IEO

Independent Evaluation Office
of the International Monetary Fund

BACKGROUND PAPER

BP/22-01/09

The IMF's Support to Small Developing States During the COVID-19 Pandemic

Xavier Maret

 BP/22-01/09

IEO Background Paper
Independent Evaluation Office
of the International Monetary Fund

The IMF's Support to Small Developing States During the COVID-19 Pandemic

Prepared by Xavier Maret*

March 30, 2022

* Consultant, Independent Evaluation Office of the IMF.

Contents Page

ABBREVIATIONS

AE	Advanced Economy
BOP	Balance of Payment
CCRT	Catastrophe Containment and Relief Trust
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ECF	Extended Credit Facility
EM	Emerging Market
EMDC	Emerging Markets and Developing Country
FAD	Fiscal Affairs Department (IMF)
FCL	Flexible Credit Line
FIN	Finance Department (IMF)
GRA	General Resources Account
ICD	Institute of Capacity Development (IMF)
LIC	Low-Income Country
MCM	Monetary and Capital Markets Department (IMF)
ODA	Official Development Assistance
PCI	Policy Coordination Instrument
PLL	Precautionary and Liquidity Line
PSI	Policy Support Instrument
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
SDS	Small Developing State
SLL	Short-term Liquidity Line
SMP	Staff-Monitored Program
SPR	Strategy, Policy, and Review Department (IMF)
SSF	Small States Forum
STA	Statistics Department (IMF)
UCT	Upper Credit Tranche
WB	World Bank
WEO	World Economic Outlook

EXECUTIVE SUMMARY

Small developing states (SDS) have been heavily affected by the COVID-19 pandemic as their economies have been challenged by the twin external shocks of a public health crisis and a global economic recession. Early containment and prevention measures were successful in keeping the pandemic at bay in most SDS during 2020, but the spillovers of the global recession resulted in large hits to GDP, deterioration of domestic and external balances, and the emergence of large financing gaps.

This paper reviews the early engagement of the Fund with SDS in the context of the still unfolding COVID-19 pandemic. The IMF has provided substantial support to SDS to address the impact of the pandemic. Half of the 34 SDS benefited from SDR 0.5 billion of Fund financial support over March 2020–June 2021. The same ratio of beneficiaries was observed among other Emerging Markets and Developing Countries (EMDCs) that received non-precautionary Fund support, but the average level of Fund assistance was higher in percent of GDP for SDS than for other countries. Besides debt relief for four eligible SDS under the Catastrophe Containment and Containment Relief Trust (CCRT), financial assistance operations for SDS comprised of emergency assistance through the Rapid Credit Facility, the Rapid Financing Instrument, and augmentations of access under two existing arrangements. Half of the SDS emergency financing operations were approved by end-April 2020, within 50 days of the official declaration of a pandemic by the WHO, and all but two of the 17 SDS that received Fund's assistance had their requests approved by end-June 2020. Such operations were justified by the urgent balance of payments needs and the difficulties to negotiate longer-term program financing under the circumstances, and were greatly appreciated by SDS authorities.

While recognizing these achievements, compared to other country groups, IMF support to SDS filled a smaller share of these countries' projected financing gaps, requiring greater recourse to their international reserves. While the Fund's assistance to SDS was higher in terms of GDP than in other EMDCs benefiting from Fund's financing, SDS experienced larger GDP shocks and had proportionately greater financing needs. Access to emergency financing was also not available to a number of SDS with unsustainable debt situations that could not be satisfactorily resolved with the authorities and one SDS did not get access because of disagreements on policies. Only one SDS concluded a new arrangement for Upper Credit Tranche (UCT) program financing and that not until July 2021.

The quick delivery of Fund assistance benefited from enhancements to the Fund's lending toolkit (with increased access limits to Poverty Reduction and Growth Trust (PRGT) and General Resource Account resources), streamlining of internal operational procedures, and a successful campaign to boost the PRGT resources by end-June 2020. The approval of debt relief under the CCRT was also beneficial to poor and vulnerable Fund members, including three SDS. In addition, Fund staff working on SDS rose to the challenge of quickly revising macroeconomic frameworks and providing sound policy advice in unprecedented circumstances as well as negotiating financial assistance. However, the short timeline to provide emergency financial assistance together with some turnover in country teams placed a heavy burden on staff. It also hindered some of the analytical and reporting work for requests for use of Fund resources.

Looking forward, there is still no end for the pandemic and the path to recovery for SDS is likely to take longer than initially projected, in a context of increased uncertainty and new challenges to address. Many SDS have eroded their policy buffers and debt levels have increased substantially, exacerbating the vulnerability of SDS to external shocks and threatening debt sustainability. Prudent adjustment policies will have to be implemented to strengthen the resiliency of SDS and restore economic and debt sustainability in the medium-term.

In these difficult circumstances, the Fund can play an important role in supporting SDS through its surveillance, lending, and capacity development activities. To support this role, particular attention should be paid to ensuring that the Fund’s lending toolkit is well adapted to SDS circumstances, including to ensure that the scale of financing is commensurate with financing needs and that obstacles to greater use of UCT programs are addressed. Further efforts to strengthen staffing of SDS teams would also help to reduce the work burden on staff and increase the Fund's ability to tailor its advice and financial support to individual country situations.

I. INTRODUCTION

1. The COVID-19 pandemic took the world off guard and triggered a global crisis that is still unfolding with the emergence of new coronavirus variants and continuing economic and social hardships. The viral outbreak originated in China in late-2019 and spread quickly to the USA and Europe in the first quarter of 2020 before invading other regions of the world. One million global cases were reported by early April 2020, putting health care systems under significant stress and resulting in high death tolls in the absence of effective treatments. Lockdowns, border closures, and other measures to contain the spread of the pandemic disrupted economic processes, supply chains, and international trade activities. They resulted in an unprecedented global recession with high unemployment and widespread bankruptcies.

2. The public health crisis was quickly accompanied by a social and economic crisis that challenged policy makers across the globe. Most countries have risen to that challenge and have taken measures to boost their health care systems, enhance the medical response to the coronavirus, strengthen their social safety nets to alleviate social hardship, and provide support to damaged economic sectors such as tourism. The pandemic has continued to evolve through various waves and the emergence of new variants of the coronavirus that have affected different regions of the world at different times. By end-2020, more than 83 million cases and nearly 2 million deaths were reported.

3. The pandemic remains an active and potent threat despite the advent of effective vaccines at end-2020. These vaccines have helped to contain the spread of the pandemic and reduce the mortality rate, but their dissemination has been mostly limited to the developed world. Despite the lingering pandemic, with more than 215 million cases and 4.5 million deaths up to August 2021, the process of economic recovery has started in 2021 in a context of high uncertainty and disparities across the globe. The pandemic is having a transformational impact on economic and social activities. Some economic and social scarring, as well as innovations, are likely to emerge. While the world may not come back to what used to be and because the recovery may take some time, the new environment is bringing new challenges for growth, equity, and the achievement of the Sustainable Development Goals (SDGs).

4. Consistent with its mandate to support global economic stability, the Fund was quick to ascertain the threat of the pandemic and muster its human and financial resources to assist its members in addressing the challenges of the pandemic. Its business model was adjusted to a virtual engagement with its members, with a streamlining of operational processes to speed up the provision of financial assistance to member countries. Its lending facilities toolkit and resources were deployed to quickly address the initial wave of requests for financial assistance and strengthened to allow for more flexibility in addressing members' needs. By end-June 2020, the Fund's Executive Board had approved more than SDR 17.7 billion of emergency assistance and SDR 42.7 billion of program lending under the facilities of the Poverty Reduction and Growth Trust (PRGT) and the General Resources Account (GRA). The Fund also scrambled to analyze and forecast world economic developments and offer policy recommendations to tackle the pandemic.

5. Small developing states (SDS)[1] have not been immune to the COVID-19 pandemic and their vulnerability to external shocks has been exacerbated by the joint public health and economic crises. The abrupt decline of economic activities and rising unemployment in trading partners, as well as border closures and transportation disruptions, severely affected the tourism sector, remittances, and exports on which many SDS depend, leading to severe balance of payments (BOP) problems and domestic recessions. Measures taken by SDS authorities to limit the propagation of COVID-19 in their territories compounded the decline of local activity but were largely successful in keeping the pandemic at bay in most SDS throughout 2020. Revenue losses and expenditure pressures led to a marked deterioration of the fiscal situation and the emergence of twin financing gaps.

6. The Fund and other development partners have helped SDS to address the impact of the pandemic. Half of the 34 SDS benefited from Fund's emergency financial assistance in 2020. Of the 18 financial operations for these countries, 8 were approved by end-April and 15 by end-June.[2] In 2021, two additional RCF emergency operations were approved up to September. SDS also benefitted from debt relief under the Catastrophe Containment and Relief Trust (CCRT), augmentation of access under arrangements in support of upper-credit tranche (UCT) quality programs, and one new UCT program.

7. This paper reviews the early engagement of the Fund with SDS in the context of the still unfolding COVID-19 pandemic. Building on an analysis of the health and macroeconomic impacts of the pandemic in SDS, the paper reviews how the Fund helped its SDS members to address the deterioration of their internal and external balances in 2020. Some preliminary lessons are identified in the conclusion on the capacity of the Fund to support its SDS members in the context of a global shock.

II. IMPACT OF THE COVID-19 PANDEMIC ON SDS

A. Public Health Aspects

8. Only 0.2 percent of the world's cumulative COVID-19 cases and deaths were recorded in SDS through end-July 2021, while advanced economies (AEs) and emerging markets (EMs) accounted for more than 95 percent of the totals (Table 1). The incidence of the pandemic per 100,000 inhabitants has nevertheless been quite high in SDS and comparable to the EM group, although much less than in AEs (Figure 1). Moreover, with the pandemic still expanding under new variants, cumulative cases more than tripled in SDS during the first seven months of 2021, with no clear signal of stabilization.

[1] SDS are defined as Fund members that have a population below 1.5 million and are neither advanced market economies nor high-income oil exporting countries. Microstates are defined as SDS with a population below 200,000

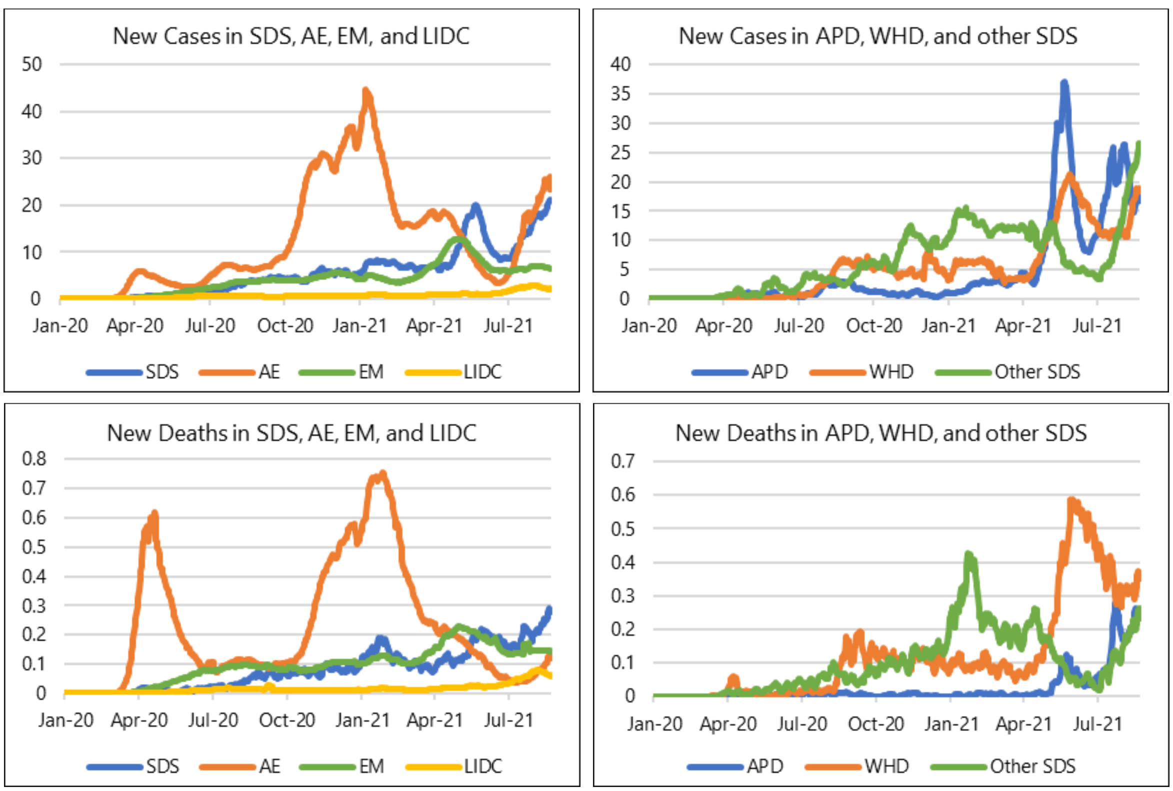
[2] Sao Tome and Principe benefited from two COVID-19 related operations in 2020, an augmentation of its ECF and a stand-alone RCF in 2020.

Table 1. COVID-19 Cumulative Cases and Deaths, 2020–2021

	Cases			Deaths		
	Cumulative	Share in percent	Per 100,000 inhabitants	Cumulative	Share in percent	Per 100,000 inhabitants
December 31, 2020						
Total	82,509,192	100.0	1,081	1,870,601	100.0	25
AE	36,692,792	44.5	3,516	759,013	40.6	73
EM	43,442,249	52.7	863	1,064,271	56.9	21
LIDC	2,243,346	2.7	146	49,681	2.7	3
SDS	130,805	0.2	853	1,960	0.1	13
Asia-Pacific	14,543	11.1	296	50	2.6	1
Western Hemisphere	39,299	30.0	870	839	42.8	19
Other	76,963	58.8	1,306	1,071	54.6	18
July 31, 2021						
Total	196,544,914	100.0	2,575	4,203,535	100.0	55
AE	73,595,961	37.4	7,052	1,379,224	32.8	132
EM	116,568,192	59.3	2,316	2,694,360	64.1	54
LIDC	5,930,378	3.0	385	123,271	2.9	8
SDS	450,383	0.2	2,938	6,680	0.2	44
Asia-Pacific	119,533	26.5	2,430	482	7.2	10
Western Hemisphere	129,121	28.7	2,859	3,053	45.7	68
Other	201,729	44.8	3,422	3,145	47.1	53

Sources: WHO COVID-19 Dashboard; Geneva: World Health Organization, 2020.

Figure 1. New COVID-19 Cases and Deaths Per 100,000 Inhabitants by Country Groups
(January 2020–September 2021)



Sources: WHO data; author's calculations. Seven-day moving average is reported.

9. COVID-19 incidence has varied quite widely across the SDS group as most cases were concentrated among a limited group. Asia Pacific SDS have been less affected than Western Hemisphere SDS and other SDS in 2020, most likely because of their greater remoteness and early lockdown and containment measures. The increase in their aggregate number of cases and deaths since end-2020 reflects mainly the pandemic outbreaks in Maldives and Fiji while other Asia-Pacific SDS continued to avoid such outbreaks and gain precious time to reinforce their health care systems and embark on vaccination programs. Pandemic outbreaks have been more widespread within Western Hemisphere SDS with only Grenada spared while The Bahamas, Belize, Suriname, and Trinidad and Tobago were already affected by mid-2020. In other SDS, there were large outbreaks in Cabo Verde, Eswatini, Montenegro, and Seychelles.

10. Overall, Montenegro and Maldives accounted for nearly 50 percent of cumulative COVID-19 cases in SDS at end-December 2020 and 40 percent at end-July 2021 (Table 2). More than 96 percent of all SDS cases were reported by 10 of the 34 SDS at end-2020. Six countries out of 34 accounted for nearly 80 percent of cumulative COVID-19 cases by end-2020 (Montenegro, Maldives, Cabo Verde, Belize, Eswatini, and The Bahamas), although these six countries accounted for only 52 percent of the new cases over the period January–July 2021, reflecting the expansion of the pandemic in other states, such as Seychelles, Timor-Leste, Fiji, and Trinidad and Tobago. Nevertheless, more than half of the SDS (mainly in the Pacific) were still largely unaffected by the pandemic at end-July 2021.

11. The uncertainty regarding the abatement of the pandemic and the disparities in vaccination rates across the world heighten the risk of new pandemic waves and COVID-19 variants that can delay further a global and shared economic recovery, engender regional disparities, and exacerbate potential scarring and transformational changes of economic relations. Despite a good start, the pace of vaccination programs in SDS has been slower than in EMs. At end-October 2021, the average SDS had 40 percent of its population partially or fully vaccinated, compared with 45 percent and 70 percent for the average EM and AE, respectively (Figure 2). At the regional level, vaccination efforts in Asia-Pacific SDS have been less well sustained than in other regions with the average Asia-Pacific SDS slightly trailing other SDS since September 2021.[3] While the SDS regional country averages are relatively close to each other, there is much disparity within the regions. Vaccination rates at end-October 2021 varied from 7 percent in Djibouti to 82 percent in Seychelles, with averages reaching 33 percent in Western Hemisphere SDS, 58 percent in Asia-Pacific SDS and 75 percent in other SDS (Figure 3). Given the importance of tourism in most SDS and the need to fully reopen national economies, achieving higher vaccination rates should be a priority for SDS. Although there are still vaccine supply constraints for most countries that are not AEs, they may not be as binding for SDS which do not need a large supply of vaccines to vaccinate their small populations.

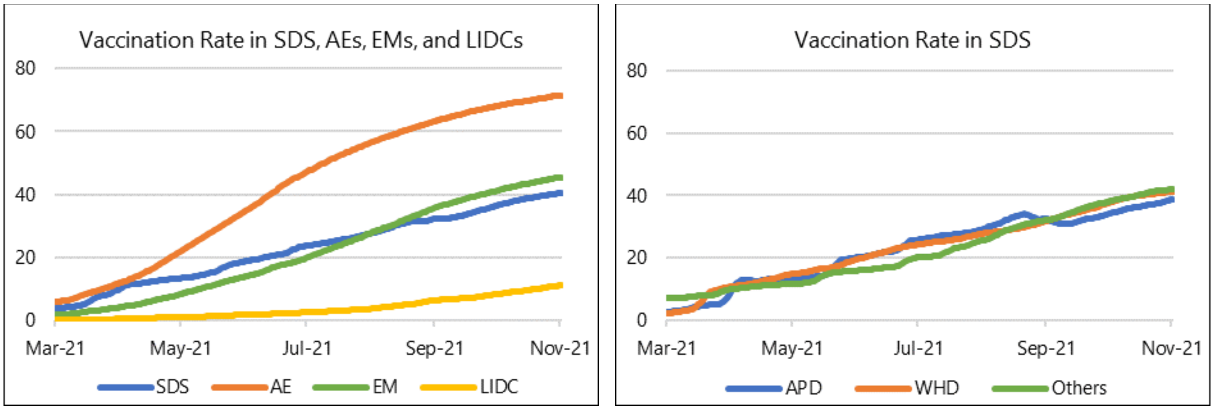
[3] The WHO COVID-19 database does not include data for Marshall Islands, Micronesia, and Palau.

Table 2. COVID-19 Pandemic Incidence in SDS, 2020–2021

	On December 31, 2020				On July 31, 2021			Fund Emergency Financing
	Cumulative Cases	Cumulative Deaths	Share of Cases	Cumulative Shares	Cumulative Cases	Cumulative Deaths	Share of Cases	
Montenegro	47,668	677	36.4	36.4	101,786	1,629	22.6	Yes
Maldives	13,757	48	10.5	47.0	77,432	221	17.2	Yes
Cabo Verde	11,793	112	9.0	56.0	33,763	298	7.5	Yes
Belize	10,668	241	8.2	64.1	14,114	337	3.1	
Eswatini	9,146	185	7.0	71.1	25,515	779	5.7	Yes
Bahamas, The	7,857	170	6.0	77.1	14,677	286	3.3	Yes
Trinidad and Tobago	7,132	126	5.5	82.6	38,247	1,057	8.5	
Guyana	6,301	164	4.8	87.4	22,372	535	5.0	
Suriname	6,098	120	4.7	92.1	25,218	643	5.6	
Djibouti	5,824	61	4.5	96.5	11,651	156	2.6	Yes
Sao Tome and Principe	1,014	17	0.8	97.3	2,446	37	0.5	Yes
Comoros	765	9	0.6	97.9	4,026	147	0.9	Yes
Bhutan	670	0	0.5	98.4	2,515	2	0.6	
Mauritius	527	10	0.4	98.8	4,214	20	0.9	
Barbados	372	7	0.3	99.1	4,365	48	1.0	
St. Lucia	340	5	0.3	99.3	5,567	88	1.2	Yes
Seychelles	226	0	0.2	99.5	18,328	79	4.1	Yes
Antigua and Barbuda	158	5	0.1	99.6	1,303	43	0.3	
Grenada	130	1	0.1	99.7	168	1	0.0	Yes
St. Vincent & the Grenadines	115	0	0.1	99.8	2,291	12	0.5	Yes
Dominica	96	0	0.1	99.9	210	0	0.0	Yes
Fiji	49	2	0.0	99.9	28,660	233	6.4	
Timor-Leste	44	0	0.0	100.0	10,898	26	2.4	
St. Kitts and Nevis	32	0	0.0	100.0	589	3	0.1	
Solomon Islands	17	0	0.0	100.0	20	0	0.0	Yes
Marshall Islands	4	0	0.0	100.0	4	0	0.0	
Samoa	1	0	0.0	100.0	1	0	0.0	Yes
Vanuatu	1	0	0.0	100.0	3	0	0.0	
Kiribati	0	0	0.0	100.0	0	0	0.0	
Micronesia	0	0	0.0	100.0	0	0	0.0	
Nauru	0	0	0.0	100.0	0	0	0.0	
Palau	0	0	0.0	100.0	0	0	0.0	
Tonga	0	0	0.0	100.0	0	0	0.0	Yes
Tuvalu	0	0	0.0	100.0	0	0	0.0	
Total	130,805	1,960	100.0		450,383	6,680	100.0	

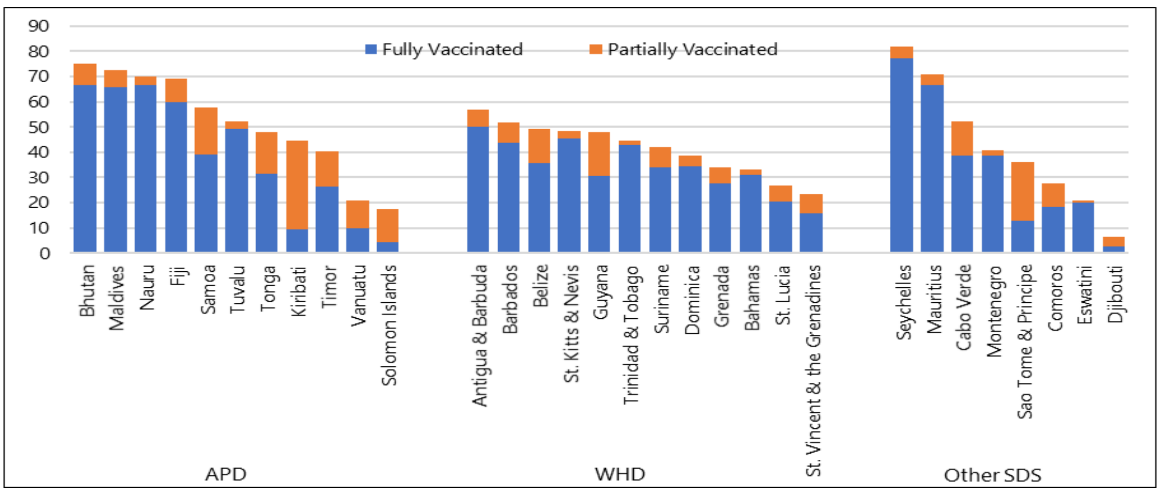
Sources: WHO COVID-19 Dashboard; Geneva: World Health Organization, 2020.

Figure 2. COVID-19 Vaccination Rates by Country Group, 2021
(Percent of population)



Source: Our World in Data (Mathieu and others, 2021). Country mean and 7-day moving average rate are reported.

Figure 3. COVID-19 Vaccination Rates by SDS Region and Country at end-October 2021
(Percent of population)



Source: Our World in Data (Mathieu and others, 2021).

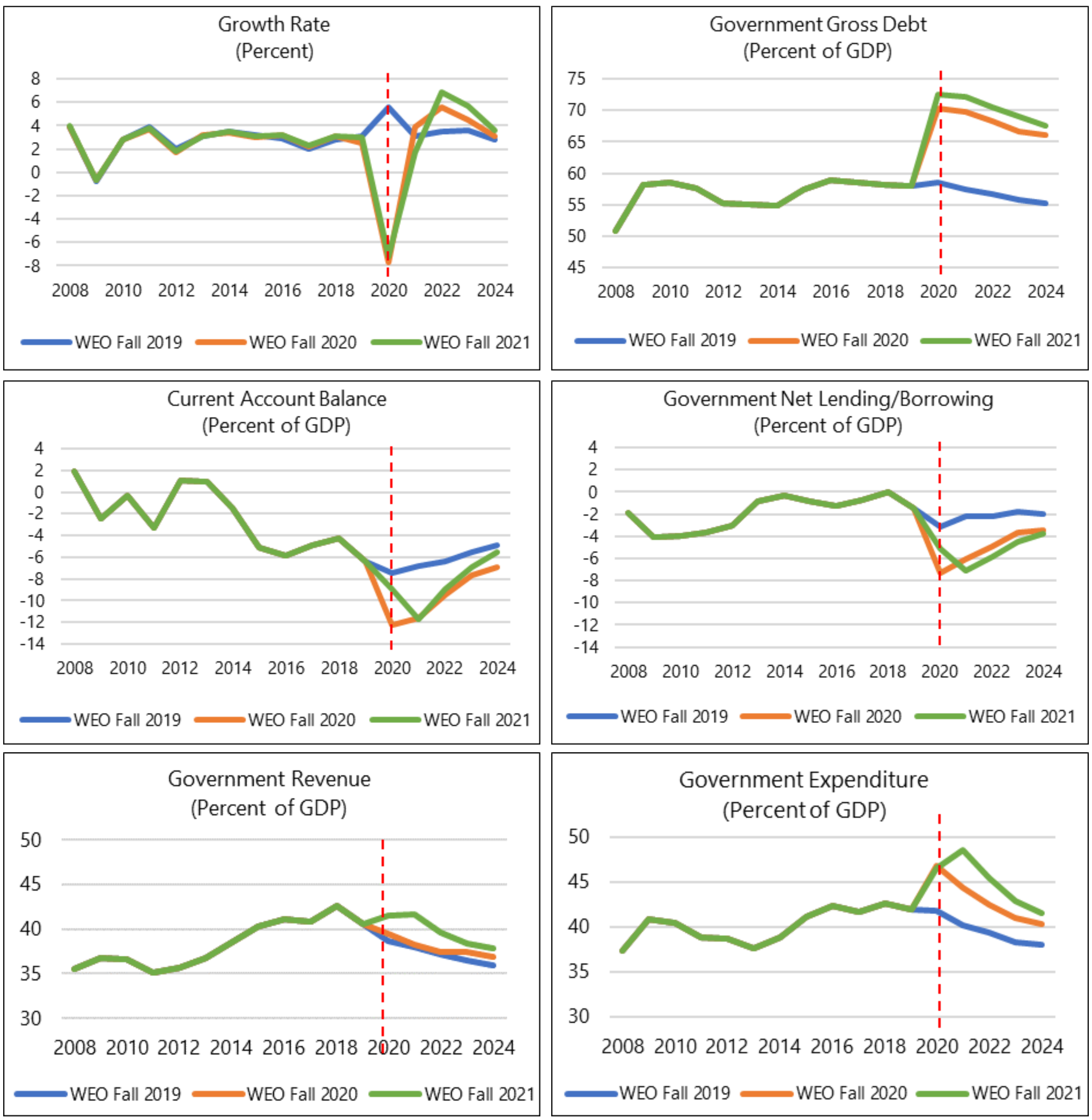
B. Macroeconomic Impact

12. The COVID-19 pandemic was fully unexpected. The October 2019 World Economic Outlook (WEO) had downgraded global growth in 2019 to 3.0 percent—its lowest level since the Global Financial Crisis of 2008–2009. It projected a modest recovery in 2020 with growth picking up to 3.4 percent. The major risk to the global economy was identified as a further escalation in trade and geopolitical tensions that could derail a fragile recovery in EMs and LIDCs. The January 2020 update of the WEO maintained this forecast of a sluggish recovery in a context of tentative stabilization, just before the WHO issued a public health emergency on January 30, 2020. The WHO officially declared COVID-19 as a pandemic on March 11, 2020, with various countries following suit and declaring national emergencies. The Spring 2021 WEO was devoted to an early analysis of the pandemic impact and policy prescriptions to mitigate it.

13. Prior to the pandemic, the average SDS was projected to embark on a gradual restoration of internal and external balances over the period 2020–2024 (Figure 4). Growth would be sustained at more than 4 percent and the current account deficit would be reduced to less than 3 percent of GDP. These outcomes were to be accompanied by a growth-friendly fiscal adjustment with lower fiscal deficits achieved through expenditure control that more than compensated a projected decline in revenue and allowed for a reduction of the aggregate debt burden that had been creeping up since 2014.

Figure 4. Economic Development in SDS, 2008–2024

(Country averages over recent WEO vintages)



Sources: IMF WEO data, Published Databases, October 2019, 2020, and 2021.

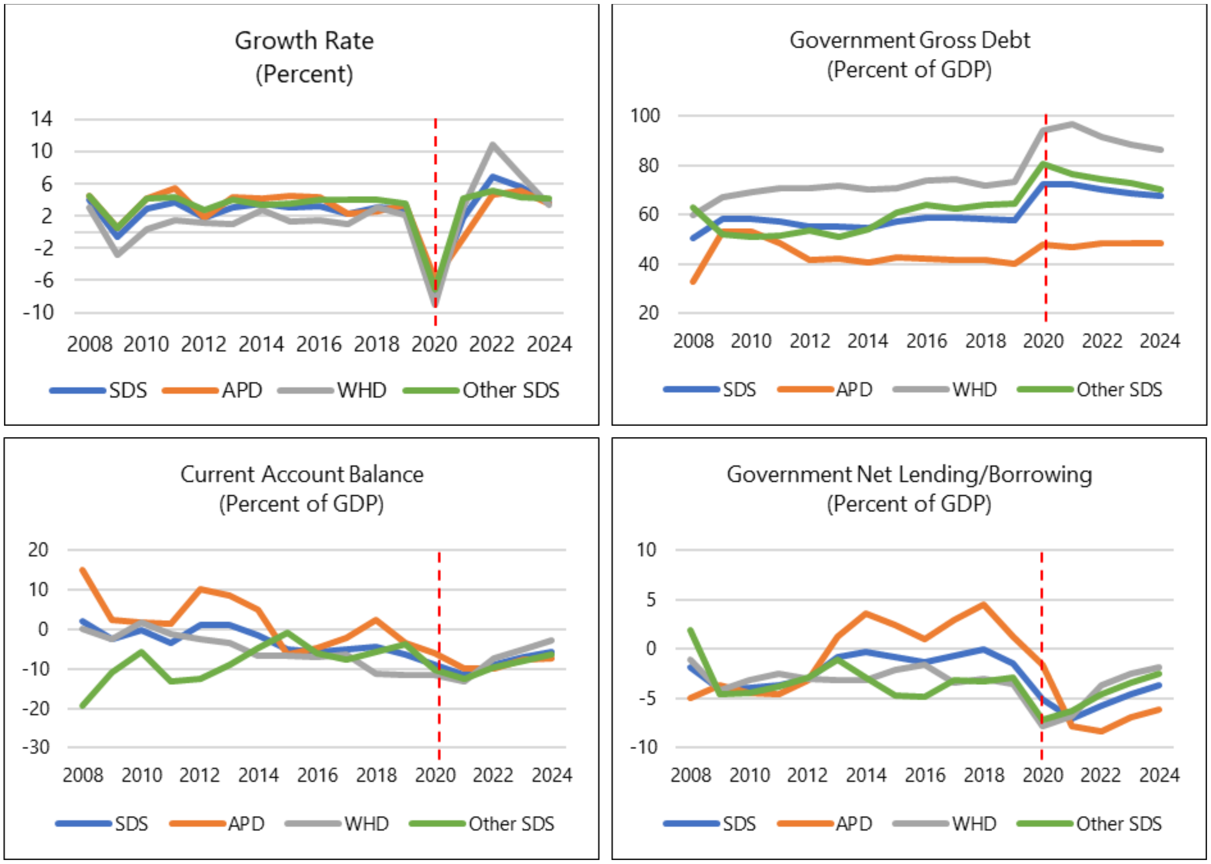
14. With the initial epicenters of the pandemic in North America and Europe, the public health crisis and abrupt slowdown of activities in these regions led to particularly severe disruptions of trade, travel and tourism that spilled over to the rest of the world, as well as generating heightened uncertainties for capital flows, financing, and remittances. The economic impact of these spillovers was exacerbated by the measures taken by most countries to keep the pandemic at bay, in particular border closings and lockdowns.

15. The twin external shocks of a pandemic and a global recession led to the average SDS contracting by 7.3 percent in 2020, 12.8 percentage points worse than projected in the October 2019 WEO baseline. Trade disruptions, a sudden stop of tourism activities, and cutbacks in remittances led to an average deterioration of the current account deficit by 2.5 percentage points of GDP in 2020, to 9.0 percent of GDP, with a projected further deterioration to 11.6 percent of GDP in 2021. Instead of stabilizing, the fiscal deficit increased by an average of 3.7 percentage points of GDP in 2020 over 2019, to 5.1 percent of GDP, with a projected further deterioration to 7.1 percent of GDP in 2021. As a result, the public debt burden rose by 14 percentage points of GDP over the period 2019–2021, to an average of 72.1 percent of GDP in 2021.[4] The deterioration of the fiscal balances reflected higher expenditure to address the public health cost of the pandemic and to support economic activities and vulnerable segments of the population while revenue declined as a result of lower activities and tax concessions to mitigate the impact of the pandemic.

16. Among SDS, the impact of the pandemic in 2020 was greatest on Western Hemisphere SDS with regards to economic contraction and accumulation of debt, but all SDS groups faced similar problems, with higher volatility exhibited in the Asia-Pacific region (Figure 5 and Appendix, Figure AI.1). SDS economies are projected to start to recover in 2021 on the basis of a partial restoration of tourism and trade activities despite supply chains concerns. The renewed growth momentum and improved external sector prospects would allow SDS to embark on fiscal adjustment programs to reduce the fiscal deficit and lower the public debt over the medium term, mostly through expenditure reductions. Government debt is still projected to reach 97 percent and 47 percent of GDP in the average Western Hemisphere and Asia Pacific SDS, respectively, while increasing to 77 percent in other SDS. Debt sustainability has become a key policy issue to address with limited room for maneuver for many SDS as there is still much diversity among individual countries in terms of initial conditions and policy spaces.

[4] The Fall 2020 WEO correctly estimated the growth decline in 2020 while slightly underestimating the debt increase and overestimating the impact of the pandemic on the current account and fiscal deficits.

Figure 5. Economic Developments by SDS Group, 2008–2024
(Country average within group)

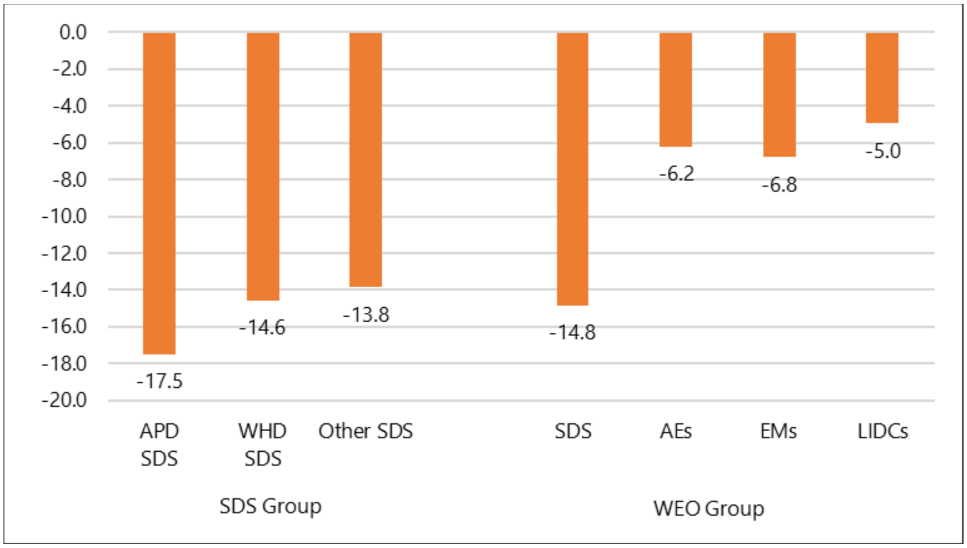


Source: IMF WEO data, October 2021. Estimates for 2020 and projections thereafter.

17. Compared with other groups, SDS as a group experienced the largest contraction of activity in 2020 and the largest downward adjustment to their aggregate GDP baseline projections following the pandemic outbreak (Figure 6).[5] On the fiscal side, only the AE group had a greater deterioration of its fiscal deficit because of a greater pandemic-related surge of expenditure in 2020. For all other economic indicators, the deterioration in 2020 was higher for SDS than for other groups. As a group and as individual countries, SDS have thus been among the most severely affected by the pandemic, underscoring once again their vulnerability to external shocks.

[5] See Appendix Figure AI.1.

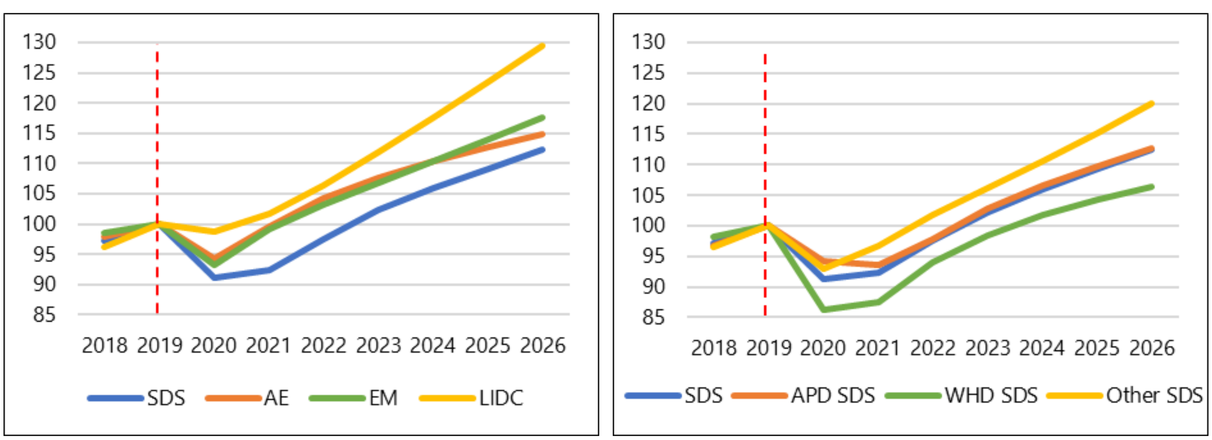
Figure 6. Differences Between Projected and Actual 2020 GDP Growth
(Percent; country average within groups)



Sources: WEO Published Databases, October 2019 and October 2021.

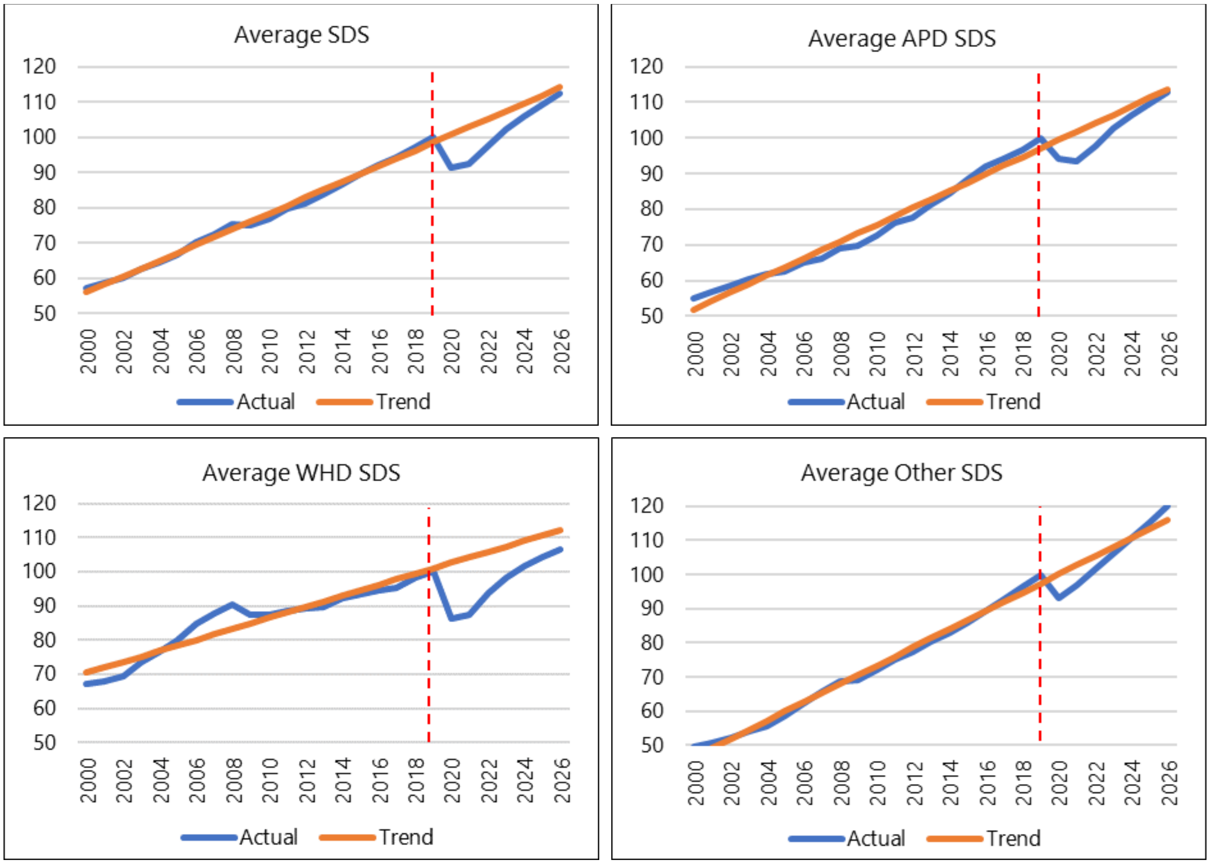
18. At a global level, the economic recovery from the pandemic is projected to occur quite quickly with average levels of real GDP in AEs, EMs and LIDCs reverting to their pre-pandemic levels of GDP in 2021. However, SDS are only projected to recover to their 2019 real GDP levels in 2022 on average, reflecting the larger impact of the pandemic in these countries and the greater lingering effect of trade and tourism disruptions on their economies (Figure 7a). Western Hemisphere SDS are projected to sustain the most extensive economic scarring that will prevent a return to the pre-pandemic GDP trajectory by 2026 (Figure 7b). Asia and Pacific SDS will recover somewhat faster but will only just return to their GDP-level growth trend by 2026.

Figure 7a. Real GDP Trajectories by Country Groups, 2018–2026
(Average within group, index base year: 2019=100)



Source: IMF WEO data, October 2021. Estimates for 2020 and projections thereafter.
Note: AM, EM, and LIDC groups exclude SDS while SDS and Western Hemisphere SDS groups exclude Guyana.

Figure 7b. Real GDP and Pandemic Scarring by SDS Group, 2000–2026
(Average within group, index base year: 2019=100)



Source: IMF WEO data, October 2021. Estimates for 2020 and projections thereafter.
Note: AM, EM, and LIDC groups exclude SDS while SDS and Western Hemisphere SDS groups exclude Guyana. Where applicable, linear regression fits are calculated over period 2000–2019.

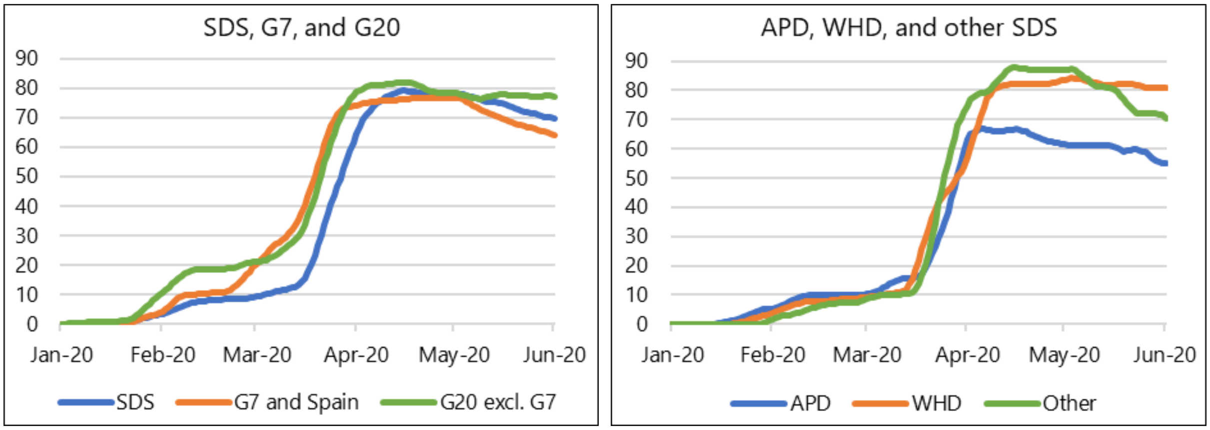
C. SDS Responses

19. SDS were quick to react to the outbreak of the pandemic and adopted strong measures early to limit its spread, even before cases were reported in their territories. Based on the stringency index of the Oxford COVID-19 Government Response Tracker, which records the number and intensity of containment and closure policies on a scale of zero to 100,[6] SDS lagged the advanced countries at the epicenter of the pandemic by only about one week in taking measures and reached about the same level of policy response by end-March 2020 (Figure 8). As observed by the Oxford group, "governments mostly adopted similar policies, in mostly the same sequence, at mostly the same time—the two middle weeks of March 2020," but there was more diversity afterwards in the management of these policy measures.[7]

[6] The stringency index is composed of 9 indicators of containment and closure policies, such as school and workplace closing, restrictions on internal and international travel, or stay at home requirements.

[7] See Hale, (2021); Hale and Others, (2021a; b).

Figure 8. COVID-19 Pandemic Policy Response Index, 2020

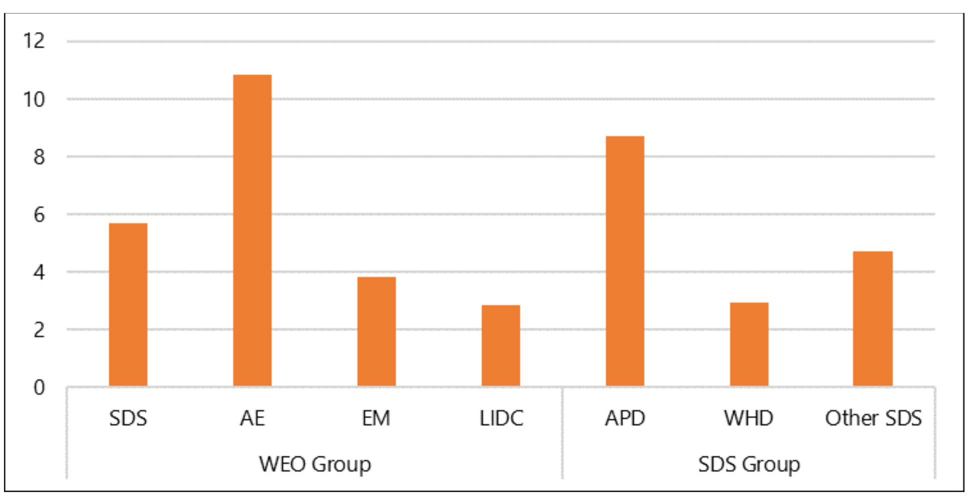


Source: Oxford Policy Tracker, 2020–2021.

20. SDS actions to contain the pandemic and support their domestic economy added to the budgetary revenue pressures related to the economic recession (Figure 9). Overall, additional spending and foregone revenue amounted to nearly 6 percent of GDP on average for SDS, second to AEs with 11 percent but higher than for EMs and LIDCs (4 percent and 3 percent of GDP, respectively). Among SDS, Asia-Pacific countries were the most affected with pressures equivalent to 9 percent of GDP on average, compared with 3 percent and 4 percent of GDP in Western Hemisphere SDS and other SDS, respectively. Most SDS did not rely (as other WEO groups did) on "below-the-line" measures (such as liquidity support, equity, loans and guarantees) to support their economies (Figure 10).

Figure 9. Additional Spending and Foregone Revenue Related to COVID-19 Pandemic

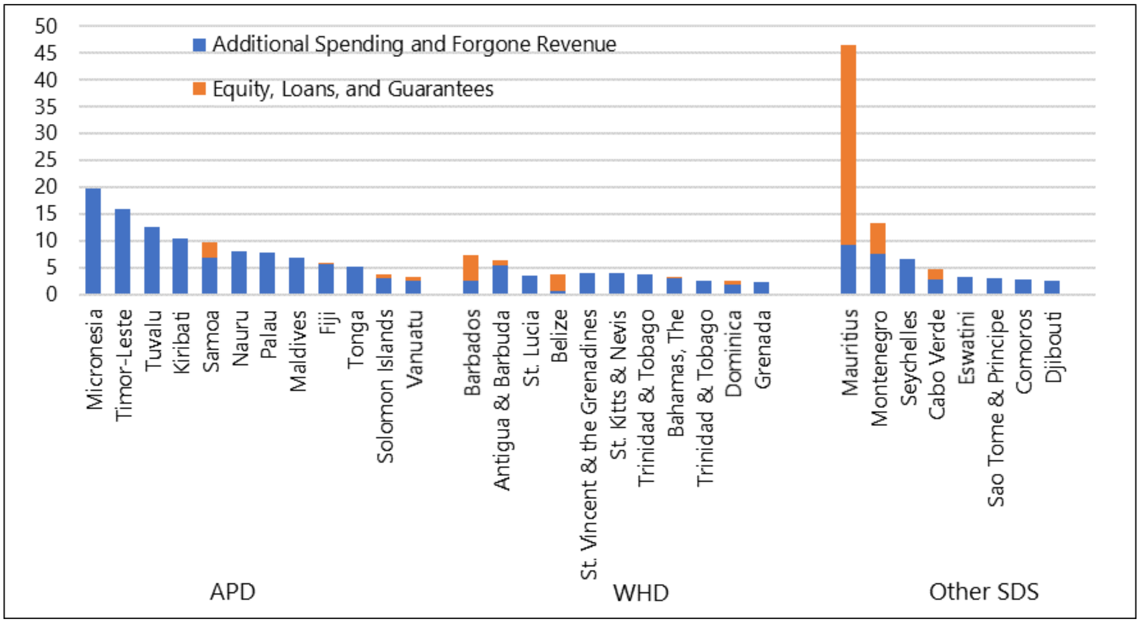
(Percent of GDP; country average by group, 2020–2021)



Source: IMF Fiscal Tracker Database.

Figure 10. Fiscal Cost of COVID-19 Pandemic Within SDS, 2020–2021

(Percent of GDP)



Source: IMF Fiscal Tracker Database.

III. The Fund's Response

A. Adjustment of the Lending Toolkit and Streamlining of Procedures

21. The IMF was fast to acknowledge the challenges of the pandemic and to make financing quickly available to its members by scaling up existing emergency financing facilities and providing debt relief on debt service due to the IMF by the poorest and most vulnerable members.[8] In addition, the IMF and the World Bank worked on the G-20 Debt Service Suspension Initiative (DSSI) to offer debt relief on official bilateral credit to 73 DSSI-eligible low-income countries (LICs) during the pandemic and reallocate this debt relief to pay for pandemic-induced expenditure.

22. As part of the IMF lending toolkit, the emergency financing facilities include the Rapid Credit Facility (RCF) for members eligible for concessional financing under the PRGT and the Rapid Financing Instrument (RFI) for the others. These facilities provide rapid financial assistance as outright disbursements to members facing urgent BOP needs. They are designed for situations where a UCT quality Fund-supported program is either not necessary (e.g., due to the transitory nature of the adjustment need and the financing) or not feasible (e.g., due to the member's limited capacity, including in post-conflict, disaster, or other fragile situations or when more time is needed to design a program). To facilitate quick disbursements, RCFs and RFIs do not involve the ex post conditionality of UCT quality programs, and assurances of financing to close the financing gap are not required. Their purpose is to meet urgent BOP needs and assist members in implementing policies aimed at moving toward achieving a stable macroeconomic position

[8] Debt relief was provided under the CCRT (IMF, 2020).

associated with sustainable fiscal and current account balances, limited debt vulnerabilities, adequate international reserves, and sufficient policy and institutional capacity to implement appropriate macroeconomic policies.

23. By early April 2020, the Fund had received 87 requests or inquiries for emergency financing or augmentations of access under existing arrangements totaling about $27 billion, and three COVID-19 emergency operations had already been approved for the Kyrgyz Republic, Rwanda and Madagascar. On April 9, 2020, the Fund's Executive Board approved a package of measures to enhance the emergency toolkit elements and resources through end-2020 (extended later through end-2021), as well as to streamline the administrative procedures, and additional steps were taken in the following months.[9]

24. In sum, the key elements of the Fund's response in the early phase of the pandemic were: (i) a temporary scaling up of access to the emergency financing facilities from 50 to 100 percent of quota, with cumulative limits raised from 100 to 150 percent of quota; (ii) temporary increases of the limit on annual access to GRA resources from 145 percent to 245 percent of quota and of the normal annual access to PRGT resources from 100 to 150 percent of quota to prevent triggering of exceptional access framework, while keeping cumulative access limits unchanged;[10] (iii) a revamping of the CCRT to provide relief on the debt service to the Fund by the 29 poorest and most vulnerable members; (iv) the approval of a new Short-Term Liquidity Line (SLL) to expand the toolkit of precautionary instruments;[11] (v) various actions to secure additional GRA and PRGT resources; (vi) and enhanced collaboration with the World Bank and the G-20 on the DSSI and elaboration of a Common Framework for Debt Treatments beyond the DSSI to guide agreements on debt treatments for eligible countries, including with private sector creditors.

25. To accelerate processing and Board approval of financing requests during the pandemic, the IMF also adopted a framework of "pandemic emergency procedures" aimed at reducing the average lag of three to four months between a request and Fund disbursements under the RCF and RFI during life-threatening global pandemics. The streamlined procedures included shortening of the circulation period of documents to the Board for RCF, RFI, CCRT, and requests for augmentations of access to four business days with announcement of Board meetings six days ahead of time, shorter Chair's summing ups and gray statements, and consideration of clustered Board meetings for similar requests.[12] The deadlines for upcoming bilateral Article IV consultations and mandatory Financial Stability Assessments (FSA), as well as the deadlines for discussions with currency unions, were extended by an initial period of six months and later through April 2021, except when required in connection with a Flexible Credit Line (FCL) or Precautionary and Liquidity Line (PLL) request or review.

[9] See IMF (2020a; 2020b; 2020c; 2020d; 2020e).

[10] See IMF (2020f).

[11] To date, no Fund member has requested an SLL.

[12] Additional measures were taken to accelerate the transmittal of assistance requests to the Board, including a shortening of the internal review and clearance processes.

B. Overview of Fund's Lending Activities in the Context of the COVID-19 Pandemic

26. The streamlined procedures and the active engagement of the Fund with its members allowed for the quick approval of Fund financial assistance to 44 countries by end-April 2020, within 50 days of the official declaration of a pandemic by the WHO. The number of beneficiaries of Fund assistance increased further to 81 countries or one third of the Fund membership by end-June 2020 with financing requests approved in an amount equivalent to SDR 60.4 billion. That amount accounts for nearly three quarters of the Fund financing approved over the 18-month period ending in June 2021 (Table 3).

27. The surge in demand for PRGT emergency financing led to SDR 4.3 billion committed or disbursed in less than 8 weeks, compared with an annual historical average of SDR 1 billion. The IMF Board approved a fast-track PRGT loan mobilization of SDR 12.5 billion in mid-April to alleviate pressures on the PRGT and complement its available resources of SDR 8.4 billion at end-February 2020. The mobilization was successful with SDR 10 billion secured by end-May and a total of SDR 15.6 billion achieved by end-October. A concomitant and more gradual mobilization of resources for the initially underfunded CCRT allowed for the provision of debt relief in four successive tranches to 31 poor and vulnerable members for a total of SDR 0.6 billion covering the period April 2020–January 2022.

28. Overall, excluding debt relief assistance under the CCRT, the Fund approved 119 lending operations for 87 members in an amount of SDR 82.9 billion to fight the pandemic over the period January 2020–June 2021 (Table 3). Nearly half of this amount is accounted by four precautionary arrangements (three FCLs for Chile, Peru and Colombia, and one PLL for Panama), of which only Colombia actually drew. Excluding these precautionary arrangements, the shares of emergency financing (under the RCF and the RFI) and traditional program lending were nearly identical (51 percent/49 percent), but there were three times as many beneficiaries of emergency financing as beneficiaries of program lending. Emergency assistance under the RCF and RFI benefited 75 Fund members while GRA and PRGT augmentations and non-precautionary arrangements were approved for 22 members with 13 new arrangements and nine augmentations under other arrangements (Table 4).

Table 3. IMF Financing for COVID-19 Pandemic
(January 2020–June 2021)

	Number of operations	Amount (SDR million)
Total financing (excluding CCRT)	119	82,943.0
2020	102	74,245.2
First half of 2020	84	60,426.9
o.w. precautionary FCLs	3	33,300.0
o.w. for SDS	15	523.2
Second half of 2020	18	13,818.3
o.w. augmentation of FCLs	1	4,417.0
o.w. for SDS	3	125.0
2021	17	8,697.9
First half of 2021	17	8,697.9
o.w. precautionary PLL	1	1,884.0
o.w. for SDS[1/]	1	6.9
New GRA and PRGT arrangements	20	54,696.0
2020	11	46,791.0
First half of 2020	9	41,917.0
o.w. new FCLs	3	33,300.0
Second half of 2020	2	4,874.0
2021	9	7,905.0
First half of 2021	*9*	7,905.0
o.w. new PLL	*1*	1,884.0
Augmentations of GRA/PRGT arrangements	14	5,970.0
2020	12	5,806.0
First half of 2020	*7*	779.0
o.w. for SDS	*1*	66.0
Second half of 2020	*5*	5,027.0
o.w. new FCLs	*1*	4,417.0
o.w. for SDS	*2*	46.5
2021	2	164.0
First half of 2021	*2*	164.0
RCF/RFI[2/]	85	22,277.0
2020	79	21,648.2
First half of 2020	*68*	17,730.9
Second half of 2020	*11*	3,917.3
2021	6	628.9
First half of 2021	*6*	628.9
Memorandum items:		
Debt relief under the CCRT	118	609.9
1st tranche: Apr. 14 – Oct. 13, 2020	29	183.1
2nd tranche: Oct. 14, 2020 – Apr. 13, 2021	29	168.4
3rd tranche: Apr. 14 – Oct. 15, 2021	29	168.1
4th tranche: Oct. 16, 2021 – Jan. 11, 2022	31	90.3

Source: IMF.

[1] From July 1 to October 1, 2021, a new EFF was approved for Seychelles on July 29 in an amount of SDR 74 million.

[2] Ten countries had two emergency operations each over the period January 2020–June 2021.

Table 4. Fund Financing of SDS and Other Fund Members for COVID-19 Pandemic
(January 2020–June 2021)

	Total	SDS	Non-SDS		
			Total	Non-precautionary	Precautionary
Total					
Countries	87	17	70	66	4
Amounts (SDR million)	82,942.9	658.1	82,284.8	42,683.8	39,601.0
RCF/RFI only					
Countries	61	15	46	46	--
Amounts (SDR million)	16,854.7	533.6	16,321.1	16,321.1	--
New arrangements only[1/]					
Countries	6	--	6	3	3
Amounts (SDR million)	43,342.5	--	43,342.5	5,625.5	37,717.0
Augmentations only					
Countries	6	1	5	5	--
Amounts (SDR million)	1,290.7	114.0	1,176.7	1,176.7	--
RCF/RFI and new program[1]					
Countries	11	--	11	10	1
Amounts (SDR million)	21,128.8	--	21,128.8	19,244.8	1,884.0
RCF/RFI and augmentations					
Countries	3	1	2	2	--
Amounts (SDR million)	326.2	10.5	315.7	315.7	--
Memorandum items					
RCF/RFI financing					
Countries	75	16	59	59	--
Amounts (SDR million)	22,277.0	542.6	21,734.4	21,734.4	--
New program financing[1]					
Countries	17	--	17	13	4
Amounts (SDR million)	59,277.5	--	59,277.5	19,676.5	39,601.0
Augmentations on prior programs					
Countries	9	2	7	7	--
Amounts (SDR million)	1,388.4	115.5	1,272.9	1,272.9	--

Source: IMF.
[1] Includes augmentations on new arrangements.

IV. FUND LENDING ACTIVITIES TO SDS IN THE EARLY STAGES OF THE PANDEMIC

A. Delivery of Fund's Support to SDS During the Pandemic

29. Excluding CCRT debt relief, half of the 34 SDS benefited from Fund financial support in an amount equivalent to SDR 658.1 million over the period March 2020–June 2021.
Eighty percent of the 19 operations were approved before end-June 2020, nearly all in the form of emergency assistance under the RCF and the RFI. Fifteen SDS benefited from an RFI or RCF, one SDS had an RCF and an augmentation under its Extended Credit Facility (ECF) (Sao Tome and Principe), and one SDS had two augmentations of its EFF arrangement (Barbados). CCRT debt relief benefited four SDS, Comoros, Djibouti, Sao Tome and Principe, and Solomon Islands

in an amount equivalent to SDR 7.9 million under the first three tranches of the CCRT up to mid-October 2021.

30. SDS recourse to program lending under the GRA and PRGT was limited because of the emergency situation created by the pandemic. No new arrangement was approved over the period January 2020–June 2021, and only one new GRA arrangement has been approved since then.[13] Augmentations of SDR 115 million were approved for the two arrangements with Barbados and Sao Tome and Principe that were active at the beginning of the pandemic.[14]

- Barbados was under a four-year Extended Fund Facility (EFF) arrangement approved on October 1, 2018, in an amount of SDR 208 million (equivalent to 220 percent of quota and 5.7 percent of GDP). The objectives of the program were to restore macroeconomic and debt sustainability through an extensive debt restructuring, address falling reserves, and increase growth. In the context of the pandemic, Barbados' EFF was augmented twice by SDR 66 and 48 million approved on June 3 and December 9, 2020, respectively (cumulatively equivalent to 121 percent of quota and 3.5 percent of GDP).

- Sao Tome and Principe had a 40-month ECF arrangement since October 2, 2019, in an amount of SDR 13 million (equivalent to 90 percent of quota and 4.3 percent of GDP).[15] With the country in debt distress because of prolonged unsettled external arrears, the program aimed to reduce debt vulnerability, alleviate BOP pressures, restore fiscal and external sustainability over the medium term, and promote growth. Sao Tome and Principe's ECF was augmented on July 27, 2020, by SDR 1.4 million (equivalent to 10 percent of quota and 0.5 percent of GDP), on top of an RCF disbursement of SDR 9 million approved on April 20, 2020 (61 percent of quota and 2.9 percent of GDP).[16]

31. Most of the IMF assistance to SDS was in the form of emergency financing under the RCF and the RFI (SDR 542.6 million, 83 percent of total assistance) and disbursed early during the period under review. The proportion of emergency financing operations among SDS was similar to the experience of other emerging markets and developing countries (EMDCs) with nearly half of each group benefiting from such operations. Of the 16 RCF/RFI operations for SDS, 8 were approved by end-April 2020, within 50 days of the WHO's declaration of a pandemic, and 14 by end-June 2020 for SDR 457.2 million (Table 5). Most of the operations (13 of them) were also

[13] The Fund approved a new 32-month EFF for Seychelles on July 29, 2021 (SDR 74 million, 323 percent of quota, 8.6 percent of GDP), subsequent to an RFI approved in May 2020 (SDR 23 million, equivalent to 100 percent of quota).

[14] Two non-financial programs under the Policy Consultation Instrument (PCI) with Seychelles and Cabo Verde were also active at end-2020, the former got an RFI on May 8, 2020, and the latter an RCF on April 22, 2020.

[15] Sao Tome and Principe has implemented four Fund-supported programs under the ECF nearly continuously since 2009 with a 9-month break in 2019 linked to elections and failure to meet a prior action.

[16] Sixty-one percent of quota was the maximum amount allowed for an RCF under the annual limits on disbursements from the PRGT at the time, given the ECF disbursement schedule.

intended for budgetary support to finance the deterioration of fiscal balances as a result of the pandemic.

Table 5. RCF and RFI Financing to SDS During the COVID-19 Pandemic
(January 2020–June 2021)

Country Name	Region	Approval Date	Financing Type	Budget Financing	Concurrent Use	Access		
						Pct of Quota	SDR million	Pct of GDP
Maldives	Asia-Pacific	4/22/2020	RCF	1	Stand alone	100.0	21.2	0.6
Samoa	Asia-Pacific	4/24/2020	RCF	0	Stand alone	100.0	16.2	2.7
Solomon Islands	Asia-Pacific	6/1/2020	RFI-RCF	0	Stand alone	100.0	20.8	1.8
Tonga	Asia-Pacific	1/25/2021	RCF	1	Stand alone	50.0	6.9	2.0
São Tomé and Príncipe	Other	4/21/2020	RCF	1	ECF	61.0	9.0	2.9
Cabo Verde	Other	4/22/2020	RCF	1	PCI	100.0	23.7	1.7
Comoros	Other	4/22/2020	RFI-RCF	1	Stand alone	50.0	8.9	1.0
Djibouti	Other	5/8/2020	RCF	1	Stand alone	100.0	31.8	1.3
Seychelles	Other	5/8/2020	RFI	1	PCI	100.0	22.9	2.6
Montenegro	Other	6/24/2020	RFI	1	Stand alone	100.0	60.5	1.7
Eswatini	Other	7/29/2020	RFI	1	Stand alone	100.0	78.5	2.9
Dominica	West. Hem.	4/28/2020	RCF	0	Stand alone	89.4	10.3	2.6
Grenada	West. Hem.	4/28/2020	RCF	1	Stand alone	100.0	16.4	2.1
St. Lucia	West. Hem.	4/28/2020	RCF	1	Stand alone	100.0	21.4	1.6
St. Vincent & the Grenadines	West. Hem.	5/20/2020	RCF	1	Stand alone	100.0	11.7	2.1
Bahamas, The	West. Hem.	6/1/2020	RFI	1	Stand alone	100.0	182.4	2.2

Source: IMF.

32. SDS access levels under the RCF and the RFI benefited from the April 8, 2020, enhancements to the emergency financing toolkit. The 16 emergency operations were at the maximum level authorized under the RCF and RFI frameworks except for Tonga's RCF approved in early 2021. Besides Tonga, all requests were at the new maximum of 100 percent of quota unless constrained by other limits. The levels of access for Comoros (RCF/RFI) and Sao Tome and Principe (RCF) were limited by the annual access limit of 100 percent of quota on PRGT financing.[17] Dominica's access remained constrained by the new cumulative access limit of 150 percent of quota under the RCF's exogenous shock window, as it had 61 percent of quota in outstanding PRGT credit for past emergency assistance. Tonga's access was set at 50 percent of quota to leave room for further borrowing after full consideration of the BOP need, the availability of additional grant financing from the World Bank, and the authorities' preference for grant financing and concerns about debt sustainability.

[17] Comoros had an outstanding use of Fund credit from a RCF/RFI blend emergency financing operation for 50 percent of quota in July 2019 for Cyclone Kenneth. Sao Tome and Principe received disbursements equivalent to 39 percent of quota in 2019–2020 under its ECF. The annual limit of 100 percent of quota on PRGT financing was subsequently increased to 150 percent of quota.

33. The access levels under the 16 approved RCF/RFIs for SDS averaged 2 percent of GDP, one-third higher than the 1.5 percent of GDP average for the 59 other RCF/RFIs approved between March 2020 and June 2021. The distribution of SDS access levels was also tighter around the mean with a standard deviation of 0.7 and a median of 2 percent of GDP, compared with 1.0 and 1.4 for the non-SDS group, respectively.

34. Based on the RCF/RFI requests documents, the average BOP financing need of SDS before any use of gross international reserves (GIR) was estimated at 10.5 percent of GDP (Table 6). A recourse to GIR in amounts equivalent to 4.7 percentage points of GDP reduced the financing needs to an average financing gap of 5.8 percent of GDP.[18] The gap was closed through financing of the IMF (2.0 percent of GDP), the World Bank (1.5 percent of GDP), other multilateral banks (1.1 percent of GDP) and other financing (1.2 percent of GDP). On average for SDS, the Fund was projected to account for about 30 percent of the financing needs and 44 percent of the financing gap, broadly in line with historical experience. There is nevertheless a large diversity of cases behind these average numbers, with the IMF accounting for as low as 13 percent of the financing gap (Maldives) and as high as 93 percent of the gap (Djibouti), but IMF financing remains the most important resource to close the financing gap, after drawdown of international reserves (Figure 11).[19]

Table 6. RCF and RFI Operations for SDS: Financing Needs and Closing of Gap

(January 2020–June 2021, in percent of GDP)

Country Name	BOP need	Gross Reserves	IMF	CCRT	DSSI	World Bank	Other multilaterals	Other	IMF in percent of BOP need	IMF in percent of gap[1]
Maldives	7.2	-3.2	0.5	--	--	0.3	1.8	1.3	7.5	13.5
Samoa	5.2	-1.2	2.5	--	--	--	--	1.5	47.9	63.0
Solomon Islands	9.6	-7.1	1.9	--	--	--	--	0.7	19.5	74.2
Tonga	18.8	-9.8	1.9	--	1.1	6.0	--	--	10.2	21.5
São Tomé and Príncipe	8.1	-0.1	4.2	0.1	--	0.6	--	3.1	52.0	52.4
Cabo Verde	12.0	-7.5	1.8	--	--	1.4	0.9	0.4	15.2	40.5
Comoros	2.5	-1.3	1.0	0.2	--	--	--	--	40.3	84.7
Djibouti	2.4	-1.0	1.3	0.1	--	--	--	--	53.1	93.1
Seychelles	26.5	-16.9	2.0	--	--	3.7	0.7	3.2	7.5	20.8
Montenegro	13.9	-8.2	1.7	--	--	0.6	1.3	2.1	12.1	29.8
Eswatini	5.4	--	2.8	--	--	2.6	--	--	51.8	51.8
Dominica	13.6	-2.0	2.5	--	--	3.7	5.3	--	18.3	21.5
Grenada	9.9	-5.3	2.0	--	--	0.2	0.6	1.7	20.3	44.1
St. Lucia	9.8	-1.9	1.5	--	--	--	4.5	1.9	15.2	18.8
St. Vincent & the Grenadines	13.1	-5.1	2.0	--	--	2.9	1.4	1.6	15.5	25.4
Bahamas, The	8.7	-3.7	2.2	--	--	0.8	2.0	--	25.5	44.2

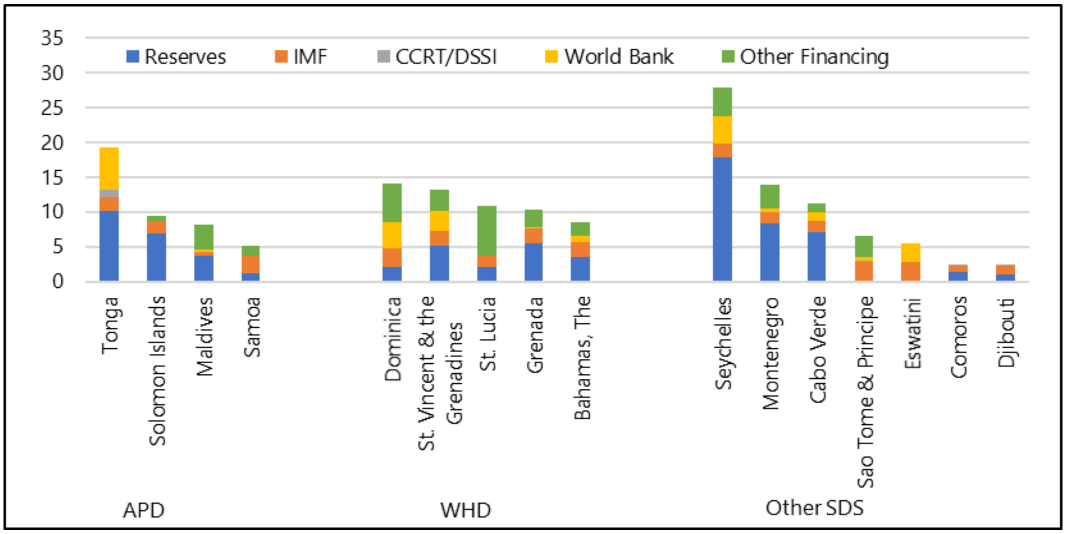
Source: IMF.

[1] Gap is defined as BOP need after variation of international reserves.

[18] Eswatini had an increase in gross reserves that is incorporated in the BOP need.

[19] Bilateral financing is rarely reported as a source of financing for the gap, most probably as the short timeline to finalize the RCF/RFI requests preventing a full canvassing of bilaterals. Full closure of the financing gap is also not required under the RCF/RFI frameworks.

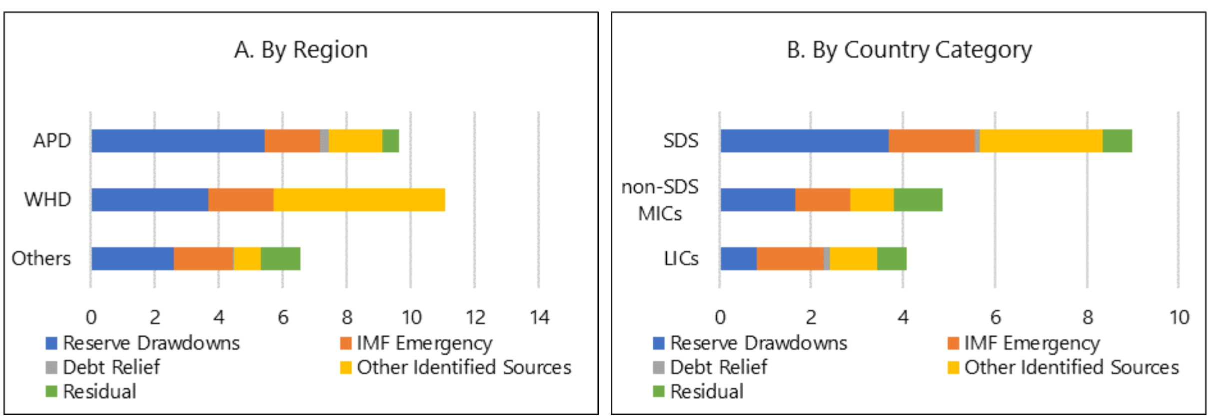
Figure 11. COVID-19 Pandemic, Financing Needs of SDS Requesting an RCF/RFI
(January 2020–August 2021, in percent of GDP)



Source: IMF Staff Reports of RCF/RFI requests.

35. In comparison with other Fund members that requested financial emergency assistance from the Fund, the SDS BOP needs were projected to be about twice the BOP needs of non-SDS middle-income countries and LIDCs (Figure 12). As a result, despite the higher financing of the Fund in SDS relative to GDP than in other groups, by half a percentage point of GDP on average, and its projected catalytic impact, SDS emergency financing requests projected a greater recourse to international reserves to fill the residual financing gap in 2020. Projected drawdowns of reserves were prevalent in all requests of Asia Pacific and Western Hemisphere SDS, and were particularly large in Seychelles, Tonga, Montenegro, Cabo Verde, Solomon Islands, and Grenada where they exceeded the identified financing of the remaining financing gap.

Figure 12. Financing Gaps in Emergency Financing Request Documents, 2020
(In percent of GDP)



Sources: IMF financing requests; IEO calculations.

B. Operational Aspects of the Fund's Support to SDS

36. The Fund's assistance to its membership and to SDS in particular has been substantial, catalytic, broad-based, and timely with SDR 60.2 billion approved before end-June 2020 to 82 members, of which SDR 523 million for 15 SDS. The steps to enhance the emergency lending toolkit and to streamline processes were instrumental in achieving this outcome, as well as departmental efforts to rise to the challenge.

37. On average, the negotiations with the authorities of the 15 SDS requesting early Fund support took four days, and the Board approved the requests 21 days after the end of the negotiations (Table 7). The rapid pace of these operations put quite a heavy burden on staff, but there was a relative continuity of Fund staff engagement that facilitated the process of bringing the requests to the Board. There was no change of mission chief in 14 of the 19 Fund financing operations that benefited SDS over the period January 2020 to June 2021, and an average of three mission members had a previous mission experience in these SDS. The use of quasi-templates for policy notes and staff reports, the clustering of requests for Board consideration (such as for Dominica, Grenada, and St. Lucia), and early instructions to foster members' governance in the use of Fund resources contributed to ease work pressures on staff and to allow expeditious approval.

38. Growing concerns about good governance in using the Fund's resources led to an increased scrutiny of letters of intent and the introduction of appropriate safeguards in pandemic-lending operations. These safeguards were centered around (i) the audit of crisis-mitigation spending within a year's timeline and publication of the results and (ii) publication on a government's website of procurement contracts for crisis related spending.

39. Not all requests were successful in getting access to emergency financing from the Fund. Mauritius did not receive emergency assistance because Fund staff had issues with some measures taken by the authorities in their COVID-19 response.[20] Mauritius was able nevertheless to meet its financing needs through other means, and the engagement of the Fund with the country resumed on good terms.

---

[20] The Central Bank transferred the equivalent of 14 percent of GDP to the government, purchased government bonds for 3.5 percent of GDP, and established the Mauritius Investment Corporation to engage in quasi-fiscal operations. See concurrent IEO background paper "IMF Engagement with Small Developing States—AFR+2 Case Studies.

Table 7. Stylized Facts of Fund's Financing Operations with SDS During COVID-19 Pandemic
(January 2020–June 2021)

Country Name	Dept.	Previous Board meeting		Pandemic Financing		Time in days			Pandemic financing mission		
		Subject	Date	Type	Date	From previous Board meeting to mission	Mission for pandemic financing	From mission to Board meeting	New Mission Chief (MC)	Staff in previous mission to country (incl. MC)	Mission size
Maldives	APD	AIV	5/29/2019	RCF	4/22/2020	308	5	17	Yes	2	3
Samoa	APD	AIV	5/8/2019	RCF	4/24/2020	336	7	10	Yes	1	4
Solomon Islands	APD	AIV	2/5/2020	RFI-RCF	6/1/2020	90	3	25	Yes	2	5
Tonga[1/]	APD	AIV	1/12/2018	RCF	1/25/2021	258	12	66	No	3	5
Cabo Verde	AFR	PCI review	3/20/2020	RCF	4/22/2020	24	2	8	No	3	6
Comoros	AFR	AIV	3/18/2020	RFI-RCF	4/22/2020	22	1	13	No	4	4
Eswatini	AFR	AIV	1/31/2020	RFI	7/29/2020	158	2	21	No	4	5
Sao Tome and Principe	AFR	new ECF	10/2/2019	RCF	4/21/2020	190	2	11	No	3	5
Sao Tome and Principe	AFR	RCF	4/21/2020	ECF aug.	7/27/2020	55	16	27	No	3	6
Seychelles	AFR	PCI review	12/10/2019	RFI	5/8/2020	140	1	10	Yes	0	4
Montenegro	EUR	AIV	9/6/2019	RFI	6/24/2020	258	2	33	No	1	4
Djibouti	MCD	AIV	9/30/2019	RCF	5/8/2020	199	3	20	No	2	3
Bahamas, The	WHD	AIV	6/3/2019	RFI	6/1/2020	344	4	17	Yes	2	4
Barbados	WHD	AIV, EFF rev.	12/6/2019	EFF aug.	6/3/2020	133	4	34	No	5	8
Barbados	WHD	EFF aug	6/3/2020	EFF aug.	12/9/2020	145	5	40	No	8	8
Dominica	WHD	AIV	7/3/2019	RCF	4/28/2020	287	4	10	No	4	5
Grenada	WHD	AIV	6/12/2019	RCF	4/28/2020	309	2	11	No	2	4
St. Lucia	WHD	AIV	2/4/2020	RCF	4/28/2020	69	3	13	No	3	5
St. Vincent & the Grenadines	WHD	AIV	2/15/2019	RCF	5/20/2020	446	3	12	No	3	4

Source: IMF.
[1] An Article IV Consultation mission took place in Tonga in February 2020, but no report was issued to the Board because of the pandemic. The period from the last Board meeting refers to the time between the last day of that 2020 AIV mission and negotiations on the RCF.

40. Debt sustainability issues prevented Belize and Antigua and Barbuda from getting emergency assistance from the Fund.[21] Debt sustainability is a key requirement for Fund lending as it fosters external medium viability and provides safeguards for repayment of the Fund resources. In both cases, Fund staff found debt to be unsustainable and could not obtain adequate assurances that the country was on track to restore sustainability, thus preventing Fund lending. While unsustainable debt situations are easier to address in the context of a Fund-supported program, they create a problematic situation in the context of emergency circumstances that complicate negotiations and implementation of a UCT program, as well as the timely establishment of specific and credible assurances to restore sustainability. The Fund's framework allows for establishing such assurances through: (i) commitments by the authorities to

[21] See concurrent IEO paper "IMF Engagement with Small Developing States—Caribbean Case Studies." Outside of the SDS group, Zambia is another example of a Fund member that was unable to get Fund assistance in 2020 because of debt sustainability issues.

the types of policies that will be needed to restore sustainability, alongside restructuring; and (ii) a two-step approach for the authorities to obtain creditor assurances on debt relief with an initial creditor commitment to a process for debt relief that takes into account policy uncertainties and with upfront actions to establish credibility.[22] The authorities of Belize did not support a staff proposal of an RFI at 50 percent of quota with a commitment to a subsequent Stand-By Arrangement, and secured financing through alternative means, including the World Bank, the Inter-American Development Bank (IDB), and a bond issuance.[23] Similarly, an agreement on a UCT program incorporating a sizeable fiscal consolidation while providing a path to debt sustainability could not be reached between staff and the authorities of Antigua and Barbuda.[24] In interviews with the IEO reported in the WHD case studies, both authorities expressed disappointment with the Fund's response to the pandemic in their respective countries, which revealed, in their view, a gap in the Fund's lending toolkit for exceptional circumstances which had exacerbated further their debt problems.

C. Lessons from the Experience of SDS

41. The Fund was successful in supporting most SDS in the early stages of the pandemic. The enhancements to its lending toolkit, the streamlining of processes, the early campaign to boost PRGT resources, the dedication of its management, the strong commitment of its staff, and the effective support of its Executive Board were key reasons for this success. Moreover, as discussed further in case studies, the capacity of the Fund to provide financial assistance to half of the SDS had a significant catalytic effect on the mobilization of external financing for these countries. Overall, Fund financing was a significant factor in addressing the external and budgetary financing needs of these SDS, particularly in the early months of the pandemic when the need was greatest.

42. That said, compared to other country groups, SDS had larger projected financing gaps and, while the Fund's assistance to SDS was proportionally higher in terms of GDP than in other EMDCs benefiting from Fund's financing, the IMF support to SDS filled a smaller share of these countries' financing gaps, requiring greater recourse to their international reserves. Access to emergency financing was also not available to a number of SDS with unsustainable debt situations.

[22] Exceptionally, the preferred creditor status of the Fund can be invoked with assurances that the members' debt problem will be addressed, but this may undermine the capacity of the Fund to secure stronger assurances from creditors in other cases.

[23] Belize had challenging experiences of debt restructuring outside of a Fund-supported program context in the 2010s. In a first step to restore sustainability, Belize nevertheless reached agreement in November 2021 with its commercial creditors and the Nature Conservancy on a restructuring of 9 percent of its debt ($553 million) through a debt-for-nature swap.

[24] Antigua and Barbuda benefited from alternative sources of financing and the Fund provided in 2021 an assessment letter to help catalyze COVID-19 related financial support from the Caribbean Development Bank.

43. SDS use of UCT program financing was very limited in the early stages of the pandemic, Sao Tome and Principe and Barbados were the only SDS that benefited from augmentations of access in their existing programs at the beginning of the pandemic and no new UCT program financing for an SDS was endorsed until July 2021 when Seychelles' request for an extended arrangement under the EFF was approved. The lack of SDS recourse to UCT program financing in 2020 reflected the nature of the pandemic, an unexpected public health emergency combined with a global economic crisis, and the availability of emergency financing from the Fund with less constraints and no ex post conditionality. It also reflected a historical lack of interest among SDS for Fund-support in the form of program lending. Only eight SDS had a UCT Fund-supported programs over the period 2010–2020, and only 20 SDS have ever had a recourse to Fund program lending since the 1950s.

44. More generally, staff made a remarkable job at quickly revising SDS baseline scenarios to reflect the dual public health and global economic crises in 2020 as part of the broader effort to recalibrate the global outlook after the pandemic. However, the short timeline to provide emergency financial assistance together with some turnover in mission staffing placed a heavy burden on staff. It also hindered some of the analytical work on program design, including a fuller discussion and presentation of scenarios, clarification of the linkages between the budgetary and BOP gaps, and analysis of implications for the non-governmental sector. Statistics remained a challenge and there was much disparity in the quality and presentation of the statistical tables in request documents. For example, analytical presentations of the BOP and fiscal tables were not systematic and consistent across the board, making ex post evaluation of outcomes and review of the Fund's catalytic impact difficult. Monetary tables were also missing in several cases and useful Risks Assessment Matrices (RAMs) were included in only a few requests.

45. The experience of many SDS with natural disasters was useful in designing a policy response and addressing the novel twin challenge of the COVID-19 pandemic and a sharp global recession. Recovery projections were established on the assumptions of a quick resolution of the pandemic and a return to normal pre-pandemic global environment within a year, although risks of a lingering pandemic and longer global recession were highlighted. The projections pointed to losses of policy spaces, particularly on the fiscal side with higher deficits and a surge in debt levels, which needed to be addressed in the medium term through adjustment policies aimed at restoring internal and external balances and reducing the debt burden. The fiscal adjustment was predicated on the basis of expenditure reverting to pre-pandemic levels, just as in a natural disaster scenario but without clarification on possible expenditure realignments resulting from the COVID-19 experience.

46. Authorities interviewed in the context of the IEO review of Fund engagement in SDS over the period 2010–2020 were very appreciative of the emergency facilities and the speed of approval of their requests for assistance. In this context, it is regrettable that some agreement could not be reached between Fund staff and the authorities of Mauritius, Belize and Antigua and Barbuda on strategies that could have unblocked emergency assistance and fostered a more effective engagement of the Fund in the face of very difficult debt situations.

47. Coordination with other multilateral institutions and development partners was also enhanced during the pandemic. Staff interviews report satisfaction with exchanges among the various stakeholders. The closer engagement with the World Bank Group and regional multilateral banks (AfDB, IDB, ADB) contributed to the catalytic impact of the Fund on external financing and greater understanding of pandemic developments and authorities' responses. The coverage of collaboration with bilateral donors in Board documents was not as extensive as with multilateral institutions, reflecting difficulties in canvassing the necessary information and the short timeline for finalizing emergency requests.

48. Looking forward, most SDS face difficult prospects as recoveries continue to be held back by pandemic related disruptions, particularly to tourism, and policy buffers have been eroded through a substantial recourse to international reserves and rising public Indebtedness. The economic environment will also remain highly uncertain with possible new waves of the pandemic and renewed geo-political tensions. This environment will challenge the commitments of many SDS to restore sustainability through adjustment policies and the adjustment path is likely to be bumpy. The Fund's engagement with SDS will be instrumental in designing robust national strategies to restore sustainability and enhance resilience. Surveillance, program support, and capacity development activities will all contribute to these objectives and will have to be relevant and well-coordinated for each case.

49. Public debt sustainability will be a particular challenge for many SDS. The indebtedness of many SDS increased substantially in 2020 and positive debt sustainability assessments in many SDS have depended on critical adjustment policies to reduce debt and enhance sustainability once the pandemic subsides. For SDS that benefited from IMF assistance in 2020, the average level of debt increased by 28 percent from 64 percent of GDP in 2019 to 82 percent of GDP in 2020, with three countries having debt equivalent to more than 145 percent of GDP (Barbados, Maldives, Sao Tome and Principe) (Table 8). LIC Debt Sustainability Analysis (LIC DSA) assessments reported similar risks of external debt distress and overall risks of debt distress but emphasized deterioration of debt sustainability despite projected adjustment policies. Heat maps of the MAC DSA also pointed to a degradation of the debt situation with higher debt levels and financing needs. Reverting to pre-pandemic debt level will be a challenge for most countries over the medium term, a situation exacerbated by the non-negligible risks of natural disasters occurring in that period and the reduced policy space. Appropriate fiscal policies will have to be implemented towards achieving that objective as well as supporting growth and addressing budgetary pressures that emerged during the pandemic, such as lack of buoyancy of revenue and higher spending to support public health care and economic activities. Debt is thus likely to be the major upcoming issue in the engagement of the Fund with SDS with potential needs for debt reprofiling, debt restructuring, or other innovative ways to reduce the debt burden (including debt swaps).

Table 8. SDS Debt Evolution in Context of the COVID-19 Pandemic for SDS with IMF Financial Assistance in 2020

Country Name	Dept.	Board Meeting Before Pandemic		Pandemic Financing		Gross Debt Government (in percent of GDP)[1]			Debt sustainability assessment[2]	
		Subject	Date	Type	Date	2019	2020	Percent change	DSA1	DSA2
Maldives	APD	AIV	5/29/2019	RCF	4/22/2020	78.3	146.0	86.4	High	High
Samoa	APD	AIV	5/8/2019	RCF	4/24/2020	47.4	46.5	-2.0	High	High
Solomon Islands	APD	AIV	2/5/2020	RFI-RCF	6/1/2020	8.3	14.0	68.3	Moderate	Moderate
Tonga[1/]	APD	AIV	1/12/2018	RCF	1/25/2021	41.3	43.3	4.8	High	High
Cabo Verde	AFR	PCI review	3/20/2020	RCF	4/22/2020	124.9	158.1	26.6	High	High
Comoros	AFR	AIV	3/18/2020	RFI-RCF	4/22/2020	19.5	22.3	14.3	Moderate	Moderate
Djibouti	MCD	AIV	9/30/2019	RCF	5/8/2020	39.0	40.9	4.9	High	High
Eswatini	AFR	AIV	1/31/2020	RFI	7/29/2020	40.0	41.2	2.9	13	12
Montenegro	EUR	AIV	9/6/2019	RFI	6/24/2020	78.8	107.2	36.0	25	25
São Tomé and Príncipe	AFR	new ECF	10/2/2019	RCF, ECF aug.	7/27/2020	71.6	81.4	13.7	Debt distress, sustainable	Debt distress, sustainable
Seychelles	AFR	PCI review	12/10/2019	RFI	5/8/2020	57.7	96.5	67.1	13	21
Bahamas, The	WHD	AIV	6/3/2019	RFI	6/1/2020	59.7	75.2	25.9	6	15
Barbados	WHD	AIV, EFF review	12/6/2019	EFF aug.	6/3/2020	124.8	156.8	25.6	16	23
Dominica	WHD	AIV	7/3/2019	RCF	4/28/2020	94.7	108.7	14.8	High, unsustainable	High
Grenada	WHD	AIV	6/12/2019	RCF	4/28/2020	60.6	71.3	17.7	Debt distress, sustainable	Debt distress, sustainable
St. Lucia	WHD	AIV	2/4/2020	RCF	4/28/2020	61.4	92.1	49.9	21	22
St. Vincent & the Grenadines	WHD	AIV	2/15/2019	RCF	5/20/2020	75.1	85.0	13.1	High	High

Source: IMF.
[1] WEO, October 2021.
[2] DSA1 refers to the assessment preceding the pandemic. DSA2 refers to the assessment in pandemic financial assistance request. For LIC DSA assessments, the assessment refers to the risk of external debt distress and the overall risk of debt distress, unless different; the debt is estimated sustainable unless specified. For Mac DSA assessments, an indicator based on the heat map assessment is reported: for each of the five components of debt level, gross financing needs, and debt profile, a score of 0, 1, 2 is given if the cell is highlighted green (or not relevant), yellow, or red, respectively; the maximum heat score is 30.

V. CONCLUSIONS

50. This study of the Fund's early engagement with SDS during the COVID-19 pandemic finds effective involvement in supporting most SDS that faced large domestic and external imbalances resulting from the pandemic. Half of the 34 SDS received emergency assistance before end-May 2020 in amounts higher on average relative to GDP than assistance to other EMDCs. These resources also had a catalytic effect on external financing that was helpful in closing external and domestic financing gaps.

51. The quick delivery of Fund assistance benefited from enhancements to the Fund's lending toolkit (with increased access limits to PRGT and GRA resources), streamlining of internal

operational procedures, and a successful campaign to boost the PRGT resources by end-June 2020. The approval of debt relief under the CCRT was also beneficial to poor and vulnerable Fund members, including three SDS.

52. While recognizing these achievements, compared to other countries, IMF support to SDS filled a smaller share of these countries' financing gaps, requiring greater recourse to their international reserves. Although the Fund's assistance to SDS was higher in terms of GDP than in other EMDCs benefiting from Fund's financing, SDS also experienced greater hits to GDP and had proportionately larger financing needs. Access to emergency financing was also not available to a few SDS with unsustainable debt situations, and only one SDS concluded a new arrangement for UCT program financing and that not until July 2021.

53. Fund staff working on SDS rose to the challenge of quickly revising macroeconomic frameworks, providing sound policy advice, and negotiating financial assistance. However, the short timeline to provide emergency financial assistance together with some turnover in mission staffing placed a heavy burden on staff. It also hindered some of the analytical and reporting work for requests for use of Fund resources.

54. The Fund's lending toolkit during the pandemic proved helpful for a number of SDS, including a few that had not hitherto had recourse to Fund resources. The initial projection of a temporary shock, the need for fast support of members, and the limited institutional capacity of several SDS favored emergency financing under the RCF and RFI, as well as augmentations of access under existing program-lending arrangements. Going forward, with the large increase of the debt burden threatening debt sustainability of many SDS and the lingering impact of the pandemic, Fund-supported adjustment programs would offer substantive frameworks with catalytic impact on external financing in these countries. Issues of stigma and conditionality will need to be addressed in some cases, as well as enhancements to the quality and timeliness of statistics. The fact that only one new program arrangement has been approved since the onset of the pandemics questions also the breadth of the lending toolkit and its capacity to answer the specific needs of SDS. While many SDS will not qualify for precautionary programs under the FCL, PLL and SLL, there are other options that could facilitate access to financial support for a prospective BOP need, including low-access ECF or precautionary Standby Credit Facility programs under the PRGT and the nonfinancial PCI/PSI.

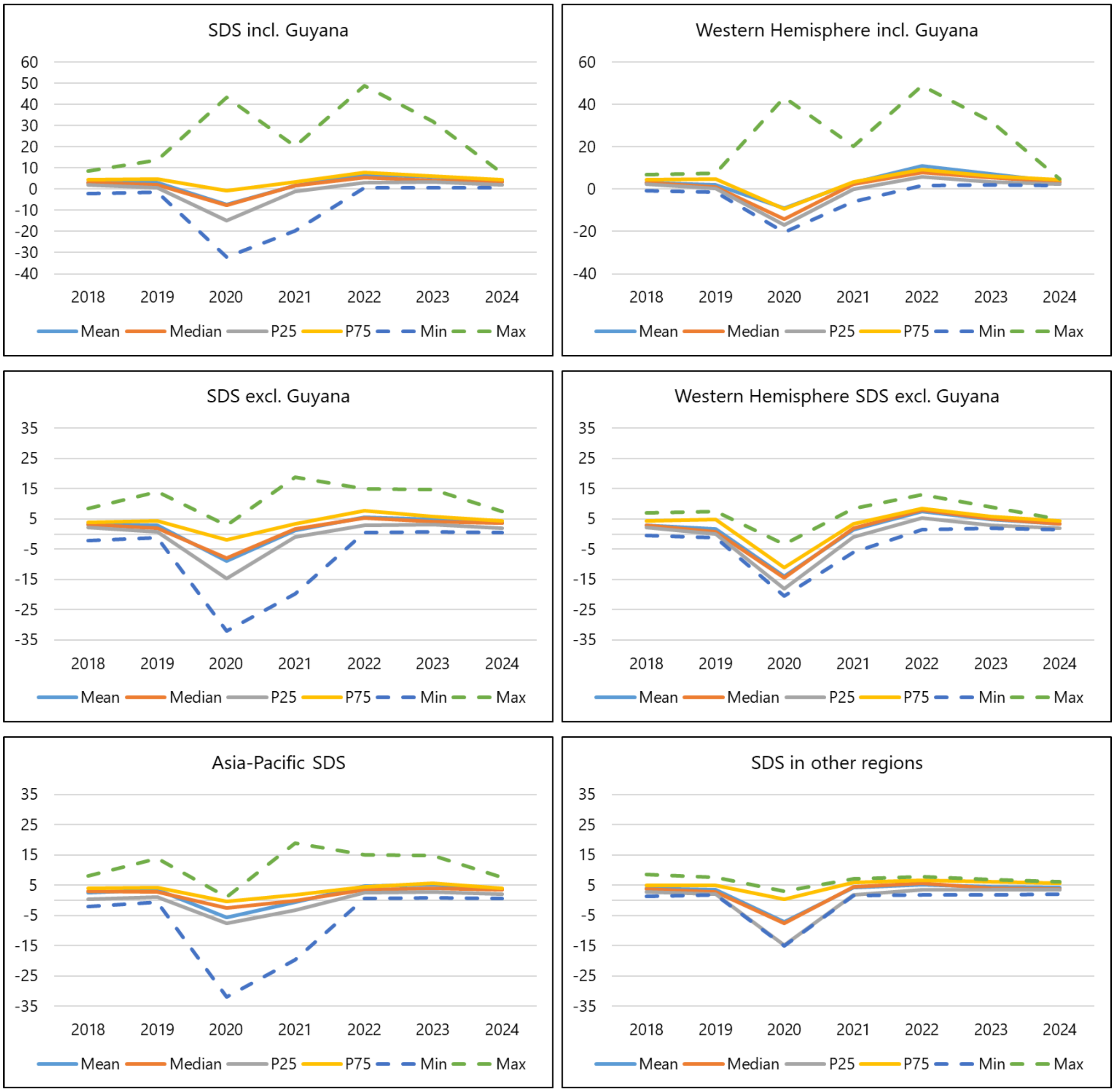
55. Looking forward, it must be recognized that the pandemic is not over yet and that the recovery is likely to be more protracted than initially projected with higher levels of uncertainty and risks of significant scarring. The unequal rates of COVID-19 vaccination across the world make reopening of borders difficult with risks of new waves of contagion, affecting considerably SDS that are dependent on tourism. Moreover, the erosion of policy buffers and the higher debt burden implies that the vulnerability of SDS to external shocks has increased substantially.

56. In these difficult circumstances, the Fund can play an important role in supporting SDS through its surveillance, lending, and capacity development activities. To support this role, particular attention should be paid to ensuring that the Fund's lending toolkit remains adapted

to SDS circumstances, including to ensure that the scale of financing is commensurate with financing needs and that obstacles to greater use of UCT programs are addressed. Further efforts to strengthen the staffing of SDS teams would also help to reduce the work burden on staff and increase the Fund's ability to tailor its advice and financial support to individual country situations.

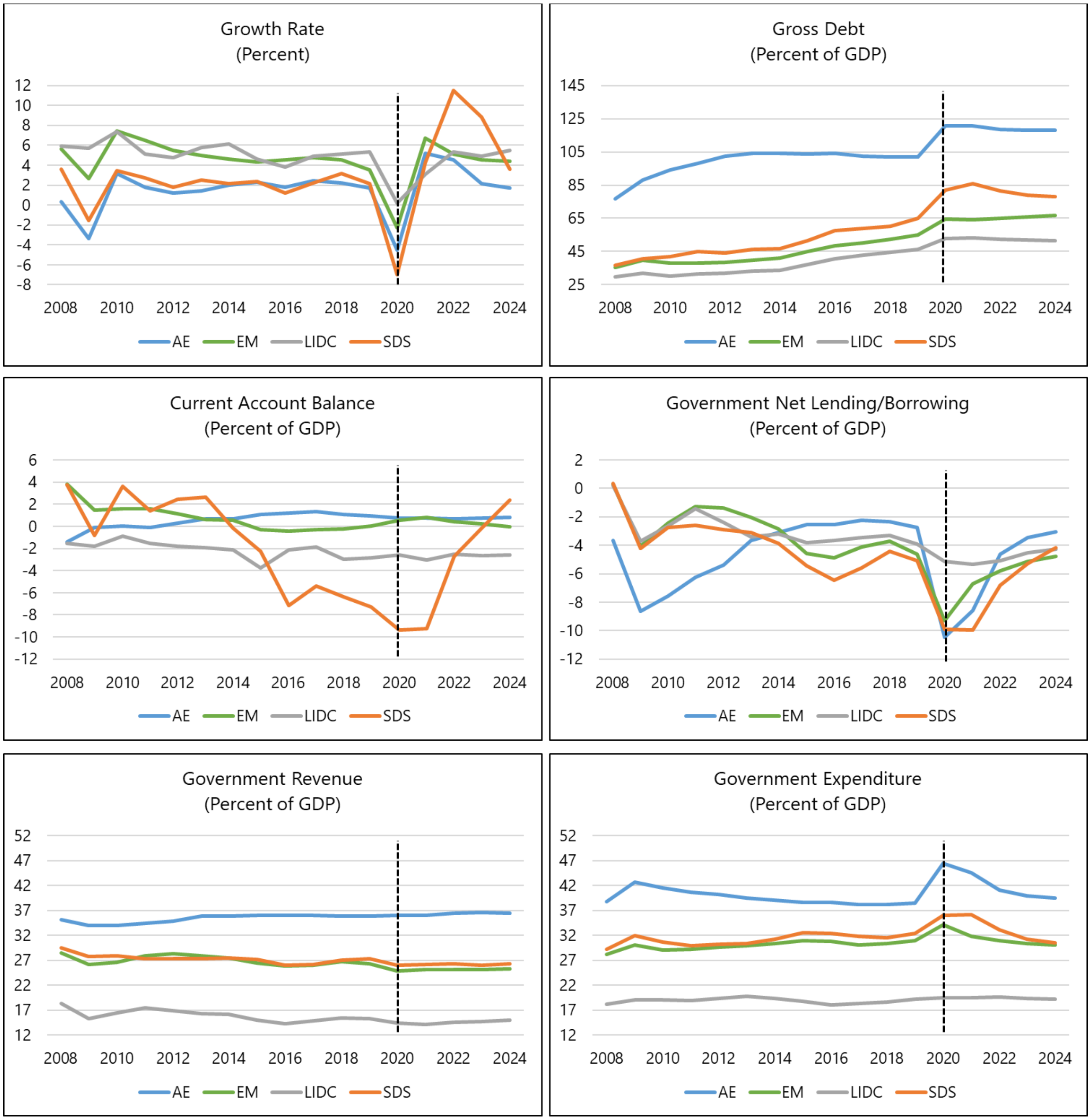
APPENDIX I. SUPPLEMENTARY ECONOMIC INDICATORS

Figure AI.1. Annual Growth Rate Statistics for SDS Groups, 2018–2024
(In percent)



Source: IMF WEO data, October 2021. Estimates for 2020 and projections thereafter.

Figure AI.2. Economic Indicators by Country Group, 2008–2024
(Weighted Average for Group)



Source: IMF WEO data, October 2021. Groups AE, EM, and LIDC exclude SDS. Estimates for 2020 and projections thereafter.

References

Hale, T. "What we learned from tracking every COVID policy in the world." The Conversation: March 24, 2021.

Hale, T., and others, 2021a, "A global panel database of pandemic policies (Oxford COVID-19 Government Response Tracker)," *Nature Human Behavior* 5, 529–538 (2021).

________, 2021b, "Variation in Government Responses to COVID-19" Blavatnik School of Government Working Paper: June 2021.

International Monetary Fund (IMF), 2020a, "Catastrophe Containment and Relief Trust—Approval of Grant Assistance for Debt Service Relief" April (Washington).

________, 2020b, "Enhancing the Emergency Financing Toolkit—Responding to the COVID-19 Pandemic" April (Washington).

________, 2020c, "Streamlining Procedures for Board Consideration of Emergency Financing during Exceptional Circumstances Involving a Pandemic" April (Washington).

________, 2020d, "Fund's Pandemic Response Lending Options to Support Members During the Next Stage of the Crisis" September (Washington).

________, 2020e, "Review of Enhanced Access Limits under the RCF and the RFI" October (Washington).

________, 2020f, "Temporary Modifications of the Fund Annual Access Limits" December (Washington).

________, 2021a, "Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic" October (Washington).

________, 2021b, "Review of Temporary Modification to the Fund's Access Limits in Response to the COVID-19 Pandemic" December (Washington).

Mathieu, E., and others, 2021, "A global database of COVID-19 vaccinations", *Nature Human Behavior*, available at https://doi.org/10.1038/s41562-021-01122-8.

Our World in Data, 2021, "COVID-19 Database," available at https://covid.ourworldindata.org/.