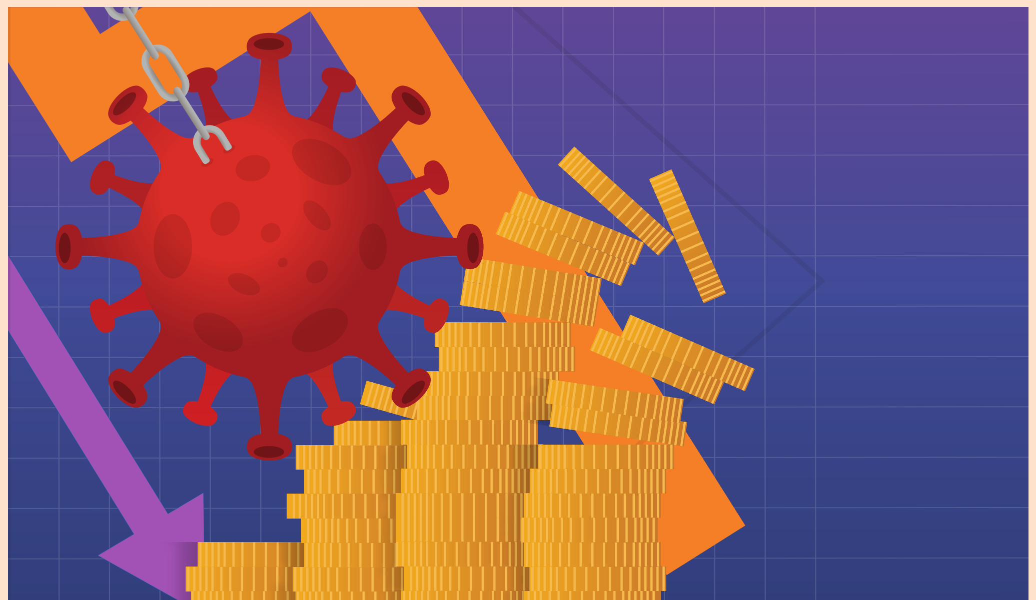
# EXECUTIVE SUMMARY

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.