faced considerable risks at the onset of the pandemic and successfully took steps to reduce them. Nevertheless, residual risks remained, which could be mitigated in future global crises through implementation of the recommendations provided here.

Lessons from partner evaluation offices. The case made by this evaluation on the need to further develop the Fund's crisis response architecture is echoed by evaluation offices at other multilateral institutions, which have drawn similar lessons from the experience of the pandemic about the need to review their crisis response toolkits and the need for stronger mechanisms for collaboration among institutions (Box 3). Of particular relevance is the recommendation made in the parallel evaluation being conducted by the World Bank's IEG of the Bank's crisis response to develop a joint playbook for dealing with future global crises.

Resource implications. The resource costs of the evaluation's recommendations are relatively limited given that many can be covered in workstreams on which staff is already engaged. Most importantly, a sequenced approach to stocktaking of the crisis response and considering adaptations to the IMF lending framework has already been built into the work program. The early timing of this evaluation should allow its findings to be drawn upon as this work proceeds. However, there are other suggestions made here for enhancing institutional crisis response policies and procedures that will need some upfront investments but will pay dividends if and when another major global shock occurs.

[41] One of recommendations of the 2019 IMF symposium with outside experts to raise awareness of the potential macroeconomic impacts of a pandemic was to tackle the need to improve systematic exchange of information across international institutions.

BOX 3. FINDINGS FROM EVALUATIONS OF COVID-19 RESPONSES BY OTHER MULTILATERAL INSTITUTIONS

Evaluation offices in other multilateral lending institutions have all moved quickly to conduct evaluations of their institution's' response to the COVID-19 pandemic. To learn lessons from this work, including lessons relevant to the collaboration across institutions during the pandemic, the IEO conducted interviews with staff at evaluation offices at 10 multilateral lending institutions and the OECD-led Global Evaluation Coalition; in addition, we carried out a desk review of evaluation reports produced by these institutions and by the Multilateral Organization Performance Assessment Network (MOPAN, 2022). There were several findings that stood out in common across several evaluations, reports, and interviews:

- Attending to immediate needs. Almost universally, institutions pivoted to the immediate priority of saving lives and livelihoods through various emergency measures and packages, setting aside more medium- to longer-term considerations and strategic goals of their institutions.
- Challenges in determining extent of country needs and support provided by others. At the start of the pandemic, most institutions faced the challenge of estimating the extent to which member countries needed support and how much if it was already being provided by other international financial institutions. However, there was no common diagnostic platform to assess a country's needs or quickly ascertain the support it was receiving from others, leading to possibilities of either under-funding of some countries or an oversupply of funding and crowding out. The Islamic Development Bank, in its role as chair of the MDBs group, attempted to set up a common platform but this effort proved difficult to sustain in the midst of the crisis.
- Sporadic rather than systematic collaboration. Collaboration among institutions tended to be sporadic, relying on existing collaboration mechanisms and trusted partnerships established prior to the pandemic. This again reflected the absence of a common platform through which to quickly forge new partnerships that the situation may have called for and also the lack of time and resources that could be devoted to collaboration.
- Lack of demand for some instruments. In an emergency, countries are looking for timely support: in a couple of institutions, the evaluation offices felt that delays in the implementation of their emergency support had significantly affected the attractiveness and relevance of their financing instruments. However, even timely instruments did not always see take-up if, for instance, demand dried up due to improvement in market conditions. Institutions that provided precautionary instruments are trying to sort out whether these instruments need to be designed better or whether they worked as intended by providing insurance that turned out not to be needed.
- Staff stress was pervasive. Difficulties in maintaining the welfare of staff was a pervasive issue. And several institutions reported increased stress from rigidities in reallocating staff within the institution.

Some Lessons:

- Institutionalizing innovation. Several evaluations found positive evidence of successful innovation of their frameworks and processes by their institutions in the midst of the COVID-19 crisis. The challenge is to embed some of these innovations into the crisis response toolkit of the organization so that they can be employed quickly when the next crisis hits.
- Common platforms. One lesson many evaluation offices have drawn for the future is that each institution's reporting framework for the support it is providing needs to be more transparent to ensure adequacy of overall support to a country and to better ensure the additionality of the support that each institution provides. Common platforms would be very useful if the challenges involved in setting them up could be overcome. The MOPAN report concludes that such platforms offer a potential means of ensuring that technical working relationships across the IMF, MDBs and UN at the country level are less dependent upon personalities and can be scaled up in a systematic way when needed in emergency situations.
- Crisis response playbook. The World Bank's evaluation office suggested that the World Bank and IMF develop a joint playbook for dealing with future crises.

ANNEX 1

ENTERPRISE RISK ASSESSMENT

This annex provides an overview of the enterprise risk implications arising from the evaluation's findings and recommendations, broadly following the templates for assessing enterprise risk provided by ORM.

RISK IDENTIFICATION

As a massive global shock, the onset of the pandemic posed several critical risks for the Fund:

- The Fund faced critical risks to its strategic objective of supporting global economic and financial stability and its business need to help meet members' needs for short-term financing. Relatedly, there were major adverse reputational and strategic risks to the Fund if it was seen as not providing timely assistance to its member countries or not adapting its lending and policy advice, particularly on fiscal policies, to a crisis very different from traditional financial crises.
- At the same time, lending without adequate conditions or regard to where the money ended up also posed major adverse reputational, financial, and business risks to the Fund. Financial risks were particularly acute for the PRGT given the need for adequate funding and subsidy resources and the relatively large scale of potential new exposure in the absence of programs, particularly to countries already at high risk of debt distress.
- The Fund faced major risks to wellbeing and safety of staff from potentially extraordinary work pressures over a sustained period of time or if it asked them to work in conditions that threatened their health.
- In addition, the Fund's core services of surveillance and CD were also heavily affected by numerous risks. Given the narrow focus of this evaluation, this Box does not discuss these risks but they would be important to include in a fuller assessment of enterprise risks posed by the pandemic.

RISK MITIGATION

The Fund took multiple steps to balance and mitigate these risks.

- The Fund sought to mitigate the adverse strategic, business and reputational risk of not providing adequate timely help by an early decision to use emergency financing as the main means of providing support and doubling annual access limits —allowing the Fund to disburse substantial support to countries in need by June 2020. The exigencies of the pandemic were also recognized by scaling back prior actions relative to past use and using flexibility within the existing framework in reaching some difficult judgments about debt sustainability. The Fund adapted and communicated its fiscal policy advice in a way that was bold and appropriate for the circumstances.

- At the same time, the Fund took several steps to offset the reputational and financial risks posed by this strategy of using emergency financing as the main channel for financial support:

  - First, the Fund continued to implement the standard risk framework for use of Fund resources with numerous policies and practices aimed at mitigating the risks from lending. Key elements of this framework included staff's judgments about the urgency of BOP needs, requirements for prior actions in some difficult cases, and the provision of a letter of intent by country authorities on the policies they intend to pursue, as well as debt sustainability, capacity to repay and safeguards assessments. As a result, 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 the Fund drew the line in some very difficult cases and held back or curtailed access because of associated risks to the Fund.

  - Second, the Fund took steps to modify the lending architecture under review to respond to shifting understanding of the likely course of the pandemic and its economic and financial impact. It also continued to emphasize that the initial round of emergency financing would need to be followed by UCT programs for countries with continuing financing needs. In the end, the total scale of the financing disbursed—US$29 billion by end-2021—was limited in comparison to the US$98 billion provided in the form of precautionary arrangements to a small number of countries or to that provided in some of the Fund's larger programs in the past. However, the increase in PRGT exposure was very large compared to past experience.

  - Third, the Fund sought to mitigate funding risks by taking steps to maintain its overall GRA resource envelope by renewing its borrowing lines, while seeking to raise new lending and subsidy resources for the PRGT and CCRT.

  - Fourth, the Fund strengthened its attention to governance safeguards in its lending to countries over the course of the pandemic. It also used prior actions to reduce the risks that financing was misused—over half of prior actions during the pandemic were related to governance safeguards—and commitments to conduct ex-post audits of COVID-related spending.

  - Fifth, the Fund's corporate response tried to mitigate the risks to wellbeing and health of staff, for instance through steps to promote redeployment of staff to meet critical needs, authorization of a substantial number of additional hires, and use of virtual working to avoid the need for in-office work or travel as far as possible.

RESIDUAL RISK

The Fund's attempts to balance and mitigate the risks identified at the outset were largely successful as discussed in detail in this report. In particular, the critical strategic and business risks were largely avoided, helping to safeguard the Fund's reputation as premium global economic and financial crisis responder. Nevertheless, the evaluation identified some residual risks.

- First, PRGT finances are now substantially stretched despite fundraising efforts, leaving concerns about ability to deliver the full scale of future concessional financing and leaving the PRGT highly exposed to countries at high risk of debt distress outside the program context.

- Second, variations across countries in the way that policies to mitigate risks were applied—particularly in the degree to which countries were given the benefit of the doubt when their situations on debt sustainability or governance issues fell in a gray area—have fed perceptions of lack of evenhandedness, which leave residual reputational risks for the Fund.

- Third, the Fund also continues to face reputational risks as some country authorities and outside experts felt that the scale of Fund financing was not commensurate with country needs during the pandemic.

- Fourth, the application of governance safeguards was a moving target, so risks of misuse posed by the disbursements made in the initial months of the pandemic were not scrutinized as intensively as became the norm later.

- Fifth, despite the overall scale of the corporate response, indicators of overtime and staff surveys signaled sustained risks to staff wellbeing that have persisted since the initial crisis months, particularly for staff in front-line departments and those with dependents. While physical health has been protected as much as possible, there were residual mental health risks from heavy workloads and stress.

IMPACT OF IEO RECOMMENDATIONS ON RESIDUAL RISKS FROM LARGE EXTERNAL SHOCKS

Clearly, there are inevitable tradeoffs among these residual risks. For example, providing greater access could have alleviated residual reputational and business risks but exacerbated the Fund's financial risks. Nonetheless, the recommendations made by this evaluation could help the Fund manage such tradeoffs and thus better mitigate and balance these risks during future global crises and other large external shocks.

Recommendation 1 proposes that the Fund develop a toolkit of special policies and procedures that could be quickly activated to address the particular needs and circumstances of a global crisis. This could provide for activation of temporary modifications to the lending framework to help countries meet the extraordinary financing needs implied by the crisis while accepting higher levels of risk tolerance for the Fund, thus further mitigating strategic and business risks associated with the crisis. It would also allow for activation of steps to facilitate the corporate response to the crisis, such as temporary deployment of centralized mechanisms for redeployment of staff resources rather than reliance on a free internal market and activation of a temporary budget flexibility mechanism, thus helping to alleviate risks to staff wellbeing.

Recommendation 2 advocates steps to reinforce the IMF's institutional preparedness to deal with global crises and other large shocks. This includes allowing greater room for relating access to countries' need and the strength of their policy framework. This would better balance the adverse strategic, business, and reputational risks of the Fund not doing enough to support member countries with the adverse financial risks that would arise from providing higher across-the-board access for all countries. Developing an initiative to support country efforts to strengthen governance measures, particularly related to crisis-related spending, could help mitigate residual reputational and operational risks arising from misuse of Fund assistance. Reinforcing the existing Crisis Management Team with additional resources would allow better determination of the potential risks to staff's physical and psychological health.

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STATEMENT BY THE MANAGING DIRECTOR

ON THE INDEPENDENT EVALUATION OFFICE REPORT ON THE IMF'S EMERGENCY RESPONSE TO THE COVID-19 PANDEMIC EXECUTIVE BOARD MEETING, MARCH 13, 2023

I welcome the Independent Evaluation Office (IEO) early report on the IMF's Emergency Response to the COVID-19 Pandemic, which provides an early evaluation of the Fund's response to the initial stage of the pandemic and seeks to draw lessons for possible future global crises. In undertaking this evaluation, the IEO has rendered the Fund and its membership a valuable service. I am gratified that the evaluation finds that the Fund rose to the occasion despite the extraordinary challenges and risks. I fully concur with the evaluation's overarching message that the Fund needs to be prepared for potential future global crises. I therefore support the two main recommendations, with some qualifications about the specific suggestions underlying them, not least because of their resource costs. Nonetheless, these suggestions will be very useful as staff prepare the Management Implementation Plan (MIP), taking account of how they fit with existing work streams and reforms as well as their feasibility and costs against an exceptionally tight budget.

FINDINGS

I am gratified that the evaluation finds that the Fund rose to the occasion, rapidly adapting its lending framework and internal processes to serve the membership, helping to close large financing gaps, and giving confidence to the membership and markets by making its resources available expeditiously under adequate safeguards. The Fund complemented its lending by undertaking analytical work, giving extensive policy advice, and providing technical assistance—activities that could have been better covered in this otherwise very comprehensive report. Internally, the Fund re-prioritized its work, introduced HR and budget initiatives, prioritized staff's health and safety, and swiftly embraced the virtual environment. I could not agree with the IEO more when it praises the staff for their dedication and hard work despite the myriad personal and professional challenges.

As the evaluation notes, the Fund's rapid response was not without costs and risks. The decision to provide extraordinary access, including through emergency financing, in the face of this unprecedented crisis has inevitably raised pressures on the Fund's own, and its members', balance sheets. Moreover, according to the report, some stakeholders did not feel adequately consulted in the initial weeks of the pandemic, staff experienced enormous work pressures, and in at least a few instances, national authorities did not perceive that the way policy guidance on access was applied was entirely evenhanded. I am confident we can learn from the experience and do even better in the future; and I believe the IEO's high-level recommendations will help us to do so.

RECOMMENDATIONS

I fully concur with the evaluation's overarching message that the Fund must be as prepared as possible to meet global crises which, if anything, may become more frequent in the future. I therefore support the thrust of the two main recommendations, albeit with a few qualifications about some specific underlying suggestions—not least because of their resource costs, which in some instances are underestimated. Nonetheless, the specific suggestions will certainly be useful as staff consider how to carry forward the high-level recommendations while being mindful of existing work streams and reforms as well as resource costs in an exceptionally tight budgetary environment.

Recommendation 1.
Develop special policies and procedures that could be quickly activated to address particular needs and circumstances of global crises.

I support this main recommendation.

Summary of possible specific steps identified by the IEO for future consideration at the MIP stage:

- Participatory consultation with the full Board at an early stage of a global crisis on the strategy and broad set of institutional steps to help member countries deal with very challenging circumstances.
- Activation of temporary modifications to the lending framework to help countries meet the financing needs implied by the crisis while accepting higher levels of risk tolerance for the Fund.
- Activation of a framework for temporary budget flexibility.
- Steps to facilitate the HR response to the global crisis could include temporary recourse to a centralized mechanism for redeployment of staff resources rather than the normal reliance on a free internal market.
- Reinforced Crisis Management Team.

I agree that the pandemic provides useful lessons for establishing crisis-activated lending instruments and corporate procedures to help the Fund react more efficiently to future global crises and therefore support this recommendation, while noting that:

- While considering the suggested steps on temporary modifications to the lending framework, staff will need to consider the implications for the Fund's lending capacity and resources.
- Given the uncertain nature of future crises, and the challenges of establishing meaningful triggers for declaring a "global" crisis, staff will need to carefully consider the feasibility and usefulness of having pre-determined procedures. It will be important to avoid overly prescriptive or rigid processes.
- It is still early days to assess the full impact on members' and the Fund's balance sheets of the extraordinary levels of access to Fund financing provided during the pandemic. We should therefore be cautious of promising, ex ante, similar modifications of the lending framework until the full ramifications of the pandemic-related lending have been examined comprehensively. Looking ahead, the ongoing work on the lending toolkit will provide opportunities for the Board to consider this matter.
- Reinforcing the crisis management team and facilitating the HR response to a global crisis merits consideration; the key will be ensuring flexibility and adaptability to various crises and rapidly evolving circumstances, while considering potential additional staffing needs and prioritization of work in the context of high pressures under the current work program.

Recommendation 2.
Take steps to reinforce the IMF's institutional preparedness to deal with global crises and other large shocks.

I support this main recommendation.

Summary of possible specific steps identified by the IEO for future consideration at the MIP stage:

- Review of emergency financing policy and practice.
- Further development of the toolkit of precautionary instruments.
- Develop an initiative building on the upcoming review of the 2018 Framework for Enhanced Fund Engagement on Governance to support country efforts to strengthen governance measures.
- Foster a more coherent approach to strategic partnerships with the World Bank and other official institutions.
- Develop table-top exercises and a crisis playbook

I see merit in continuing to explore whether and how the lending toolkit may need to be improved to better serve the membership in a flexible manner. I therefore support this recommendation, while noting that:

- Executive Directors should have an opportunity by end June to discuss the Emergency Financing access limits. An important area going forward would be to explore modalities to better support members' transition from Emergency Financing to Upper Credit Tranche programs, especially for the most vulnerable and poorest members.
- The Fund currently offers the Flexible Credit Line, the Precautionary and Liquidity Line, the Short-Term Liquidity Line as well as the venerable and highly flexible Stand-By Arrangement, which is available to all members, and whose very name is emblematic of its precautionary purpose. Based on the IEO's analysis, it is worth exploring whether there are ways to enhance the Fund's precautionary facilities and fill any possible gaps. The Review of Precautionary Facilities will be an opportunity for Executive Directors to consider their views on these matters.
- The Fund already provides extensive support to help members combat corruption and improve governance through its surveillance, lending, and capacity building activities. The Review of the Implementation of the 2018 Framework for Fund Engagement on Governance will provide an occasion to strengthen and fine tune these initiatives.
- Global crises call for global institutions to work in tandem. Practical suggestions for how to collaborate with partners more efficiently and effectively are welcome and staff will explore, for instance, whether a "financing tracker" for major official creditors and donors would make sense. The Fund has recognized the importance of more systemic collaboration with other institutions and already stepped up such collaboration for example by joining the food security coordination platform for multilateral partners as well as the pandemic-related Multilateral Leaders Task Force.
- While a "crisis playbook" based on tabletop exercises may be useful, it is important to recognize that the Fund already has an established framework and dedicates extensive resources to assess risks in the global economy.

ENTERPRISE RISK ASSESSMENT

Finally, I note the IEO's voluntary inclusion of an annex on the Enterprise Risk Assessment, which acknowledges and assesses enterprise risks, as part of a pilot with the goal of "learning by doing". Staff will take the IEO's risk assessment into account when assessing enterprise risks in the context of the forthcoming MIP for this evaluation.

THE CHAIR'S SUMMING UP

INDEPENDENT EVALUATION OFFICE—THE IMF'S EMERGENCY RESPONSE TO THE COVID-19 PANDEMIC EXECUTIVE BOARD MEETING 23/18, MARCH 13, 2023

Executive Directors broadly welcomed the report of the Independent Evaluation Office (IEO), which provides an early evaluation of the Fund's emergency response to the initial stage of the COVID-19 pandemic and seeks to draw lessons from the experience for responding to possible future global crises. They highlighted the report's key finding that the Fund's response was effective and agile to a crisis like no other, despite the extraordinary challenges and risks, as the Fund rapidly adapted its lending framework and internal processes to serve the membership, help to close large financing gaps, and give confidence to the membership and markets by making its resources available expeditiously under adequate safeguards. Besides lending, Directors noted that the Fund also undertook useful analytical work and gave extensive and timely policy advice and capacity development. They welcomed the report's finding that the Fund's corporate response was adapted quickly, including by reprioritizing work, introducing HR and budget initiatives, and swiftly embracing the virtual environment. Directors especially commended staff for their strong dedication during these challenging circumstances.

Directors took careful note of the concerns identified in the IEO report. In particular, they acknowledged that, in exceptionally challenging circumstances, some stakeholders did not feel adequately consulted in the initial weeks of the pandemic; the assessment of risks to the Fund's balance sheet was somewhat limited; governance and safeguards on the use of Fund resources could have been strengthened sooner; understanding with key partners, notably the World Bank, was at times incomplete; concerns were raised by some authorities on lack of evenhandedness; and staff experienced enormous work pressures for a lengthy period. Many Directors also raised concerns about large GDP forecasting errors at the country level in 2020 and the miss on the surge in inflation in 2021. Against this backdrop, Directors broadly agreed that this IEO Evaluation could help the Fund learn from the experience and react even more effectively in future global crises. They took note of the Managing Director's support for the thrust of the IEO recommendations and her qualifications about some specific underlying suggestions.

Most Directors expressed either broad or qualified support for Recommendation 1 on developing special policies and procedures that could be quickly activated to help address the particular needs and circumstances of global crises. Some of these Directors considered that the focus should be on developing a menu of possible crisis responses that could be considered by the Board in a future crisis situation. Some Directors, however, questioned the need to develop special policies and procedures. More broadly, Directors shared the Managing Director's view that given the uncertain nature of future crises, and the challenges of establishing meaningful triggers for declaring a "global" crisis, the feasibility and usefulness of having pre-determined procedures need to be carefully considered and overly prescriptive or rigid processes should be avoided. In this context, Directors stressed that a participatory consultation with the full Board at an early stage of a global crisis should be an important part of any framework for responding to future crises. They concurred that any temporary modifications to the lending framework when faced with a global crisis should take into account, in particular, the implications for the Fund's lending capacity and resources and should not be promised until the full ramifications of the pandemic-related lending have been examined comprehensively. While a few Directors saw merit in establishing a framework for providing a short-term temporary budget increase in exceptional circumstances, a number of Directors considered that this is not warranted, noting that the carryforward mechanism already in place worked well during the pandemic. Directors generally saw merit in considering reinforcing the Crisis Management Team and adapting the HR response during a global crisis to facilitate the effective redeployment of resources to where they would be most needed. At the same time, they agreed that ensuring flexibility and adaptability to various crisis scenarios needs to consider, in tandem, potential additional staffing needs and prioritization of work in the context of the high pressures under the current work program.

Most Directors broadly supported Recommendation 2 on taking steps to reinforce the IMF's institutional preparedness to deal with global crises and other large shocks. They saw merit in continuing to explore whether and how the lending toolkit may need to be enhanced to better serve the membership in a flexible manner. In this context, Directors looked forward to the forthcoming review of access limits for emergency financing (EF), with a number of Directors noting the need for greater tailoring of EF access to country circumstances, including for small developing states, and some Directors seeing merit in increasing the use of prior actions. More broadly, Directors favored exploring modalities to better support members' transition from EF to upper credit tranche programs. They also saw merit in exploring, during the forthcoming Review of Precautionary Facilities, whether there is scope to further enhance these facilities and fill any gaps.

Directors noted that the rapid response to the pandemic required scaled up attention to governance safeguards for use of Fund resources. They agreed that this further highlights the importance of maintaining the Fund's extensive support to help members combat corruption and improve governance through its surveillance, lending, and tailored capacity building activities. In this context, they concurred that the forthcoming review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance will provide an opportunity to strengthen and fine-tune existing initiatives in this area. Directors stressed the importance of strengthening the efficiency and effectiveness of the Fund's collaboration with the World Bank and other multilateral and official institutions. They welcomed that staff will explore the merits and feasibility of developing a "financing tracker" for major official creditors and donors. Directors acknowledged the potential usefulness of a "crisis playbook" based on tabletop exercises, while emphasizing that duplication of efforts should be avoided since the Fund already has an established framework for assessing risks in the global economy.

In line with established practice, Management and staff will consider today's discussion when formulating the Management Implementation Plan (MIP) for Board-endorsed recommendations. In this context, Directors noted the importance of assessing how the implementation of these recommendations fit with existing work streams and reforms as well as their feasibility and costs against an exceptionally tight budget. They also agreed that the IEO's enterprise risk assessment could provide a useful input when assessing enterprise risks in the broader context of the forthcoming MIP for this evaluation.

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