



## **Executive Board Minutes 21/32-3**

March 26, 2021–3:23 p.m.

### **Macroeconomic Developments and Prospects in Low-Income Countries—2021**

Documents: SM/21/31, and Cor. 1, and Sup. 1

Staff: Chabert and Gregory, SPR

Length: 2 hours, 6 minutes

ISSUED: September 29, 2022  
APPROVAL: October 6, 2022

CEDA OGADA  
Secretary

## TABLE OF CONTENTS<sup>1</sup>

<b>The Chair’s Summing Up</b> .....	3
<b>Executive Board Attendance</b> .....	4
<b>Discussion Record</b> .....	6
<b>Annex</b> .....	37
○ Gray Statements	
○ Staff Responses to Executive Directors’ Technical Questions	
○ Constituency Codes	

---

<sup>1</sup> Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

## THE CHAIR'S SUMMING UP

Executive Directors welcomed the assessment of macroeconomic developments, financing needs and sustainable financing options for low-income countries (LICs). They recognized the heavy toll that the pandemic has taken on LICs, with significant economic and health effects. This was partly due to a lack of fiscal space, elevated debt levels, limited access to financing and little room for monetary policy support. With this background, Directors broadly agreed with the assessment and policy measures that need to be taken by LICs and the need for international support to assist them in their endeavors. Directors also underlined the need to remain mindful of the vulnerabilities that affect other countries.

Directors were encouraged by ongoing international efforts to assist LICs, including emergency financing from the IMF, support by the World Bank and other multilateral development banks, and the G20-led Debt Service Suspension Initiative and Common Framework. These efforts have temporarily eased financing constraints for many LICs.

Directors noted, however, that LICs face an uncertain economic outlook, with the risk of renewed lockdowns due to resurgent waves and variants of the virus, and that these downside risks will likely persist until vaccines deliver herd immunity. They also recognized that LICs are at a disadvantage to recover due to uneven access to vaccines, limited policy space and preexisting vulnerabilities.

In this context, Directors welcomed the estimates of LIC financing needs. They broadly agreed with the assessment that around US\$200 billion will be needed to step up the spending response to COVID and rebuild or maintain external buffers. An additional US\$250 billion in investment spending would be needed to accelerate convergence to advanced economies. Should the risks identified in an adverse scenario materialize, an additional US\$100 billion would be necessary. Directors underscored that while the underlying assumptions were subject to uncertainty, the sensitivity tests provided assurance that the estimates are a reasonable approximation of LICs' additional financing needs relative to the baseline. At the same time, Directors strongly emphasized the need for decisive policy implementation. They were encouraged that, with appropriate financing and decisive policy implementation, LICs would be able to converge back to their pre-COVID convergence path to advanced economies between 2023 and 2025.

Directors emphasized that covering the additional financing needs would require a multifaceted approach. This approach would need to combine strong domestic reforms, stepped up financing by the international community, debt restructuring where needed, and catalyzing financing from the private sector. Addressing governance, institutional capacity, and other structural bottlenecks would be an important part of these efforts, with policy advice and capacity development from the Fund and other development partners.

**EXECUTIVE BOARD ATTENDANCE<sup>2</sup>**

K. Georgieva, Chair

**Executive Directors**

I. Mannathoko (AE)

C. Huh (AP)

A. Bevilaqua (BR)

P. Moreno (CE)

L. Levonian (CO)

A. Buisse (FF)

R. von Kleist (GR)

S. Bhalla (IN)

T. Tanaka (JA)

M. Mahmoud (MI)

M. Poso (NO)

A. Mozhin (RU)

S. Riach (UK)

E. Shortino (US)

**Alternate Executive Directors**

R. N'Sonde (AF)

L. Herrera (AG)

Z. Zhang (CC)

C. Just (EC)

M. Massourakis (IT)

K. Osei-Yeboah (MD)

L. Voinea (NE), Temporary

B. Alhomaly (SA)

F. Mochtar (ST)

R. Gindrat (SZ), Temporary

G. Bauche, Acting Secretary

S. Kalra, Summing Up Officer

D. Jiang, Board Operations Officer

M. McKenzie, Verbatim Reporting Officer

**Also Present**

African Department: A. Fedelino, E. Gemayel, M. Kamel Farid Mohamed Farid, V. Kramarenko, C. Mills, H. Teferra. Asia and Pacific Department: R. Anand, E. Dabla, A. Gulde, S. Roger, A. Scott. Communications Department: N. Ismail, A. Kanyegirire.

---

<sup>2</sup> For countries in each constituency, please see the Constituency Codes in the annex.

European Department: R. Atoyan, R. Chawani. Fiscal Affairs Department: I. Adenauer, M. Moreno Badia, A. Senhadji. Finance Department: C. Gust, C. Mumssen, Z. Murgasova. Independent Evaluation Office: C. Collyns. Legal Department: K. Kwak, Q. Li, G. Rosenberg. Middle East and Central Asia Department: A. Arvanitis, C. Baker, A. Holland, T. Koranchelian. Monetary and Capital Markets Department: V. Bacalu, U. Das, A. Haron. Office of Budget and Planning: A. Schimmelpfennig. Office of Risk Management: Q. Chen. Research Department: F. Narita. Strategy, Policy, and Review Department: L. Antoun de Almeida, G. Chabert, R. Gregory, S. Gupta, H. Hesse, B. Joshi, D. Kim, W. McGrew, N. Meads, T. Mineyama, S. Nolan, T. Orav, A. Paret Onorato, C. Pazarbasioglu Dutz, G. Pierre, Y. Rao, D. Singh, R. Turk, K. Wang. World Bank Group: S. Ba, M. De Moura Estevao Filho. Western Hemisphere Department: N. Laframboise. Executive Director: A. Andrianarivelo (AF), H. Hosseini (MD), M. Mouminah (SA), P. Trabinski (SZ). Alternate Executive Director: A. Alhosani (MI), H. Azal (EC), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Grant (AP), A. Guerra (CE), Y. Indraratna (IN), W. Nakunyada (AE), F. O'Brolchain (CO), O. Odonye (AE), L. Palei (RU), V. Rashkovan (NE), J. Romero (CE), D. Ronicle (UK), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF), C. White (AP). Senior Advisors to Executive Directors: W. Abdelati (MI), S. Ahmed (MD), M. Alle (AF), H. Andrianometiana (AF), M. Choueiri (MI), A. Ekelund (NO), I. Fragin (GR), J. Garang (AE), L. Johnson (AP), S. Keshava (SA), B. Lischinsky (AG), S. Naka (JA), T. Nguema-Affane (AF), F. Rivera Molina (CE), C. Sassanpour (MD), S. Senich (US), F. Spadafora (IT), N. Thiruvankadam (IN), A. Tolstikov (RU), R. Velloso (BR), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: A. Abdullahi (AE), F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Gonaya Basutli (AE), S. Belhaj (MD), E. Boukpassi (AF), Campbell (UK), E. Cartagena Guardado (CE), D. Cools (NE), M. Coronel (BR), J. Corvalan (AG), J. Essuvi (AE), D. Fadhel (MI), K. Florestal (BR), J. Hanson (NE), T. Iona (AP), Y. Kikucji (JA), H. Koh (GR), A. Maciá (BR), M. Merhi (MI), A. Nainda (AE), K. Nelson (UK), K. Osei-Yeboah (MD), B. Piasecki (SZ), M. Pucnik (EC), B. Rankin (CO), A. Ribeiro Mateus (IT), B. Singh (IN), Y. Yang (CC), S. Yoe (ST), J. Yoo (AP), J. Al Saud (SA), M. Law (CC), F. Lopez (CE), E. Comolet (FF).

**DISCUSSION RECORD<sup>3</sup>**

*The Chair:*

Our objective is to talk about the Macroeconomic Developments and Prospects in Low-Income Countries (LIDCs). This is the sixth edition of this report we have produced on that topic, and it is one that I read with great interest. I engaged with management and staff as we have been preparing it. It is, clearly, of great interest to the Board. We have 19 gray statements issued by 23 Directors. And I want to warmly welcome the Bank staff, since the World Bank is such an important institution when it comes down to supporting low-income countries (LICs).

I am sure Directors have noted that this year's report is streamlined, compared to previous years. It focuses on estimating the additional financing needs, beyond those assumed in the World Economic Outlook (WEO), and it looks at sustainable financing options.

We got a request from the IMFC in the last communiqué to work on this report, and it is one of multiple engagements we are having with the Board. An especially important one comes next Thursday on the review of concessional financing and policies.

What the report presents to us is a really challenging picture. We see that growth in low-income countries has been affected quite significantly, way beyond the impact of the pandemic in terms of loss of life and infections. Why? Because these countries have a lower capacity to respond. Many of them have the structure of the economy that has been particularly heavily impacted. And they find themselves now on a slow path in terms of both vaccinations and prospects for recovery. For those of them that carry pre-existing vulnerabilities--whether they were fragilities, debt pressures, weak fundamentals, or weak frameworks--the situation is particularly dire.

So, what we have presented is to respond to COVID, including vaccinations, would require an additional \$200 billion in financing. Accelerating income convergence, that has decelerated over the last year, would mean an additional \$250 billion.

We are looking at a comprehensive approach that involves the efforts of the countries themselves in structural reforms, in revenue collection, efficiency of spending, which is very important. Conditions for the private sector to create employment and growth. But, also, the role of the international community, what we must do to support these countries.

---

<sup>3</sup> Edited for clarity.

We think of our role in a comprehensive manner: what we do on debt, what we do on granting concessional financing, and now we have this additional element, what we can do to boost reserves through a new allocation of Special Drawing Rights (SDRs).

*Ms. Riach:*

It is a very comprehensive and helpful report. The United Kingdom has long been fans of the Macroeconomic Developments and Prospects in Low-Income Developing Countries report. So, as I said yesterday, it is particularly welcome to have this report when the challenges facing LICs are so very significant. We welcome the report, and we welcome the timing of its publication, alongside the flagship documents.

We broadly share the analysis presented in the report of the impact of the pandemic for low-income and developing countries. We share the view expressed by many Directors in their gray statements, that there are huge differences between groups of countries and between individual countries within the LIC definition, and that these differences must be reflected when considering financing needs and policy advice.

The paper places a strong emphasis on the financing aspects of the pandemic, as is appropriate, given the Fund's mandate. And it makes initial assessments of the external financing needs and options for sustainable financing, while also noting the enormous uncertainties that LICs currently face.

As we discussed yesterday, vaccine rollout has the potential to play a huge part in the path forward for low-income countries. But so far, the vaccine rollout has been limited for many of these countries, and the logistics of the rollout will be particularly significant. The international community must step up to ensure equitable access to vaccines and a widespread rollout.

The size of the financing challenge facing LICs requires an ambitious and coordinated approach. This report is an important contribution to the debate on how best to address these challenges. It will require a coordinated approach across all actors, with the Fund leading the way through enhanced and catalytic medium-term financing support, as well as tailored policy advice and capacity development (CD) activities.

We agree with the staff on the importance of domestic reforms to raise public revenues and to increase the efficiency of public spending. We strongly agree with the need for LICs to pursue ambitious structural reforms. And we support the advice on necessary reforms, as laid out in the report. We underline that this should be tailored on a country-specific basis.

With regard to IMF financing, we fully agree with the report that the Fund's financing strategy for LICs must respond to the depth of the challenge. We very much look forward to discussing reform options and the Poverty Reduction and Growth Trust (PRGT) financing strategy in the upcoming review of concessional financing and policies.

We do not see an increase in PRGT support as inconsistent with the importance of the Fund's catalytic role. Even an expanded PRGT will not be able to meet the entirety of the financing gaps, as outlined in this report. Rather, we agree that the Fund must work with multilateral development banks (MDBs) and bilateral donors to address the financing needs, in addition to private sector financing and investment. For many countries, debt operations and the new Common Framework approach will have an essential role to play. We look forward to continuing these discussions in the weeks and months ahead.

*Mr. Buissé:*

We want to thank the staff for the very informative and comprehensive report on a set of countries which has been hit very hard by the crisis, on top of some pre-existing challenges. This paper is very timely, as Chair just said, in the overall work program of the Fund policies regarding LICs because it is really setting the scene for the key discussions that we need to have in the days, weeks, and months to come on how to tailor and appropriately scale our engagement.

We issued a gray statement with Ms. Riach--and I share her points made just now, and also those made by Mr. Bevilaqua and Mr. Fanizza. And I just wish to focus on the impact of the pandemic and a way to try to address the additional needs.

First, the report provides critical insights into the order of magnitude of the LICs' financing needs up to 2025. Even before the crisis, LICs were already facing significant challenges, and the crisis is only compounding their challenges and needs. Of course, we can always discuss some of the parameters of this evaluation. It is inherent to that kind of exercise. But it probably is a very useful and as robust as possible order of magnitude of the size of the needs moving forward, just to avoid a catastrophic shock to the development trajectories of the LICs.

The report does a great job in clearly discussing the various sources of financing to fill this gap. All of these sources of financing are necessary to succeed, but none of them are easy ones--be it domestic revenue mobilization (DRM), private sector flows, or even debt restructuring. So, I think our work should support the development of all this financing, of course, in a

sustainable manner, but we should start with our own house. And this is my second point.

Now that we have a diagnostic, we are going to have to measure up to the gap identified. This report will be public. And we need to be able to demonstrate that the Fund is rising to the occasion and is delivering stepped-up financing. For that, we have several key steps in the weeks to come: the review of concessional financing for LICs, which will be examined by the Board soon, is absolutely critical. Indeed, we need to ensure that we have the right toolkit for the next few years to address the 2020 shock, on top of longstanding vulnerabilities. Short of raising the financial engagement of the Fund in LICs, in combination with adequate policies, I think it will be difficult to rise to this occasion. Therefore, I see at least two key items we have to solve.

The first one, as Chair too mentioned--is the SDR allocation. The paper states that to have adequate reserves, we are looking for about 20 billion. In my understanding, this is more or less what LICs would get from a new allocation of \$650 billion in SDRs. But then the report also says quite clearly that this is very, very far from enough to meet the needs of the LICs; the LICs will just get directly what is needed for their reserves. That is why we should not shy away from very substantially leveraging the resources of the Fund, in particular, for the PRGT, of course, to support our members with the most urgent needs.

Finally, let me just underline the importance of the other side of the coin, which is the adequate domestic policy in LICs. The role of the Fund to support the implementation of the right reforms that are going to enhance the business environment, public financial management (PFM), debt management, and governance is fully coherent and badly needed also, as much as the financing part of our efforts.

*Ms. Levonian:*

As the Fund looks to fundamentally review PRGT financing and policies, it will be critical that we have a very clear sense of both funding needs and funding sources. Let me just make a few points.

First, our main takeaway from the staff's paper is that the medium-term financing needs for LICs will be massive, and this is before considering the funding needs to achieve the Sustainable Development Goals (SDGs) and tackle climate change. The staff's point estimate and downside scenario help to contextualize possible needs, but it would have been helpful to present an upside scenario, including faster vaccinations. I appreciate the staff's written response, but we feel this approach would have resulted in a more balanced projection. As Mr. Bevilaqua and others noted, an upside

scenario would have also, I think, highlighted the benefits of swift international support.

Secondly, it is also clear that there are a number of sustainable financing options, in addition to the PRGT. We strongly echo the other Directors who have highlighted the importance of ambitious policy reforms within LICs, particularly improving the investment climate and mobilizing domestic revenues. Obviously, Fund CD has an important role to play here.

We are also very optimistic about the potential for traditional development partners to mobilize private financing through risk mitigation and blended finance instruments. As others have highlighted, SDRs and debt treatments will likely be other important sources of finance.

Where we found the paper to be less helpful was in providing a sense of how much of the financing needs will feasibly be met through the various financing sources identified. We appreciate this is a difficult task, of course; but without a baseline, it will be difficult to identify the remaining financing gap and appropriately calibrate the Fund's own concessional lending architecture. And we thought that this was the main purpose of this exercise.

Finally, we strongly echo Mr. Huh and Mr. Mochtar on the importance of increasing support for small developing states. And in the spirit of sharing thoughts on next week's Board, I must say, we were very disappointed to see no discussion on expanding PRGT eligibility in next week's paper.

And just as our poorest members are not well served by the General Resources Account (GRA) requirements, neither are our most vulnerable members. Small vulnerable countries face existential threats from climate change and protracted balance of payments problems that simply cannot be rectified over the time horizon of a single program. As many Directors have stressed repeatedly at the Board, a discussion on fundamentally rethinking PRGT policies and financing is precisely the right time to reconsider PRGT eligibility.

*The Chair:*

Very well noted. It is, indeed, a question for us--whether, in a world of increased frequency and severity of shocks, it is good enough to only stick to income per capita or we should look at vulnerability and then have a way to recognize that vulnerability.

I would urge us--when we have the meeting next Thursday--to speak loud and clear on where we see us going over the next 10-15 years. One will notice that the paper for next Thursday does recognize fragility as something

that we need to do more work on. So, Ms. Levonian, we know there is work to be done, and we would welcome Board guidance in that regard.

*Mr. von Kleist:*

We thank the staff for the rich paper and the written responses to the questions in our gray statement. Since we did publish a gray statement, I can be quite brief.

There is no doubt that the macroeconomic prospects in LICs remain challenging. The numbers on the LIC financing needs depicted in the paper underline the need for a concerted effort of all actors involved--policymakers, above all, in low-income countries, multilateral institutions, donors, and also private markets, to address the financing needs in the years ahead.

At the same time, capacity for carrying additional external debt is narrow in many LICs. Hence, extending overly extensive Fund financing which, in the end, increases public debt levels with non-restructurable multilateral debt, will certainly not be sufficient and, rather, may also be detrimental to the interests of borrowing countries. The Fund's catalytic role needs to be strengthened, not its share of overall debt.

In that respect, I would be interested whether the staff has projections on expected credit outstanding toward all multilateral creditors to get a more comprehensive medium-term picture. The note rightly highlights the paramount importance of domestic reforms, notably, efficient government systems and good financial governance for durably improving the environment for private economic activity. We welcome the staff's detailed outline of the Fund's capacity development efforts in this respect and would highlight the importance of strengthening debt management and debt transparency.

Just to recall that the idea of the G-20 Compact with Africa, which was introduced in 2017, rests on the idea that homegrown domestic reforms, under strong ownership of a respective country, determine the growth effects of public and private investment. To this end, constrained absorption capacity and implementation inefficiencies require an active consideration in program and project designs through proper sequencing and scaling.

Let me conclude with reminding us all of the IMF's core mandate; that is, surveillance, capacity development, and, if necessary, also lending with appropriate conditionality. The Fund should, therefore, play a central role in helping members to restore macroeconomic stability, improve debt sustainability, and catalyze additional concessional and non-concessional financing resources from MDBs, donors, and private capital markets.

*The Chair:*

Obviously, the role of the Fund is to give good guidance on policies and to make sure that countries have reforms that improve the chance that they will be an attractive destination for domestic and foreign private investors, that they will have a strong capacity to raise revenues for their own people.

Where, indeed, we have a bit of a difference in view is the role of the Fund and how fully it is funded. We will discuss it next week. I am not going to be shy to share my opinion. When I came to be the Managing Director, I was concerned that we are rationing access to those countries that need us the most. And that is something that I want us to be treating as fairly as we can. So, let's have this discussion continue. On the points Mr. von Kleist made--especially the Compact with Africa--I wholeheartedly agree.

*Mr. N'Sonde:*

Let me recognize the leadership of Mr. Chabert in this undertaking.

We very much welcome this discussion, as our chair has, on many occasions, stressed the importance of this report and called for making it one of the Fund's flagship publications. It is the only one of its kind to provide a deep and up-to-date analysis on the development and policy priorities in LICs. And it can fit more substantially into mainstream discussions and inform other work streams of the Fund. That said, let me make a few specific comments on today's report.

First, the staff has done an excellent job in the way the report is structured. Its focus, on assessing the financing needs and options to continue fighting the pandemic, support the recovery, and get LICs back onto their convergence path, is greatly appreciated.

Second, we commend the staff for their efforts to put some figures on the financing work that needs to be done in the wake of the crisis. At the same time, we would have wished for more granularity on economic policies to push forward in LICs, based on the lessons learned from the pandemic. For instance, the relatively stronger resilience shown by diversified economies, compared to less diversified ones, including commodity exporters and tourism-dependent economies, is a good reminder of the imperative for economic diversification and transformation in LICs. Some discussion on policies along these lines would add value to the report. We would appreciate the staff's comments on this point.

Third, we are pleased that the report comes ahead of the review of concessional financing and policies, and hope that it will inform every

discussion on concessional financing, starting with the volume of the Fund's resources and the access levels. We take positive note of Chair's comments in this regard.

In an environment where bilateral support is affected by limited fiscal space across the board, where financing conditions remain tight for many frontier economies on capital markets, and where debt vulnerabilities have risen, it is more than critical for the Fund to scale up its financing for LICs under the purview of its mandate and consistent with its catalytic role, a point also eloquently made by Ms. Riach and Mr. Buissé earlier.

Fourth, we agree with the call for LICs to step up their domestic revenue mobilization efforts. IMF technical assistance in this area should take a further impetus, including in leveraging digitalization in fiscal administration. Like Ms. Mannathoko in her gray statement, we reiterate the call to enhance international cooperation on addressing tax base erosion and profit shifting and tackling illicit financial flows.

Finally, as stressed on other occasions, efforts should be pursued toward an effective implementation of the G-20 Common Framework. With all the damage and scarring effects from the pandemic, preserving LICs' borrowing space, while ensuring long-term debt sustainability, is critical to support the green and resilient growth we all call for.

*Mr. Tanaka:*

We commend the staff for the detailed analysis on macroeconomic prospects and financial needs. As a main takeaway, we note the staff's assessment that suggests an additional US\$200 billion is needed up to 2025 to step up the response to the pandemic, while an additional US\$250 billion is required to accelerate convergence with advanced economies. Given the significant financial needs in LICs and the divergent situations, we concur with the necessity of a multifaceted response, indicated in this paper.

Next, what we would like to reiterate is member countries' efforts to pursue structural reforms remains key for sustainable economic recovery and developments. It is essential for LICs to make every effort to pursue macroeconomic reforms, such as improving domestic revenue mobilization and public financial management. Structural reforms to strengthen governance, as well as to enhance economic diversification and the business environment, are also crucial for private-led sector growth.

To pursue these reforms, it is also important for the Fund to provide Capacity Development (CD) and for LICs to use CD effectively and efficiently. In this sense, as a longstanding partner of Fund CD activities, we expect further contributions from various donors to strengthen the Fund's CD

activities. As always, we also emphasize the importance of the strategic integration of CD with lending and surveillance, as well as a close collaboration with other IFIs.

On transparency, continuous efforts to enhance transparency is crucial, not only for specific purposes, like debt treatments under the Debt Service Suspension Initiative (DSSI) or the Common Framework, but also from normal circumstances. In this context, we encourage the Fund and the Bank to accelerate debt data reconciliation and ask creditor countries to cooperate with it.

Finally, when discussing Fund's role in supporting LICs, we should bear in mind its unique characteristics, such as the last resort of a global financial safety net and its catalytic role. It is also necessary to take into account grant assistance and concessional financing from multilateral or bilateral donors, as well as mobilize private financing. Furthermore, a new SDR allocation will be a major step forward to meet part of the LICs' financing needs. Regarding the voluntary reallocation of SDRs, to be discussed in a separate track, we are of the view that strengthening the PRGT is the best option, while remaining open to discuss other options, if they could add value.

With these remarks, we look forward to a comprehensive discussion on LICs facilities, including the Fund's resources, in the informal Board meeting next week.

*Mr. Bevilaqua:*

We issued a joint gray with Mr. Buissé, Mr. Fanizza and Ms. Riach and I would like to make a few brief comments for emphasis.

The report presents a gloomy outlook which can only be changed by ambitious and concerted action by country authorities, the international community, and the private sector, in a process that needs to be very well articulated, as eloquently noted by Ms. Riach this afternoon. Country authorities need to implement the required reforms, and for that they will need timely technical and financial support.

The estimated costs of returning to the previous convergence path to Advanced Economies are high. However, they do not include the resources required to catch up on meeting the SDGs.

The severe scarring effects of the pandemic may be pervasive in some cases. It will be important to have a comprehensive estimate of the financing needs, which includes both returning to the convergence path and achieving the SDGs. We note that tourism-dependent economies are among the worst

impacted by the pandemic. While this sub-group may in many respects be associated with small states, a direct reference to the peculiar challenges of small states would have been useful. We also recognize that fragile and conflict-affected states (FCS) fare worst in terms of use and access to digital technology and look forward to proposals on how they can timely overcome this significant constraint. We concur that LICs should leverage digitalization and enhance resilience to climate change and natural disasters. And we recognize the added challenges this poses to small states and highly vulnerable LICs with extremely limited resources.

We welcome the message of urgency in ensuring vaccine availability to LICs and strengthening social safety nets and appreciate the emphasis on “getting the jabs on the arms”, for which efficient planning and resources are required.

We also agree that stronger action on debt should be part of a comprehensive package to support LICs. That said, we call attention to countries that were missed in previous initiatives such as the Catastrophe Containment and Relief Trust (CCRT and the DSSI.

We generally agree that conditionality should be growth-friendly and address debt and public financial management issues. That said, due attention should be paid to specific country needs and capacity.

Finally, as others, we highlight the importance of taking advantage of the opportunity of the likely new substantial SDR allocation to mobilize resources to increase the lending capacity of the PRGT. We look forward to discussing next week financing strategies and funding options to enhance lending to LICs.

*Ms. Mannathoko:*

As we noted in our gray statement, it is, indeed, worrying that the pandemic has deepened the per capita GDP variance between advanced economies and LICs and has really stalled convergence. So large LIC financing needs, clearly, are still unmet, though there have been efforts by--so far, by the international financial institutions (IFIs) to provide emergency and program assistance and regional development assistance. Because of these needs, we really welcome this discussion and are hopeful that it will facilitate strong support by the Fund and the international community for LICs in the global effort to ensure that no one is left behind after this crisis. We welcome the multifaceted options that were presented to help countries revert as quickly as possible to their pre-COVID convergence path.

I just wanted to highlight a few points.

First, maybe I should say something because there are quite a few LICs in our constituency. On the domestic front, we are encouraging our LICs to build spending efficiency through Public Investment Management Assessment (PIMA) and other similar measures, and to proceed with governance and pro-growth structural reforms. In addition, an effective Common Framework and timely debt restructuring also remain critical. We also continue to encourage domestic revenue mobilization, particularly through digital platforms. However, we are cognizant of the fact that private sectors are small. There is high informality in LICs, which means that revenue mobilization will reach its limit at some point. Probably, it is not there yet for quite a few LICs, but at some point, it will be. Therefore, if we are realistic, we feel that we also need to, on a country-by-country basis, calibrate how far we can stretch revenue, domestic revenue reforms in LICs over the next five years, without stifling growth.

Second, on the staff's response regarding the different magnitude of financing needs in this study versus the staff discussion note on SDGs, they indicate that the SDG studies consider needs for all members, and not just LICs, and that is why there is the differential. This is true, but we were really referencing some of the examples given in the SDG paper that are country-specific examples, which sort of average 16 percent of GDP per annum in the financing gap. These were for PRGT countries, which is part of the reason why we wondered why this study indicates such a low investment financing gap. We understand that part of the package is about recovery, et cetera, from COVID, but just the investment financing gap, itself, seems rather low.

Like Mr. Andrianarivelo also, we are of the view that the magnitude of risks necessitates some recalibration of concessional financing resources, as well as access levels, in line with the higher level of needs for the poorest members. Therefore, we look forward to the staff's proposals during next week's informal session on concessional financing and policies.

For the third point, I wanted to emphasize that concerted coordinated support, including in the near term, from multilateral partners is still needed to help LICs really tackle the issue of affordable vaccine access and effective vaccination drives. Some of our countries have managed to access vaccines, but many have not accessed enough.

Coordination will also be needed alongside the investments needed to limit pandemic-related socio-economic challenges and strengthen the investment climate. Energy and digital investments also help strengthen the investment climate, but also just to buttress a durable recovery and allow countries to return to their pre-COVID paths. Alongside this, LICs, of course, will undertake complementary domestic reforms.

Finally, I just wanted to support Mr. Mozhin and Mr. Moreno and various other chairs' call for a separate analysis on the small and medium LICs that also face substantial development challenges. In my constituency, for example, since the global financial crisis (GFC), per capita GDP in two of our upper middle-income countries (MIC) dropped, caused them to drop to lower MIC levels by 2019, while a third was trending toward this level in 2019 and probably, because of COVID now, in 2020, is probably at the level of lower middle income. Similarly, per capita GDP for several of our lower-income countries was trending downwards also, toward the LIC GDP per capita level. And they either crossed into this lower level by 2019 or they will have done so in 2020. So when we raise this issue, it is really just recognizing the trends over the past decade and the economic and social development challenges for the missing middle who, as some have indicated, do house a large share of the world's poor. We felt that attention here was important, too.

*The Chair:*

We heard it from other chairs. We do need to look at vulnerable parts of the membership that may not be in the category of low-income countries but are in the category of more severely impacted by this particular crisis and, more broadly, by shocks.

*Ms. Shortino:*

Estimating LIC financing needs in an environment of high uncertainty is certainly no easy task to perform, but this paper provides a very sound starting point, from which we can all start to assess possible financing options. The financing needs identified by the staff are quite large and will need to be clearly filled through a combination of domestic reforms, which should be at the center of any strategy, but alongside private investment and donor funding. And, of course, the SDR allocation will help us get a head start on filling these gaps.

We strongly urge the IMF to maintain its catalytic role in securing low-income country financing. While the amount of IMF lending to LICs may rise in absolute terms, the proportion of IMF funding, compared to partner institutions, private sector actors, and bilateral donors should, in our view, remain in line with past levels. And we will discuss this more next week, of course, as well.

A large increase in donor financing for LICs must also go hand-in-hand with an increase in transparency. We wanted to stress that financing provided to LICs be transparent as well as concessional.

On debt sustainability, the point that the average annual amount of external debt service falling due in 2021 to 2025 is more than twice as much as the pre-crisis average, underscores the importance of the smooth transition from the DSSI to the Common Framework. A full, swift, and transparent implementation of the Common Framework will be critical to address the challenges of the large financing gap faced by LICs with unsustainable debt.

To make effective use of funds, countries need to focus on improving public financial management and public investment management. We would note the staff's analysis that LICs waste, on an average, more than half of their infrastructure spending due to inefficiencies. There is clearly some scope here to gain some benefits from the financing.

Finally, as others have noted in their statements, not all LICs face the same challenges or require the same reforms. IMF staff should continue to tailor policy advice in order to target the most effective reforms for each economy. We look forward to the discussion next week, and we are very pleased that this paper provides a very good grounding for that discussion.

*Mr. Just:*

We appreciate today's discussion. The paper is a very interesting input to the broader policy discussion. The estimates quite forcefully drive home the message that, without additional support, LIDCs risk to be further left behind. At the same time, we should see the estimates as what they are, estimates and not necessarily targets.

In addition to our gray statement, we would like to emphasize the following.

We appreciate the clear explanation in the paper that LIDCs have, themselves, a significant role to play to create the necessary conditions for convergence to resume, supported by sound public policy advice, technical assistance, and ideally anchored by program engagement, especially if the debt operations are required to capture the catalytic effect.

Whether the estimated financing needs should translate into the Fund shouldering more of the financial burden is something we will discuss in the forthcoming meeting. Like others have noted, it would require a better quantification of the financing options and diving deeper into how the various development partners can optimize their balance sheets, as well as a better understanding of what we mean by "a fair burden sharing."

Regardless thereof, we need to be mindful whether, in the context of the significantly rising debt vulnerabilities, the Fund should add to the debt burden of LIDCs or to increase its share of debt, after debt operations

supported by us. This could, indeed, lead to more rigid external debt structures and undermine our catalytic role, a point Mr. von Kleist and Ms. Koh have eloquently made.

We would appreciate a slightly stronger focus on how to mobilize the very ample global private savings for productive investments and for generating a growth dividend in LIDCs, a point Ms. Mannathoko has been making on several occasions and which we fully share. We also look forward to the staff's remarks on the experience of transition countries, which could offer valuable lessons, which we should take to heart also often in LIDCs.

Last, we would agree that an upfront investment in climate and disaster resilience will be key, as the payoffs of such investments tend to be higher than emergency spending. Some country teams are already including climate and disaster resilience investments in their macro policy framework, which has often also catalyzed development financing. The staff's comments would be appreciated, whether such investments have been included in this framework and, if not, whether it would be worthwhile exploring this, also with a view to catalyze additional donor funding.

*Mr. Pösö:*

We issued a comprehensive gray statement, so I will only raise three points for emphasis.

First, the most effective way to speed up convergence and limit external financing needs is to get the pandemic under control. Therefore, the international community needs to boost vaccine availability to all countries. It is very important to keep in mind that the COVAX facility guarantees vaccine coverage only for 20 percent of the population and, therefore, other vaccine exports are also needed.

Second, we agree that there is a significant risk of widening income gaps between advanced economies and low-income countries that needs to be addressed. The external financing need is one central component, but more multilayered solutions are necessary. As we all know, and Mr. von Kleist also mentioned this, without also addressing the issues related to governance, institutional capacity, and other structural bottlenecks, all solutions are only partial and temporary.

We appreciate the candidness in the report, stating that more than half of infrastructure spending in low-income countries is wasted due to inefficiencies. Therefore, using the amount of spending as a benchmark, with headings such as, "LICs need to step up spending," is somewhat problematic, as it seems to emphasize mainly the quantity and not the quality of spending. Related to this, well-performing capacity development and surveillance are

also vital parts of the IFI-provided support. As donor financing is always limited, and probably even more strained in the coming years, there is going to be a need to prioritize, both between institutions but also within institutions.

My last point is about debt issues. A large share of the financing needs come from increased debt service and amortization costs. We know that solving debt problems with more debt is not sustainable. As Fund lending policies must aim at restoring sustainable balance of payments positions, the Fund should do its utmost to foster timely and right-sized debt restructurings, when needed.

*The Chair:*

I want to assure Mr. Pösö that, on the issue of the quality of spending, the Fund has been relentless, including recently in engagements with ministers of finance. If, in any way, that did not come through in the paper, I am very willing for us to look at the wording to make sure it does come through. Both reforms, raising domestic tax revenues and improving the quality of spending, these are things that we advocate very strongly.

I was encouraged by a recent press release from a meeting of ministers of finance from Africa, where this understanding that this is a must came quite strongly. But I also accept that we have to amplify this message as strongly as possible.

*Mr. Osei Yeboah:*

The staff paper rightly emphasizes the difficult road ahead for LICs to recover from the pandemic.

The COVID-19 pandemic has wreaked havoc on LICs' economic performance. Many of them entered the crisis with pre-existing structural vulnerabilities and a lack of fiscal and financing space. The global scrambling for vaccine, amidst the slow takeoff of the COVAX facility, is another impediment for economic reconstruction. Besides the potential scarring from the pandemic, setbacks to LICs' paths of income convergence with advanced economies is concerning. Having said that, I would like to highlight a few points.

While acknowledging the resolute response of LICs from the onset of the pandemic, the road to a durable recovery starts with access to vaccines. In that context, we encourage advanced countries to make vaccines and resources available to LICs. Global manufacturing entities can set up a partnership with local institutions in developing countries to scale up vaccinations. That would be significant not only to the country receiving the

foreign direct investment (FDI) with important technology contained, but also a means to regionalize the production and distribution of vaccines.

We acknowledge that restoring the least convergence path with advanced economies will be multifaceted and ambitious and should be supported by deliberate structural reforms. While the projected external financing need is sizable, we urge the Fund's policy engagement to emphasize strengthening the spending multiplier and the size of spending to revive economic activities.

We call on the international community and multilateral development banks to step up their assistance through grants and concessional financing to augment domestic endeavors. With declining grants, financing from advanced economies, and now the widespread impact of the pandemic, LICs' ability to attract sustained concessional funding looks challenging. In that regard, the Fund should anticipate substantial financial support to its most vulnerable members. We look forward to the planned comprehensive review of LICs' lending facilities in the context of the self-sustained PRGT.

Sustaining external financing through the recovery phase elicit dedicated reforms aimed at improving competitiveness, governance, and the business climate to boost potential growth. We also underscore strengthening public institutions, including capacity development to improve spending efficiency, for which the collaborative role of the Fund and the World Bank will be invaluable.

To end my comments, I have two questions. We would appreciate the staff's view on the implications of illicit capital flow measures on the estimation of the external financing need of LICs. Also, could the staff comment on the appetite of the international community to mobilize resources to help LICs meet their huge financing need?

*Mr. Huh:*

As we issued a joint gray statement with Mr. Mochtar, I will briefly mention some points for emphasis.

First, the baseline estimation of financial needs for five years, equivalent to \$450 billion, is based on various pre-assumptions under ceteris paribus conditions, which does not incorporate the future uncertainties beyond the assumptions. Therefore, even with this amount of spending, it is not certain the LICs can recover the pre-COVID level or more than expected. The difference will mainly come from the capacity of the concrete reform plan and its implementation in each country and regional level. The devil is in the details. Fund support for CD and close surveillance will be very important in this respect.

Second, according to the analysis, two-thirds of the funding should come from other than borrowing, FDI, or domestic resource mobilization. The comprehensive reform strategy and its successful implementation will be most important to attract and mobilize capital. In particular, in the case of the LICs, the informal sector is large and the main source of inequality. We would like to request the Fund's strong assistance to the LICs in this respect and maximize its catalytic role to coordinate support for capacity development with other development partners.

Third, on the medium-term financing package, which should be mobilized through borrowing, the Fund needs to develop a concrete plan based on its estimation, if possible. Like Ms. Levonian, in her gray statement, a clear picture of how much of the financing needs for LICs can be met by each financing source.

Finally, according to this analysis, five countries' funding needs cover 45 percent of total LICs' financing needs. We would like to request the Fund to concentrate on the rest, 55 percent of the LICs, rather than the five big countries. It may cost more and be more difficult, but they need more help from the Fund and face more capacity constraints with weak ownership. In particular, as Ms. Levonian and Mr. Rankin mentioned in their gray statement, we are also very disappointed that the concessional financing paper does not consider the appropriateness of PRGT eligibility. Just as poor countries are not well served by GRA requirements, neither are our most vulnerable members. I look forward to discussing ways to support these small developing states, in particular, on the occasion of the discussion of the potential options for a voluntary reallocation of SDRs.

*Mr. Gindrat:*

Many thanks to the staff for the further clarification provided in the Q&A session.

We concur that the pandemic has had a profound impact on low-income countries, with adverse consequences extending beyond the near term. The Fund's response has been agile to address the immediate needs of LICs, but reversing the long-term dynamics will require additional support to overcome spending constraints, as well as sound macroeconomic adjustments and reforms. At the same time, debt burdens are constraining development policies, and they need to be addressed as a priority. In this regard, we agree with Mr. von Kleist and Mr. Mozhin, that at the current juncture, additional borrowing through Fund financing may also have unintended consequences for LICs.

Good coordination among international financial institutions, based on their respective comparative strengths, is essential. The Fund has, therefore, a leading role to play in program design, Debt Sustainability Analyses, as well as in accompanying debt operations, like in the context of the Common Framework, and with its catalytic support.

We could not agree more that the path of LICs' recovery will largely depend on the soundness of domestic policies and reforms. We support the staff's call to enhance revenue mobilization, address spending inefficiencies, as well as strengthen institutions and governance. Like others, we underscore the crucial role of capacity development to support LICs' reform efforts. In this regard, the current circumstances make a strong case for further integrating lending, surveillance, and capacity development activities, as mentioned in Mr. Tanaka's gray statement.

*Mr. Mochtar:*

We share with other chairs that the paper is very timely and provides many insights for the role of the Fund going forward. We cosigned a detailed gray statement with Mr. Huh, and today I wish to offer three brief comments for emphasis.

First, we agree that LICs are facing substantial challenges and need significant support to deal with the immediate health priorities and socioeconomic impacts of the pandemic, amid their intensified pre-existing challenges. In this regard, a multifaceted and holistic approach is, indeed, warranted to support LICs in their recovery efforts.

Second, the importance of a comprehensive financing package to help LICs meet their significant financing needs over the medium-term. The financing needs are wide ranging. It may come from ensuring a safe exit from the crisis and supporting a transformative recovery and to addressing development goals and building climate resilience for highly vulnerable LICs. The mix of financing supports should, therefore, carefully consider these needs, while preserving debt sustainability.

With the rising debt vulnerabilities, we see grants and concessional financing will be most needed. In this regard, the review of the Fund's concessional financing and policies is critical in ensuring the Fund's lending toolkit and also fit for purpose in supporting LICs' financing needs, while also catalyzing grants and further concessional financing from MDBs and other IFIs.

LICs could also benefit from private financing and investment, which would require reforms, such as developing the domestic debt market,

enhancing the business and investment climate, and improving governance and public financial management.

At the country level, it would be very useful for the country team to provide these overall holistic pictures for discussion with country authorities, which would help inform the country authorities' own negotiations with bilateral and development partners. These discussions would also prioritize and sequence the reform agenda and the associated capacity development support, as some may take longer than others to be completed and to yield results.

Last, but not least, we reiterate the importance of ensuring the needs of the smaller and most vulnerable members are adequately considered in the Fund's concessional lending toolkit. In this context, like Ms. Levonian and Mr. Huh earlier, we are open to a discussion of the review of PRGT eligibility or other potential trust fund for small developing states to ensure their financing needs, amid their unique circumstances, are met.

*Mr. Massourakis:*

We thank the staff for a very informative paper on the financing needs of low-income countries over the medium-term, given the impact of the pandemic. We issued a comprehensive gray statement, together with Ms. Riach, Mr. Bevilaqua, and Mr. Buissé. Today I would like to raise some issues just for emphasis.

The multi-pronged strategy to address the financing needs of the most vulnerable countries is of the essence. Such a strategy should encompass the Fund, multilateral development banks, the private sector, and bilateral donors, building on synergies, while recognizing comparative expertise and contributions.

As stressed in yesterday's flagships discussion, access by all to vaccines and vaccinations remains a prerequisite to effectively tackle the pandemic and support the global economic recovery. In this regard, the European Union and its member states play an important role through exporting vaccines on a large-scale to many countries around the world, while also providing significant financial aid through the COVAX initiative.

The Fund's current work stream and core activities are instrumental to actively support low-income countries at this juncture. Let me recall the Board discussion held last Tuesday on a new SDR allocation, as well as G-20 important initiatives to tackle debt issues in low-income countries, such as the Debt Service Suspension Initiative and the Common Framework. Also, after a round of providing emergency financing last year to low-income countries, we see merit in a transition now toward upper credit tranche (UCT) quality

programs that can help to fully eradicate the pandemic and lay the basis for more sustainable and inclusive growth in the most vulnerable countries.

We wish to underscore the relevance of reforms in areas like domestic revenue mobilization, debt transparency, public financial management, governance framework, export diversification, and broader social safety nets. And last, but not least, promoting more active participation of women and youth in the labor force, given the disproportionate impact these groups have suffered from the pandemic.

The high investment needs in low-income countries underscore the necessity of private sector financing, particularly in infrastructure and in a digital and greener transformation of the economy. To this aim, reforms promoting a business-friendly environment are essential.

I look forward to next week's discussion.

*Mr. Moreno:*

Let me highlight the three main points.

First, the pandemic has significantly aggravated the development needs of all low-income countries. We need to address all the financing needs through all the means possible: COVAX, private financing, IFIs, significantly boosting the PRGT grants, and also reviewing the lending facilities. And we look forward to the meeting next week. But it is also important to foster structural reforms and resilience. And here, I would also like to echo Mr. Tanaka on the importance of capacity development, which is key for these countries. And we will also need to boost it in the IMF.

Second, I would like to echo Ms. Mannathoko on the SDGs, which I think is also an important reference for these countries. I mean, somehow the SDGs--because of the pandemic and climate change, in a way, they are now, in a second stage. But I think that it is all there. All the main topics that we are saying that are macro-critical in our surveillance and that are necessary for a resilient and sustainable recovery are there. There is poverty, education, climate change, innovation, gender equality, strong institutions. I think it is a good reference for our policies, and we should make greater use of them.

Finally, I want also to make the point that the pandemic has been catastrophic for low-income countries but also for many small- and medium-sized middle-income countries. They are in a middle-income trap, in the sense that they have limited access to capital markets and no access to concessional financing. They also have 62 percent of the world's poor. I mean, there is a very fine line. I can see it in my own constituency, where I have low-income and middle-income countries, and they are all subject to the

same natural disasters and hurricanes. It is very difficult sometimes to distinguish this line. The situation is dire in many countries, and we have to address the vast challenges and financing needs of all our membership.

So, I welcome Managing Director comments on improving how we assess the vulnerabilities and development needs. Like many others, I also welcome and look forward to the alternative use of the SDRs for the membership.

*The Chair:*

It is, clearly, not an easy discussion because it requires taking some policy decisions in a deliberate manner and on the basis of clear analytical underpinnings on projections as to where the balance of payments needs are going to be in the future, what would gear them up. But we will have this discussion. And I appreciate those who support that kind of prudent engagement.

*Mr. Geadah:*

It is good to see Mr. Chabert in his new role for a very good, yet sobering report.

As is very well articulated in the report, LICs will be facing immense spending needs over the medium-term. And given the resources, financial and otherwise, that are now available to them, it is obvious that international support will have a big impact on achieving these goals, which would benefit from an alignment with SDGs, as also mentioned by Ms. Mannathoko and Mr. Moreno. I will focus on two points.

First, vaccine inequity raises the risk of prolonging the pandemic. I mean, this point was discussed yesterday in our discussion of the WEO. The multilateral efforts to help LICs to access vaccines are very welcome, of course; but at the current pace, I mean, meaningful vaccination may not take place before the end of next year, which would complicate the recovery efforts.

My second point is the need to address LIC debt issues. The staff estimate that, due to debt sustainability challenges, only one-third of the financing needs that are identified in the paper can be covered by new borrowing. And even though grants and concessional financing will be, obviously, needed, we also realize that donor countries will be facing difficult financial situations. I mean, even for Yemen, which is facing an immense humanitarian crisis, the recent pledges were way below what was expected. As we know, pledges are usually way above what countries end up receiving.

We very much appreciate the ongoing Fund support to LICs, including through policy advice and CD, program work and, more specifically, through the temporary increases in access limits and support to the various debt service relief initiatives. The SDR allocation will also help, as well as directing some of the allocated SDRs to the PRGT. And here, we very much agree with Ms. Levonian, Mr. Moreno, Mr. Huh, and others, that there is a need to review how we can assess our most vulnerable members and not be confined to the current eligibility of the PRGT.

*Mr. Alhomaly:*

It is also good to see Mr. Chabert, who was a G-20 Financial Sous-Sherpa co-chair when this paper was requested last year by the G-20. And now he is presenting it from the IMF's side. I take this opportunity to welcome him at the Fund.

We have issued a detailed gray statement, so I am not going to repeat what we stated in our gray statement, but would like to make two additional points at this stage.

First, we commend the management and staff for the holistic approach taken to assess the financing needs in low-income countries and the associated financing options. In particular, we find the proposed multifaceted response to cover the additional financing needs in those countries, coupled with the clear distinction set out in this paper between the emergency needs and the medium-term development needs, to be very helpful. So, going forward, this should inform the Fund's work in its financing, catalytic, and advisory roles. We believe it would be very helpful to have a periodic review of this holistic approach to monitor the progress and to keep track of how the financing needs are being addressed through the presented three sources of funding; that are, domestic reforms, international community support, and private financing.

We understand that some specific work streams named in this paper, including the concessional financing and policy, will be discussed by the Board soon. But having a regular comprehensive review of all the relevant work streams covered in this paper would ensure accountability and guide the international efforts going forward.

The second point I would like to make is about the need to incorporate the domestic reforms proposed in this paper more widely in the Fund's surveillance and capacity building programs. In particular, we welcome the recently published guidance note by the IMF and the World Bank on developing government local currency bond markets, which includes an action plan that should guide further capacity development in this area to members, including low-income countries.

Certainly, the estimated financing needs of LICs should also be taken into consideration when looking at the Fund's lending framework and should inform its catalytic role. Here, I agree with Mr. Bhalla that a disaggregation of the estimated financing needs would be very helpful to guide the action needed by each stakeholder, including country authorities and the international community, going forward. We very much look forward to the staff's elaboration on this issue today.

*The Chair:*

It is, indeed, a great acquisition for the Fund to have somebody who has worked so hard on these issues that we are discussing today. And I am sure it gives one the confidence that the priorities of the Saudi G-20 are going to be followed.

*Mr. Zhang:*

I would like to join other Directors in welcoming Mr. Chabert to the Fund, to be in charge of the low-income country issues.

We commend the staff for the very comprehensive report as a continuous effort in identifying and addressing the key challenges facing low-income countries. It provides an insightful analysis on low-income countries' financing needs and puts forward some options to bridge the financing gap. As we already issued a very comprehensive gray statement, I would like to add the following points for emphasis.

First, I would like to echo previous speakers, that the importance for low-income countries to advance domestic reforms, to address the bottlenecks and unleash huge long-term development potential. The staff has put forward a broad range of reform priorities in the report. We encourage the low-income countries to step up efforts to improve the business climate and spur private investment, to develop domestic financial markets, broaden financial inclusion, and to mobilize domestic revenue and strengthen public financial management. This will pave a fundamental and concrete foundation to encourage or attract external financing.

With regard to adequate external financing, the priority should be on attracting private financing, especially FDI flows, which will not increase their debt but can bring advanced technology as well as management experiences to LICs, and it is a natural bridge connecting production and global markets.

With regard to the SDR allocation, we agree that we need to mobilize using the newly allocated SDRs to help low-income countries. My one concern is that, with regard to the PRGT, it seems that if one member

contributed zero SDRs to the PRGT principal, then the same member may need to contribute also to the subsidy account. I am not sure whether that is correct, but my point is that we may need to reform the PRGT mechanism to make it easy for members to contribute their SDRs for the use of low-income countries, including to reduce the burden for a contribution for subsidies.

We are also open to other possible options for using the allocated SDRs. This said, we think the IMF is better--it is fine if we can provide more concessional financing to the LICs. However, we also think the LICs should use their rights to ask for a multi-year UCT arrangement so that, with this arrangement, we can have appropriate conditionality on growth-enhancing reforms and improving public financial management.

I agree with many speakers, that the debt issue is very important, especially for the members at high risk of debt distress or are already in distress. However, we think debt restructuring should not be a way to undermine the international private sector's confidence.

*The Chair:*

On the interdependence between contributing on-lending to the PRGT from the SDR allocation and the subsidy account, we will discuss the modalities in the future, that we need subsidies to make use of SDRs. But we do not have a mandated obligation that, if one provides here, one has to provide elsewhere too. However, I do recognize Mr. Zhang's question that as we move forward, how we go about modalities, provided we have a new allocation and we have an agreement for some recycling. I think it is important for us to not only follow what we have had up to now but to have an open mind. And many Directors spoke in favor of building on what we know works, which is absolutely correct, but also to be open to other thoughts and ideas.

*Mr. Natarajan:*

We compliment the staff for this detailed work on the financing needs of LICs.

LICs are the most affected group because of the pandemic and are at the receiving end of the global economic crisis. With the swift emergency financial support of the Fund and exceptional international cooperation, we have been able to address the healthcare and economic needs, to some extent. The long-term consequences of these disruptions have caused potentially high socioeconomic costs, with rising poverty, halting progress in education, and enhancing financial vulnerabilities. While the measures like the DSSI and the Fund's emergency financing have provided temporary relief, sustainable

measures are extremely important. In this regard, while broadly agreeing with the tenor of the staff report, we make the following comments.

The paper makes a strong pitch for supporting the financing needs of LICs to fund their spending needs, including investment expenditure. External financing has a key role to play in this assessment. This is justified because of the limited domestic financing space and rising debt vulnerabilities. Given the size of external financing needs, it is necessary to have a detailed mapping of the demand side, as well as the supply side of the financing. There is a significant divergence within the group of countries, which calls for a detailed estimation of country-specific requirements.

Coordination across international financial institutions is vital. An assessment of the lending capacity of multilateral banks is a key measure of supply-side strength. Given the persisting uncertainties, we agree that the additional IMF financing will play a critical role during transition. Debt management initiatives, consisting of IMF programs and the Common Framework, can be helpful to a handful of countries. The existing SDRs and SDRs from the proposed allocation can be productively channelized to help LICs. We believe that there is immense scope to channelize SDRs to support the recovery of LICs.

While the availability of private sector financing is important, the question is, how much promise it holds, and when, under the current uncertain circumstances. The volatility in the financial market has also put a bearing on this. In effect, we expect MDBs to play a central role in the financing needs of LICs, with the IMF providing an anchor support.

*Mr. Mozhin:*

Many thanks to the staff for a very informative, if not also sobering, report. I would be glad to join others in welcoming Mr. Chabert to the Fund and in wishing him all the best in his new position.

We have issued a written gray statement, so I hope I can be relatively brief in this intervention.

I see this report as the first effort to quantify the scale of the tragedy facing the great majority of low-income countries affected, of course, by the pandemic and its economic consequences. I can see that this was not an easy task, for example, judged by the 18 pages of corrections circulated to us this morning. And I will immediately admit that I have had no chance, no time to look at that, but I certainly will when I can.

I also see this conversation in the Board as the first of many such conversations we will have going on in the close future.

I think I have several modest proposals in terms of the ways and means, how best to address the circumstances the low-income countries are facing. I think it is obvious that we really need to focus on not debt-creating ways and means to assist the LICs, and one such area perhaps is trade. And I would encourage the staff to look at what could be gained from more open trade both within the regions, like sub-Saharan Africa, but also on a global scale, how the rich world could open up their markets to exports from the LICs, to open them wider.

The second modest proposal I have is to focus on success stories among the low-income countries and see what lessons could be learned from those, let's say, success or relative success stories. There are not many, I will admit that, but there are some. Perhaps Rwanda would be one country that comes to mind in that respect. I would hope that a closer look at the sources of success of such cases may help to determine the way forward for others.

Finally, I would like to join others, that we should not lose sight of those countries which are not formally low-income countries, as defined by the International Development Association (IDA) eligibility list of countries or the United Nations' list of countries. Also, there are tragedies there, like small island states and the like. I simply want to join those previous speakers who made this point.

*The Chair:*

Those are very good suggestions, to look at the role of trade, to look at the great examples. There may not be many, but there are examples of countries that are doing better. And to use our transmission line to communicate on that.

And, of course, I appreciate those who have challenged us to think beyond the parameters we have today, given the likely shocks and the threat to balance of payments conditions in countries that are, by virtue of being small and vulnerable, a category we cannot ignore.

*Mr. Herrera:*

I will be very brief. My main point is to make a remark about, to be realistic about our potential role and contribution in the estimates and the additional financing that the staff--the very good work that the staff has identified.

We are faced with a shortfall of external financing of between \$450 billion and \$550 billion, and I look to the paper that is coming next week. Our average lending to the LICs in the past five years has been \$1.5 billion per

year. Our lending in 2020 was \$15 billion. The analysis poses a significant scaling up of Fund support to LICs. And what does this imply for lending? Something between \$15 billion and \$25 billion for the next five years. Maybe with the SDR general allocation, we will have another \$20 billion. So, our contribution, at most, can cover 10 percent of these additional financing needs. Our role in terms of financing is, we must be realistic of what we can contribute on this. And this goes back to the importance of this multifaceted approach to financing options.

Our additional contributions on providing good policy advice, capacity development for the implementation of structural reforms, and all the catalytical role to mobilize additional financing from development banks, donors, and the private sector. We must take care of the scale of what we can do and the scale of the problem that we are identifying.

*The Deputy Director of the Strategy, Policy, and Review Department (Mr. Chabert):*

I would like, first, to thank Directors, on behalf of the team who worked on this report, the team who was led by Mr. Gregory, for all the very interesting and useful and helpful comments that Directors made in writing during this Board meeting.

On a personal basis, I would also like to thank the Chair, as well as Directors for the warm welcome. As the Chair mentioned, the bar is high, so I will try not to be too much below expectations. And I will make six comments.

The first one is, we see a sense of broad support about the analysis, the estimate, the comprehensive approach that we suggest having, which includes vaccination, on the one hand, and a combination of elements on the financial side, on the other hand. And we will work on this basis going forward.

Of course, this report is a basis, also, for the meeting next week, on April 1, on options for the reform of the PRGT, including options to scale up the PRGT through the use, possibly, of SDRs, as Mr. Zhang mentioned. This will be discussed next week. Thank you very much for the views expressed, which will help us prepare for the Board meeting next week.

Secondly, several Directors mentioned their interest in having the figures for the different sources of financing that would help cover the estimates of the financing needs. We have chosen not to put that in the report, given the fact that there are different work streams ongoing; one on the PRGT, as I mentioned, and one on debt. Of course, MDBs are working, on their side, on what they could do to scale up their own financing. So we thought it was more appropriate not to put figures in this report; but, of course, at some point,

the financing needs, on the one hand, and the sources of financing, on the other hand, will have to match. We understand that is very important.

Third, several Directors mentioned the need to have similar studies for small or medium middle-income countries. And we take note, of course, of the interest in working on vulnerabilities beyond those countries that are eligible for the PRGT. This point is well taken. I would just like to mention that, as regards the eligibility to the PRGT, the reason why we have not put in the paper, which will be discussed on April 1, the issue of eligibility is because eligibility is reviewed every two years, and the next review is meant to take place in January of 2022, which is the reason why we have not put that in the paper that will be discussed next week.

The fourth element I wanted to mention is, many Directors focused on the domestic reforms and the need to tailor reforms, in line with the specificities of countries. And, of course, we could not agree more with what was said in terms of enabling environment for the private sector, FDIs, and domestic resource mobilization. Of course, the report mentioned very clearly the importance of the efficiency of public spending, as well as the bottlenecks in terms of access to financing. Beyond this general approach, there is a need to tailor domestic reforms according to the specificities of countries. We are fully in line with that. In relation to that aspect, there are two elements I wanted to mention, the importance of technical assistance and capacity development, as mentioned by many Directors. This point is, for us, very important.

Just to elaborate a bit on the examples of success that Mr. Mozhin, on the one hand, mentioned and Mr. Just, on the other hand, wanted to elaborate. With regard to the experience of transition countries, we just wanted to signal that, of course, building on the successful examples is definitely something we think is important.

As for the transition countries, while some characteristics could inform the thinking for domestic reforms for low-income countries, there are some specificities for the past experiences of transition countries which may not be replicable elsewhere. So, probably, there is a limit in the use of this example.

On the mobilization of private savings, this is also something that was mentioned by many Directors, which relates to the development of domestic financial markets, which is also something, of course, very important to provide domestic private financing to the development of low-income countries.

The last thing I wanted to mention, several Directors mentioned issues which relate also to international cooperation. Vaccine is definitely one and most Directors mentioned that. But there was the issue of base erosion and

profit shifting and the impact of illicit finance worldwide. There was a mention by Mr. Mozhin of open trade and an increase in global trade. And the appetite for the international community to mobilize financing and support to low-income countries definitely is something which is beyond, probably, my remit but definitely will help in terms of international cooperation. I think the position of the IMF is clear in that regard, in terms of mobilizing multilateral cooperation much more than that.

*Ms. Mannathoko:*

First, let me join others in welcoming Mr. Chabert to the Board, to the Fund.

I just wanted also to gain more clarity on the difference between the investment estimates and the SDG estimates. We were talking about the SDG slides we got, the examples included specific countries. For example, Rwanda's financing needs were actually higher than some of the higher GDP per capita examples even there. I just wanted to understand whether, in this paper, we are saying that these are the estimates for primarily the recovery and some initial investment, but there is going to be a separate discussion on the larger investment needs for development because what I am wondering is whether this amount will really deliver what we are expecting it to deliver in five years or whether there is going to be another discussion around the SDGs. I am assuming that these financing estimates are not IMF-specific and they are broad.

*The Deputy Director of the Strategy, Policy, and Review Department (Mr. Chabert):*

Definitely, the explanation in the different figures comes from different objectives, parameters, and time horizon as well. We have tried our best to assess the needs for the years 2021 to 2025 to recover from the pandemic and accelerate convergence to advanced economies. This is, of course, part of the development path to reach the SDGs in 2030, but definitely, the methodology that is used, for instance, in the staff discussion notes that were discussed at the Board last week, I think, goes beyond 2025 because it is a 2030 time horizon, even though the calculation and estimates are based on a yearly basis. That is the first difference.

The second difference is, indeed, the assumptions behind the models. For instance, in our model, we have factored in elements to assess the absorption capacity of low-income countries, based on what we have seen over the last 20 years, which is not taken into account in the staff discussion note on the SDGs.

The third element which we thought was important is that the staff discussion note on the SDGs was based on only four countries with huge

differences, actually, in terms of results, country by country. And we have made an assessment--our base assessment, let's say, based on a macro analysis of these 69 countries, which we could not have done by using only the results of four countries, where the different country by country were different. But I take the point, that there is a need to explain the objective and results of the two documents.

*The Chair:*

Obviously, we have one issue, which is how countries will catch up with where they were headed before this pandemic. And then we have a much bigger question, how are they going to reach the SDGs? So, it is correct that one is connected to the other, but we are answering two different questions.

And let me add my two points that are more about our work going forward.

The first concerns a point that many Directors made during this discussion. And it is access to vaccines. Why is this relevant for us? It is relevant for us because, if we do not find a constructive way to accelerate access to vaccines, the vulnerabilities of low-income countries will become even more severe. And we will be faced with balance of payments problems that would put even higher pressure on us to mobilize financing for these countries.

I am flagging this because I do believe we have to give some further thought on this question of a global plan to accelerate vaccination, and is there something the Fund can do to contribute to the predictability of access to financing and do even more on the advocacy front?

I am sitting in this room, reflecting on a very powerful article that came in today's Financial Times that says: There is absolutely no excuse for us not finding a pathway to accelerate the vaccinations. There is just simply no excuse.

I am putting this on Board's radar screen. We will give some more thought. I will admit to my Board that I have had people calling me and saying: "You have to step up! The Fund needs to do more on vaccinations!" And I have been pushing back, saying: "Our role is to make the economic argument why this is important. But there are other organizations that are in a much better position to take the lead." However, we do have to secure that there is funding for the health systems in countries. Perhaps we can do more on conditions in that regard.

We are coming up with the new SDR allocation and the possibility to recycle some of the SDRs. Do we want to use this as a lever also in this acceleration? Are there thoughts in that regard?

I am sharing this with the Board for future discussions and as a reflection of Board's very clear anxiety on this topic, and rightly so, and just to confirm that we feel exactly the same way.

My second point on the longer term, on working with low-income countries, is the following. If the world takes a turn for the better and advanced economies and emerging markets with good sound fundamentals drive growth faster, that would, of course, help lift up the economic prospects of low-income countries as well. If that does not happen or the divergence we are observing deepens, this institution and this Board needs to be alerted that we might be in a situation in which the hundred additional billion financing needs materialize and the participation of other sources of financing is less than impressive.

I appreciate Ms. Levonian asking us to try to match the needs with what the sources are going to be. And I want to share this is not a pretty picture. It is not detailed. We cannot put in front of the Board a sufficiently deep assessment of this match. But when one looks at the graph of where we are headed and what is the source of financing, it is concerning.

Why am I saying that? Because when we meet next week, and in the weeks to follow, we ought to be aware that it is not the time for the Fund to be timid. It is the time for the Fund to lead, to step up. And I count on each and every one of Board members to make a contribution to the role of the Fund on all fronts, not just in the context of low-income countries.

So that is my message to us. Pray for the best. But we are in the business of preventing the worst and acting when bad things are happening. We have to be ready.

I took a little bit from this discussion, some of us somehow thinking that we just have to do as much as we normally would do or to step up a bit but maybe constrain ourselves in the face of what could be a better picture. And that may be the right thing to do. But it can be also a very difficult, very difficult time ahead.

*The Chair adjourned the discussion.*

## **ANNEX**

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/841

March 24, 2021

**Statement by Mr. von Kleist and Ms. Koh on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

**We thank staff for a well-written report, which places a strong emphasis on the financing aspects in view of the pandemic.** Macroeconomic prospects in LICs remain challenging, although it is important to note heterogeneity within the group as well as variation in performance within subgroups, depending inter alia on price developments for specific commodity exports. Generally, tourism-dependent economies have seen a particularly large adverse shock with still uncertain prospects and most commodity exporters have experienced high volatility. Thus, while reported COVID cases and deaths have fortunately been much lower in LICs than in EMEs and AEs (inter alia due to the age structure), the challenges created by this crisis against the backdrop of low capacity in health systems and scarce room for policy support are very substantial.

**Regarding policies, a careful balance is required between maintaining targeted support measures and containing risks of sovereign stress and/or financial instability.** In some countries, a proactive response to reduce imbalances and restructure public debt seems required, while others should make use of currently favorable external financing conditions and higher commodity prices to swiftly rebuild buffers and increase resilience. In cases where exchange rates are substantially misaligned and distorted, consideration could be given to accelerating exchange rate/market reforms to facilitate a country's medium-term adjustment. Moreover, infrastructure bottlenecks (such as unreliable electricity supply) require attention. However, increases in capital expenditures should be carefully prioritized and mindful of implementation capacity as well as debt sustainability.

**We note staff's assessment of financing needs and that gross external financing needs are "expected to be fully financed over the projection period".** We broadly agree with staff that any further needs would have to be balanced by a combination of domestic reforms and stepped up involvement from the international community as well as private creditors. At the same time, the capacity for carrying additional external debt is narrow in many cases –

and likely particularly low in cases of financing gaps requiring Fund support. This means that in certain cases the appropriate mix will combine domestic reforms with debt restructuring and limited additional financing from the official sector.

**In this context, leaving aside the uncertainties involved in estimating financing needs, it seems important to highlight that such needs are not uniformly distributed.** For instance, staff notes that (only) about a third of LICs are projected to need additional financing to build up adequate reserves. *Could staff comment on whether a possible SDR allocation would likely further reduce the number of LICs with lower than warranted reserves?*

**We would highlight that the availability of external financing is usually (tightly) linked to the conduct of domestic policies.** In this regard, some passages in the report that directly link the availability of additional financing or additional spending to improved economic outcomes could be more nuanced. For instance, upside scenarios could usefully be labelled “reform scenario” to make clear that without domestic reforms additional external financing (both from public as well as private sources) is unlikely to materialize in the first place and would – on its own – not ensure more positive economic outcomes over time. *Staff’s comments are welcome.*

**The abovementioned critique may be particularly relevant when it comes to the report’s assessment of convergence through additional spending.** The note rightly highlights the paramount importance of domestic reforms to achieve stronger (per-capita) growth. This may be particularly true for the effects of public investment, where LICs’ absorption capacity constraints and implementation inefficiencies need adequate consideration. For instance, the report notes that “*LICs waste on average more than half of their infrastructure spending due to inefficiencies*” which suggests that fiscal multipliers can easily turn out lower in countries that perform worse than the average and/or in cases where interest payments already severely constrain fiscal space. Factors that negatively affect estimated multipliers – such as weak public investment management or higher propensity to import – are likely to be relevant in many LICs. In this sense, the “optimistic” multipliers of roughly 0.5 (corresponding to the 75th percentile) could well overestimate the positive effects on GDP, while underestimating negative side-effects of additional spending (including from inefficiencies as well as a worsening of debt sustainability). In fact, staff analysis suggests that mean multipliers are well below 0.5, which might be a more realistic assumption. *Additional staff comments on potentially overestimating fiscal multipliers would be welcome.*

**Turning to the reference to future Fund lending, we look forward to the upcoming Board meeting on Concessional Financing and Policies and will comment on the merits and drawbacks of individual financing options at that time.**

**On a more general note, the IMF, through its core areas of lending, surveillance and capacity development, plays a central role in helping members to restore macro-economic stability, improve debt sustainability and catalyse additional (concessional and non-concessional) financing resources from MDBs, donors and private capital markets.**

**That said, we remain sceptical regarding the idea that the Fund should contribute a significantly larger share to address financing needs vis-à-vis other financing sources than has generally been the norm.** For many LICs, PRGT credit already represents a significant part of their external debt and capacity to repay is subject to heightened risks. Adding further non-restructurable debt through Fund financing could aggravate the elevated debt burden in many LICs by a bunching of debt service payments in the medium term. Moreover, further increasing the contribution from a senior external creditor carries important longer-term risks for member states and the Fund and could undermine the catalytic function of Fund programs, as other partners might adopt more of a “wait and see approach”. Recent experience from IMF-programs with a particularly large share of Fund financing even suggests that large outstanding Fund credit relative to a country’s debt-carrying capacity will limit other available financing options, thus leading to a more rigid structure of external debt. While increased financing from the Fund may appear attractive in the short term, given the finite availability of concessional resources and some time needed for reform programs to produce results, the negative side-effects of such a shift in policy may be significant. Depending on how stringently additional safeguards are applied, this could even mark a regime shift for the Fund that could undermine its preferred creditor status (at least for PRGT resources). We would note in particular that a higher contribution from the Fund will always increase the loss-given-default for bilateral and other multilateral partners and is likely to lead to heightened reputational risks for the Fund in adverse scenarios.

**We fully concur with staff that the G20 DSSI and Common Framework should be implemented promptly and effectively and that appropriate conditionality in UCT Fund-supported programs will be important to ensure that debt relief operations foster a positive dynamic, including in terms of debt sustainability and improved PFM.** *We wonder whether staff could elaborate a bit more on the stated “[recently increasing] interest in debt swaps (e.g. debt for climate swaps), or other forms of debt relief conditioned on spending or policy commitments in debtor countries” (FN 23), including on their assessment of feasibility given the already very high complexity of debt operation situations at hand.*

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/844

March 24, 2021

**Joint Statement by Mr. Huh and Mr. Mochtar on Macroeconomic Developments and  
Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We thank staff for the insightful update on macroeconomic developments and prospects in low income countries (LICs).

The COVID-19 pandemic severely affected LICs and to a greater extent, fuel and commodity exporters and tourism-dependent economies. The scale of LICs' policy responses to the pandemic were constrained by their limited fiscal space and availability of concessional financing. The Fund is commended for its extraordinary and timely support to the membership, including LICs, since the onset of the crisis. Nonetheless, LICs face substantial challenges in the road to recovery with considerable uncertainties ahead, including limited access to vaccines and potential renewed lockdowns due to resurgent waves and variants of the virus, amid their limited policy space and amplified pre-existing challenges. Progress towards developmental goals is also hampered by the pandemic's long-lasting economic scarring effects on jobs and income. We therefore welcome the paper's recognition of LICs' wide-ranging challenges which require multi-faceted and holistic solutions, while underscoring that such solutions should fully cater for the heterogeneity within the LICs group.

**The estimated financing needs over the medium term, under both baseline and adverse scenarios, are significant and require a comprehensive financing package.** Fiscal balances have worsened, and debt levels have increased across LICs with more than half of LICs assessed to be at high risk of or in debt distress in 2020. Many LICs had to cut capital expenditure to make way for the higher pandemic-related spending which adds to the infrastructure setbacks. We therefore welcome the holistic estimation of LICs' financing needs which focuses on scaling up near term support to combat the impact of the pandemic, while also striving to rebuild external buffers and advance LICs' growth potential over the medium term, including overcoming LICs' long-standing challenges of limited policy space and high debt vulnerabilities. The discussion of the comprehensive list of sustainable financing options is useful in designing the appropriate mix of financing support for LICs that is conducive to their respective country specificities. It would also be useful if this

analysis could be replicated by country teams at the individual country level – including a mapping exercise of the potential available funding sources. *Staff comments welcome.*

**The Fund plays an important role in supporting LICs in navigating through the exceptionally challenging circumstances.** We welcome the Fund’s initiatives to ensure continued access to adequate liquidity support and multi-year UCT quality arrangements to support LICs’ recovery efforts. The review of the concessional financing and policies should carefully consider all possible options to better meet LICs’ higher financing needs within appropriate safeguards to preserve debt sustainability. Five countries account for around 45 percent of the total additional spending needs for LICs over 2021-25, however it is critical to ensure that the needs of smaller and most vulnerable members are also adequately considered in the Fund’s concessional lending toolkit. We look forward to the discussion of effective ways to encourage the voluntary use of SDR allocation to assist members in need, including the reallocation of SDR to the PRGT or other potential special facilities such as the small developing states trust fund (SDST). Recognizing the MDBs’ critical role in supporting LICs and the Fund’s catalytic role in mobilizing financial resources, we reiterate the Fund’s close collaboration with other MDBs. We also support the Fund’s role, in collaboration with the World Bank, in providing policy guidance on debt restructuring and facilitating the implementation of the G20 DSSI and common framework for debt treatment. Designing of appropriate program conditionality to aid recovery and facilitate debt restructuring is equally important.

**Beyond Fund financing, Fund engagement with LICs through solid policy advice, use of other non-financial and broader diagnostic tools should be scaled up.** Small developing states have requested far less financial support from the Fund than the rest of the membership, and small quota shares can act as a barrier to the uptake of Fund’s UCT quality arrangements. We agree with staff that building climate resilience creates additional financing gaps and we urge staff to continue to explore how the Fund can offer opportunities of engagement with this part of the membership given their exceptionally larger financing needs. Non-financial instruments, embedded with Disaster Resilience Strategies and Climate Change Policy Assessments, can also be helpful and we encourage staff to raise awareness of these less-used avenues of engagement with the membership, especially where they can meaningfully impact outcomes.

**Implementing key structural reforms are critical to alleviate the bottlenecks and bolster long-term growth and development potentials.** The pandemic’s long-lasting scarring effects impede LICs’ development and income convergence to higher income economies. We agree that an ambitious reform agenda is warranted to boost competitiveness and potential growth and remove infrastructure and regulatory bottlenecks. Efforts to improve the business climate are crucial to attract much-needed investments to facilitate domestic private sector development and finance infrastructure and development goals. Domestic reforms are vital to strengthening the policy framework that would support sustainable growth and development initiatives, including enhancing domestic revenue mobilization and administration, improving spending efficiency and public financial management, developing domestic financial markets and increasing financial inclusion.

**Practical advice and guidance are critical for the successful implementation of the reform agenda.** We stress that Fund policy advice must take into account political economy

considerations and practicalities of implementation, including capacity constraints. While the staff paper presents a sound strategy and makes the case for strong domestic reforms, there is often a huge gap between strategy and practical implementation on the ground. *How do staff account for such realities in the financing scenarios and what steps are staff taking to account for these challenges in policy advice?* In promoting economic diversification for LICs who are overly reliant on one sector, we encourage staff to provide practical, specific and tailored guidance on how this could be operationalized, for instance, in small states with limited choices due to their lack of economies of scale, narrow production base and remoteness. In doing so, staff advice should undertake detailed analysis of the characteristics of the economy and provide options for the consideration of the authorities. We underscore that capacity development and tailored, country specific advice will continue to be instrumental in supporting LICs in implementing their reform agenda.

**Grants and concessional financing will be most needed during the recovery period.**

Given the fiscal conditions of ODA donors is likely to be constrained, improving the efficiency of ODA delivered through multilateral mechanisms, even if it were to remain at current levels, should achieve better development results. The implementation capacity on the beneficiary side can hinder efficient use of ODA resources, but red tape, transactional costs and processes could benefit from further streamlining and improvements to drive greater efficiencies. *Staff comments welcome.*

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/845

March 24, 2021

**Statement by Ms. Levonian and Mr. Rankin on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We thank staff for the interesting paper and technical briefing on *Macroeconomic Developments and Prospects in Low-Income Countries*. Over the last decade, PRGT-eligible countries had been on a path of convergence with advanced economies. Unfortunately, the pandemic hit PRGT-eligible countries particularly hard and income convergence has been set back significantly. Moreover, the lack of fiscal space, limited access to financing, and little room for monetary policy support have significantly restricted the scope for policy responses. Looking forward, the pandemic will likely have lasting effects on PRGT-eligible countries, leading to higher debt levels, inequality, and extreme poverty. These challenges will be further compounded by climate change.

**We take note of staff’s findings on large financing needs in PRGT-eligible countries over 2021-25.** Staff’s calculation that around US\$ 200 billion is needed to step up the spending response to COVID and ensure external buffers, while an additional US\$ 250 billion in investment spending would accelerate convergence with advanced economies, helps contextualize the significant challenges facing PRGT-eligible countries. While staff’s adverse scenario is helpful in understanding how financing needs could increase if downside risks materialize, this analysis should also be accompanied by an “upside scenario”, including faster than expected recovery related to expedited vaccine rollout per the 2021 World Economic Outlook. *Can staff provide an estimate of financing needs in an “upside scenario”?* We take note of staff’s finding that five countries would account for 45 percent of the total additional financing needs. As this represents almost half of the overall gap, financing prospects in these five countries should be considered as we look to develop a general funding strategy.

**A number of sustainable financing options should help address needs.** We echo staff’s findings that an ambitious reform agenda is required within low income countries to boost competitiveness and potential growth. In particular, we stress the importance of improving governance and the business climate to facilitate private sector development, as well as enhancing domestic revenue mobilization & administration. Support from the international community will also be critical, particularly through ensuring adequate worldwide vaccine production and universal distribution at

affordable prices, as well as financial support from traditional development partners. We also see scope to significantly mobilize private financing in many PRGT-eligible countries with domestic reforms that create an investment-friendly environment, supported by risk mitigation instruments. Ahead of the upcoming *Review of Concessional Financing and Policies*, it will be important to provide a clearer picture of how much of the projected medium-term financing needs could feasibly be met through each financing source. *Of the financing needs identified by staff, how much could reasonably be met through domestic policy actions, support from traditional development partners, private finance mobilization, debt treatments, and other sources? Different financing scenarios would also be helpful, for example, how would financing needs change following a US\$ 650 billion SDR allocation?* Without this information, appropriately calibrating the Fund's concessional lending architecture will be difficult.

**We look forward to the upcoming *Review of Concessional Financing and Policies*.** Given significant financing needs, it will be critical that we find ways to ensure the PRGT continues to play a consequential and catalytic role in the international financial system. We note staff findings that tourism-dependent economies are suffering the largest setbacks. In addition to reviewing PRGT size, the Fund should take this opportunity to review eligibility to ensure that the PRGT is able to assist a greater number of vulnerable members, including small developing states, with financial support that meets their unique circumstances. Any discussion on the future of PRGT must be accompanied by a financing strategy to return the PRGT to self-sustainability.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/848

March 24, 2021

**Statement by Mr. Hilbers, Mr. Voinea, and Mr. Hanson on Macroeconomic  
Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We welcome staff's analysis of financing needs in LICs after the pandemic. We take note of the worsening situation in LICs following the pandemic: most countries are not expected to reach their pre-COVID convergence path by 2025, with tourism-dependent economies suffering the largest setbacks. Moreover, vulnerable groups were disproportionately affected by losing their jobs and suffering from higher food prices. This situation requires the coordinated support of the international community.

We would like to make the following points.

**We agree on the need to respond adequately to the crisis, build external buffers, and intensify development efforts.** An adequate crisis response hinges on affordable access to vaccines for LICs. Multilateral support in this area is key to their recovery. We also note that the assessment of spending needs to achieve the development goals does not include an estimation of the financing needs related to the climate transition or to achieve the SDGs more broadly. *Would staff agree that a return to the pre-pandemic convergence process should aim for a green and inclusive recovery to help achieve the SDGs?*

**The paper provides a helpful overview of different financing options.**

**We look forward to staff's proposals to reviewing the Fund's lending framework to support LICs.** We acknowledge the additional financing needs in LICs following the pandemic. We take note of staff's intention to propose a significant increase in financing and adapt lending better to the evolving needs of low-income countries over the 2021-2025 period, beyond the temporary increase in access limits. Nevertheless, we note the Fund's role is catalytic in nature, and private sector financing, along with involvement of MDBs and other concessional lenders, will be needed. *We would therefore welcome follow-up work by staff quantifying the potential contribution of different financing sources to the external financing gap of LICs.*

**We also support a new general allocation of SDRs.** *Could staff indicate how an SDR allocation would feed into their analysis of financing needs?*

**We agree that domestic reforms can play a critical role.** Regarding domestic revenue mobilization, which could contribute to the financing of enhanced spending, we note that there is no update regarding the VAT plans discussed in the previous report, two years ago. Economic diversification is another possible source of domestic revenues and we would ask staff to offer a more concrete analysis on such possible avenues. As the management of public finances becomes an increasingly complex issue, technical assistance by the IMF would be welcomed. *Could staff summarize the TA situation for these countries?*

**We strongly support the notion that private sector financing will be an important pillar to close the financing gap.** Figure 21 illustrates that private flows already constitute the majority of LICs' financial inflows, and we agree with staff that improving governance frameworks and strengthening PFM can help further unlock private finance.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/850

March 24, 2021

**Statement by Mr. Tanaka, Mr. Chikada, Mr. Naka, and Ms. Kikuchi on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We thank staff for the informative updated paper on macroeconomic developments and prospects in low-income countries (LICs). Given the severe impact of the prolonged crisis on LICs, it is essential to discuss the role of the Fund and to formulate appropriate policy advices, based on the detailed analysis on macroeconomic prospects and financing needs. We welcome the paper provides the comprehensive and detailed analysis including economic outlook focusing on the various economic structures such as fuel-commodity exporters and tourism-dependent economies as well as financing needs under the different assumptions.

We note staff's assessment that suggests an additional US\$200 billion is needed up to 2025 to step up the response to the pandemic while an additional US\$250 billion is required to accelerate convergence with advanced economies. We encourage staff to keep it updated by closely and carefully monitoring the progress on recovery from the pandemic as well as distribution of vaccines. Given the large financing needs, **we concur with the necessity of a Multi-faceted Response, which is composed of implementation of ambitious reforms in LICs, support from the international community and private financing.**

**Ambitious reforms in LICs**

**Steady and ambitious structural reforms are crucial for sustainable and long-term economic development in LICs.** It is essential for LICs to make every effort to pursue macroeconomic reforms such as improving domestic revenue mobilization and public financial management. Structural reforms to strengthen governance as well as to enhance economic diversification and business environment are also crucial for private-led sector growth. In this context, we reiterate the importance of

Capacity Development to support member countries' effort to pursue these reforms. Japan has supported the Fund's capacity Development activities for 30 years as one of the top donors, and we expect further contributions from other donors. We also encourage staff to further improve effectiveness and efficiency of capacity development by promoting strategic integration with lending and surveillance as well as ensuring close collaboration with other IFIs.

**The pandemic has exacerbated the pre-existing debt vulnerabilities in LICs.**

We welcome the G20 Debt Service Suspension Initiative (DSSI) and other initiatives such as the Catastrophe Containment and Relief Trust (CCRT) have effectively contributed to providing liquidity to meet the urgent financing needs. However, given that more than half of LIC-DSA countries have been already classified as "High risk" or "in debt distress" and the average annual amount of external debt service falling due in 2021 to 2025 is expected to be more than twice as much as the pre-crisis average, restoration of debt sustainability should be an urgent priority through fiscal reforms under UCT program. It is also necessary for countries facing difficulties in solvency to swiftly shift to comprehensive debt treatment under the Common Framework, where comparability treatment with all official and private creditors should be ensured.

**We reiterate the importance of continuous effort to enhance debt transparency** not only for specific purposes like debt treatment under the DSSI or Common Framework, but also from normal circumstances, which will further mobilize private sector financing by mitigating uncertainties of investment, and thereby lead to enhancing balance of payments and ensuring sustainable economic development. In this context, we encourage the Fund and the Bank to finalize debt data reconciliation and *would like to ask staff to update on its progress*. Furthermore, as for Debt-for-climate swap, which is linking debt relief with policy response to climate change, we are concerned about its adverse effects and are of the view that existing tools such as development policy loans of MDBs should be utilized to promote specific policy options.

**Support from international community including the Fund**

**In light of the Fund's role in support for LICs, it is necessary to take into account of grant assistance and concessional financing from multilateral or bilateral donors as well as mobilized private financing while keeping in mind of Fund's catalytic role.** A new SDR allocation, broadly supported in the informal board meeting on March 23<sup>rd</sup>, also will be a major step forward to meet part of the LICs' financing needs. Regarding the voluntary reallocation of SDRs, which will be discussed with SDR allocation in parallel, we are of the view that strengthening the PRGT is the best options. Furthermore, close collaboration with other IFIs is also

inevitable to synergistically improve efficiency and effectiveness of their support given the large financing needs in LICs and budget constraint in potential donor countries.

With these remarks, we look forward to comprehensive discussion on LICs facilities including the Fund's resources in the informal board meeting on April 1<sup>st</sup>.

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/851

March 24, 2021

**Statement by Mr. Azal, Mr. Just, and Mr. Pucnik on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We thank staff for the well-focused report. The COVID-19 pandemic continues to take its toll on low-income countries (LICs). Without additional coordinated support from the private sector, international financial institutions and bilateral donors bolstering LICs' own efforts, it will be difficult for LICs to respond appropriately to the COVID-19 pandemic and avoid long-lasting economic scarring effects.

**Uneven access to vaccines is the most immediate obstacle** to break the recurring lockdown cycle and overcome the fallout of the pandemic. We are concerned that the COVAX facility covers only 20 percent of the population, which will protract reaching herd immunity. This will further exacerbate the prevailing vulnerabilities and make LICs fall behind in convergence. We call on the international community, including multilateral development banks and vaccine-producing countries, to support the universal distribution of vaccines at affordable prices or in the form of donations.

**A coordinated approach to help LICs recover from the COVID-19 pandemic is of utmost importance.** We note with interest staff's estimate of \$450 bn to \$550 bn financing needs by the end of 2025. Such estimates are useful to focus the policy debate but are inherently uncertain and mask important differences in actual financing needs, absorptive capacities, and implementation effectiveness among the heterogeneous group of LICs. The underlying fiscal multipliers may, for example, be on the optimistic side and *we would appreciate staff's comments whether those reflect fiscal multipliers prior to the pandemic or assume significant domestic reform efforts. We would also be interested in the determining factors of successful convergence processes of, for example, transition countries and whether there are lessons for LICs.* This notwithstanding, we see a need for better coordination, especially among international financial institutions, to optimize not only their balance sheets but also their respective expertise for the best support of LICs.

**Sustainable financing options for LICs depend on the global economic recovery from the COVID-19 pandemic.** Staff is providing a generally reassuring picture that LICs will be

able to cover their external financing needs over the projection period, provided there is no protracted decline in global growth. A possible extension of the G20 Debt Service Suspension Initiative, as well as the implementation of the Common Framework, will help address debt challenges. Those should be accompanied by upper credit tranche arrangements to leverage the Fund's catalytic role and anchor necessary policy reforms. *Since longer-term economic stagnation cannot be completely ruled out, we would appreciate more details about the prospects in LICs if anticipated financing will be in fact lower.*

**Fiscal discipline and continued adherence to comprehensive institutional, as well as governance reforms are prerequisites to return to a sustainable growth path.** Given the limited fiscal space, LICs' authorities should enhance the credibility of the fiscal frameworks. To create the needed fiscal space, fiscal reforms should aim at mobilizing additional domestic resources by broadening the tax base, integrating the large informal sector into the formal economy, and improving the performance of the tax administration. Equally, public financial management and governance reforms will be key to strengthen the attractiveness of low-income developing countries for private sector investments. *We would appreciate staff's comments on the G20 Compact with Africa in this context.*

**Private sector financing, including developing domestic bond markets, will increase financing options to meet LICs' financial needs.** We would have appreciated more focus on how to incentivize the private sector to finance much of the needs in LICs. Staff rightly notes that at the initial stages of market development, domestic bond issuance will likely be more expensive than concessional financing. Nevertheless, there is considerable scope for further financial deepening in LICs, taking into account regulatory aspects and supervisory capacities. *Would staff consider providing an action plan to LICs on developing bond markets with possible technical assistance?*

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/852

March 24, 2021

**Statement by Mr. Pösö and Ms. Ekelund on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We thank staff for the well-written report on macroeconomic developments and prospects in low-income countries (LICs). **The Covid-19 pandemic has had a severe impact on LICs economic conditions** and there are worrying signs of long-lasting scarring. Growth in debt levels, combined with the deteriorated economic outlook, amplify the solvency problems and increase the risk of more widespread debt restructurings in LICs. Most importantly, the humanitarian effects and the increase in poverty are alarming.

We appreciate staff's financing gap calculations which illustrate the significant need for financing in LICs. The first priority is to cope with the pandemic, followed by rebuilding resilience and external buffers. In this respect, the financing of Covid-19 spending should be prioritized. We strongly encourage the IMF and the international community to support vaccine availability and distribution at affordable prices in LICs. We highlight the importance of the ACT-A collaboration and its **COVAX facility and call for global support for the initiative**.

We agree that the lack of fiscal space has constrained LICs' capacity to respond to the pandemic and that the pandemic has significantly increased the external financing needs. While private financing and remittances declined in 2020, the international community's emergency financing and debt service suspensions under the DSSI and the CCRT have allowed some breathing space. Attracting official and private capital is an essential element in the path to recovery.

We appreciate the focus on tackling longer-term scarring which is likely to further widen the gap in incomes between advanced economies and LICs. Here, the solution needs to be multifaceted. The availability of external financing for investment is one central component. However, without also **addressing issues related to governance, institutional capacity, and other structural bottlenecks** the efficiency of these investments to boost growth will be compromised. Thus, in addition to increased overall concessional financing, decisive and well-targeted reform commitments will be central.

*On the sustainable financing options*

**We agree that domestic reforms are essential to avoid a Great Divergence.** Specifically, reforms to improve domestic resource mobilization and increase the efficiency and transparency of public financial management will increase public resources. Further, fostering a constructive business climate and reducing corruption and red tape will help attract much-needed private financing.

**The IMF has a clear role and a well-functioning toolkit to support LICs.** The Fund stands ready to provide; (i) concessional financing and multi-year UCT programs, (ii) well-targeted policy advice through its surveillance function, and (iii) capacity development to help build institutions and robust frameworks.

**It is necessary to restore the sustainability of the PRGT framework** and thereby accommodate support for LICs' recovery. Fund involvement in providing concessional financing needs to build on coordination with other IFIs and the MDBs, notably the World Bank, to ensure that the Fund delivers on its "comparative advantages" and has a strong catalytic role. The IMF's role is unique, and thus, it should focus on supporting macroeconomic reforms and required adjustments through its core areas of lending, surveillance and capacity development. Further, the IMF's concessional financing should be based on carefully designed policies, which support the members in reaching a sustainable growth path and address debt challenges.

**Addressing debt issues must necessarily be given more focus in IMF programs.** A large share of the increased LICs financing needs arise from the increase in debt service and amortization costs. Realistic DSAs and strictly adhering to requirements of debt sustainability in Fund programs, also in conjunction with exceptional access, is important for efficiently dealing with solvency problems, maintaining the integrity of the Preferred Creditor Status, and preserving the Fund's catalytic role. Overall, we advocate stringent application of IMF access and lending policies aimed at restoring sustainable Balance of Payments positions. This should be done by fostering timely and right-sized debt restructurings, while avoiding migration of risks to the Fund's balance sheet.

Addressing sovereign debt problems in LICs and developing the global architecture for sovereign debt restructuring is a key priority for the IMF's crisis response. The DSSI and the Common Framework are very important initiatives, and we **look forward to seeing how the Common Framework functions in practice.** The IMF should continue to have an active role in supporting the DSSI and in the implementation of the Common Framework.

In these exceptional circumstances and amidst the continued high uncertainty, **we support and welcome the progress made towards a general SDR allocation,** which will respond to the increased longer-term reserve needs of the membership. An SDR allocation will be a significant liquidity boost especially for vulnerable countries.

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/855

March 24, 2021

**Statement by Mr. Herrera, Mr. Lischinsky, and Mr. Corvalan Mendoza on  
Macroeconomic Developments and Prospects in Low-Income Developing Countries—  
2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

**We thank staff for the report and for the interesting presentation on March 23.** The human, social, and economic toll of the Covid-19 pandemic for Low-Income Countries (LICs) has been very large, and their convergence path with Advanced Economies (AEs) has become more difficult.

**Emerging divergence observed between and within countries is paramount** and its speed is clearer seen when comparing LICs with other groups of countries. It is good news that the world economic outlook has improved since last October and global growth projections have been upgraded. The bad news is that the upward revision is primarily due to a better performance of AEs, while the revision for Emerging Market and Developing Countries (EMDCs) is modest, and for LICs the path has become uneven with high risks of a reversion of past gains. AEs are expected to quickly return to their pre-pandemic trend on the back of unprecedented policy support, and vaccination will probably be completed in 2021. However, the recovery of EMDCs is expected to be slow and incomplete due to limited and declining policy support, slow vaccine coverage, and emerging scarring effects. Meanwhile, for LICs this situation could turn into a knock-on effect from previous positive strides to reduce poverty and inequality. Job opportunities for youth, women, informal, and low-skilled workers are a concern.

**We take this report as a starting point and as a good exercise to quantify the financial support that might be required** to help LICs during the pandemic, and to observe how much would be needed from the international community to bring their convergence path to AEs and EMEs back on track, as was seen previous to the Covid-19 pandemic. To aim for a solid, sustainable, and broad-based recovery, vaccine distribution, policy coordination, and international liquidity support are of the essence, as well as an ambitious reform agenda to boost productivity and potential growth, and increased access to private financing through an enhanced role of Multilateral Development Banks (MDBs) to catalyze private investors.

**We agree that domestic private sector development could be an important part of the solution to jump start the recovery and promote sustainable and inclusive growth in LICs.** In this regard,

we take good consideration of the assessment in the report that additional financing needs, calculated in the range of USD 446 to USD 568 billion, would necessitate a multi-faceted response. This would involve a strong commitment from LICs, buttressed by an ambitious reform agenda to tackle multiple bottlenecks, international community response, effectiveness to ensure vaccination for the population of these countries, grants, bilateral donors and credits at concessional terms, and also MDBs' key role to catalyze private financing.

**To act decisively our institution must remain well-resourced to provide additional liquidity** to support its members and be flexible to adjust its lending tools as needed. Therefore, a new allocation of SDRs will help to alleviate the external liquidity pressures among LIC members.

**For the very short term,** we understand that policy priorities should be tackled and tailored to the pandemic-phase and country-specific conditions. Nevertheless, we would like to emphasize that health spending and vaccine cooperation are now critical in many regions of the world and are probably more acute in LICs. We concur that monetary and fiscal policies must remain accommodative whenever possible until the global recovery is firmly entrenched and broad-based, but we must take into consideration that these macroeconomic buffers are nonexistent in LICs at this time. Important challenges include productivity growth, climate change mitigation, inequality, market concentration, migration and conflict-affected areas, poverty, and potential destruction of productive assets which have resurfaced since the Covid-19 pandemic in LICs.

**Medium-term scarring effects should be contained.** In LICs, high unemployment, weakened household and corporate balance sheets, and disruptive sectoral spillovers could produce long-lasting damage. These scarring effects are likely to be concentrated in youth, women, informal, and less-skilled workers, which will increase inequality and poverty rapidly. LICs will need sufficient financial resources, as shown in Table 1 of the report, but also technical assistance and capacity development to implement policy actions and potentially minimize scarring effects. We are concerned that once the pandemic subsides, many populations will remain unemployed or out of the workforce with heightened risks of social unrest. In this regard, we learned from other documents prepared by the Fund that sectors like construction and manufacturing were not as affected as in past recessions, while this time round employment fell sharply in wholesale and retail trade, transportation, hospitality and food services, and in the arts and entertainment sectors. Going forward, LICs could require targeted programs in hard-hit sectors with viable prospects, but a slow recovery, as well as reallocation, including (re)training, and improving skills among the youth and women, will be needed to create the right incentives to tackle informality.

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/857

March 24, 2021

**Statement by Mr. Moreno, Ms. Rivera Molina, and Mr. Cartagena Guardado on  
Macroeconomic Developments and Prospects in Low-Income Developing Countries—  
2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We thank staff for the thorough analysis of macroeconomic developments and prospects in Low Income Countries (LICs), especially in this critical time when the COVID-19 pandemic is leaving deep scars in these countries, setting them back several years, and exacerbating divergences with advanced countries.

**The pandemic exacerbated significant challenges already faced by LICs before entering the COVID-19 crisis.** LICs' economic prospects and structural challenges have been worsened by the pandemic, widening gaps with large emerging and advanced countries. The limited fiscal space reduces the authorities' scope for maneuver in a prolonged pandemic scenario, and during the recovery years. In addition, this group of countries remains susceptible to climate change and sudden natural disasters that can affect economic development sharply. A global vaccination effort, including through strengthened COVAX financing and vaccine exports, is needed to facilitate an early onset of the recovery phase. More broadly, we should intensify peer pressure to ensure adequate worldwide vaccine production and universal distribution at affordable prices.

**We welcome the efforts deployed by the international community to relieve some of the constrains that LICs have been facing during this very difficult time.** We underscore the G-20 DSSI initiative to ease financing constrains which has benefited several LICs, and the Fund's response by increasing access limits for its emergency programs, providing another financing window in the early stages of the crisis and producing a catalytic effect for further support from other multilaterals and donors. We concur with staff on the need for additional financing for LICs, including for the private sector, to ensure an ambitious agenda that boosts competitiveness and a more sustainable and resilient recovery. We look forward to an early review of concessional financing and lending policies.

**The Fund, as other multilateral organizations, should remain committed to find a more holistic approach to support LICs.** Providing financing alternatives to exit the pandemic remains instrumental for the recovery considering the large gross external financial needs highlighted in the staff report. Following emergency financing, LICs should remain open to pursue appropriate conditionality in UCT IMF-supported programs to foster higher growth, ensure debt sustainability, and improve public financial management. The Fund and the other multilaterals have an important role to play in capacity building, by engaging in policy dialogue and lending advice on strengthening governance, transparency, and AML/CT. The Fund's role in boosting strong coordination with other multilateral organizations is fundamental to develop greater synergies and scale economies for the significant challenges LICs will continue to face.

**The LICs' agenda on structural reforms will remain paramount for their long-term growth, with SDGs providing the appropriate guiding framework.** In the recovery stage, these countries will continue dealing with significant scars including in education, poverty and inequality, and climate change. They need to build up an attractive investment environment, increase employment and diversification, build resilience to shocks, particularly those economies with large informal labor markets. SDGs provide the appropriate framework to address these broad challenges, building on the 2030 Agenda for development in the next decade.

Three specific comments:

- The document highlights the increase of amortization obligations as a significant component of the external financing needs (figure 20). An analysis of the debt to be amortized would be useful; how effective its use and the investments financed by debt, as well as what measures or lessons can be extracted to improve upon in the future. *Staff's comments are welcomed.*
- We stress the importance of debt management and transparency. *We would welcome staff's comments on the possibility of reinforcing capacity development and conditionality to strengthen both. We would also welcome staff's comments on the option of fostering the use of state contingent debt instruments.*
- Small and medium MICs are facing comparable development challenges to LICs. A similar analysis would also be useful for this group of countries

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/859

March 24, 2021

**Statement by Mr. Trabinski and Mr. Gindrat on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

**The Covid-19 pandemic has had a profound impact on low-income countries' (LICs) growth path.** Poverty and inequality are rising again. Part of the significant negative impact on growth is due to limited space for fiscal and monetary policy responses. Reversing this trend will require a combination of additional support to overcome spending constraints and prevent scarring, as well as policies to address persistent vulnerabilities and reform needs.

**Fostering development and income convergence is not merely a quantitative exercise.** It raises issues that go to the heart of the discussion on the right approach to foster growth and reduce poverty in LICs today as well as concerning the division of labor and respective contributions of international financial institutions. Good coordination among the latter is essential, harnessing their inherent expertise and strengths.

**The Fund has been agile in responding to LICs' crisis-related financing needs.** Its emergency financing facilities were used at an unprecedented speed and scale to meet balance of payments shortfalls and create space for immediate health and social spending. The envisaged SDR allocation will also provide support. Such financing sources are, however, no substitute for Fund-supported programs with appropriate conditionality and safeguards to lay the foundations for sustainable growth through sound macroeconomic policies and structural reforms.

Allow us to comment on the three pillars for covering financing needs, as laid out by staff:

**External financing is effective when domestic commitments to sustainable economic policies and reforms are strong.** The staff paper is candid about the adverse economic realities in many LICs and it rightly places an ambitious reform agenda as the first pillar. In this context, we support staff's call for enlarging tax bases and addressing spending

inefficiencies. Also, weak institutions and informality remain widespread obstacles to pursuing policies that benefit the broad population. Public debt in LICs is high and the share of countries at high risk of debt distress has more than doubled in less than 10 years.

**The estimated large external financing needs over the period up to 2025 should be carefully scrutinized.** The size of the overall spending needs reflects an ambitious development agenda but equally raises considerable doubts about LICs' absorption capacities. Furthermore, defining financing needs as spending shortfalls relative to selected benchmarks omits considering the quality of country-specific transmission mechanisms (e.g. the effectiveness of the public investment management framework). There is no way of knowing whether closing spending gaps would translate into the envisaged growth path.

**In supporting members' transitions out of the Covid-19 crisis, Fund lending should focus on its catalytic role.** The Fund's strength and key contribution is in its expertise in designing frameworks that anchor members' domestic macroeconomic policies and reforms. Moreover, Fund programs foster engagement and trust, and catalyze financing. Fund lending is rightly very limited by design. Given high and rising debt levels in LICs, the bulk of additional external financing should be non-debt creating or highly concessional, in our view.

**Private sector financing and investment can substantially contribute to meet LICs' financing needs if encountering a conducive business environment.** We share staff's assessment of the potential of private sector financing to foster growth, noting the enabling conditions. Stable institutions, sound economic policy making as well as transparent governance go a long way in attracting private capital – domestic and external. Reforms to develop the domestic financial sector are thus key for enabling access to financing, including from foreign investors, on a lasting basis.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/861

March 24, 2021

**Statement by Mr. Zhang and Ms. Yang on Macroeconomic Developments and Prospects  
in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We welcome the comprehensive staff report as a continuous effort in identifying and addressing key challenges facing low income countries (LICs). It provides an insightful analysis on LICs' financing needs and puts forward some options to bridge the financing gap.

As worldwide, the COVID-19 pandemic has worsened LICs' economic and social circumstances, leaving long-lasting economic scarring effects. In this regard, LICs face the same challenges as the advanced economies, and we commend that LICs have performed relatively well in terms of human toll. Despite the pandemic's impact and LICs' pre-pandemic vulnerabilities, such as constrained fiscal space, weak public investment management capacity, high poverty rate, and insufficient resources, it is encouraging that LICs managed to achieve positive real GDP growth, and the impact on GDP per capita was smaller in LICs compared with AEs and EMs as shown in Figures 4 and 5 in the staff report.

Looking ahead, early availability of and equal access to affordable vaccines is critical for LICs to walk out of the pandemic and secure a broad-based global recovery. LICs' access to vaccines is limited by existing supply constraints, which has mostly been purchased by advanced economies. We call on the international community to fight against "vaccine nationalism" by strengthening cooperation and coordination to ensure vaccine availability and affordability in LICs.

It is of paramount importance for LICs to advance domestic reforms to address the bottlenecks and unleash huge long-term development potentials. LICs could not achieve sustainable development without domestic reform, even if they receive sufficient contributions from international communities. We encourage the LICs to step up efforts to improve the business climate and spur private investment, to develop domestic financial markets and broaden financial inclusion, and to mobilize domestic revenue and strengthen

public financial management. We concur with staff that the Fund and other IFIs can support LICs in achieving their reform targets through technical assistance and programs.

Regarding external financing, we encourage the LICs to prioritize attracting private financing, especially FDI flows. As more than half of the LICs are at high risk of debt distress or already in debt distress, FDI will be an appropriate option to finance development needs without incurring debt. It can bring advanced technology as well as management experiences to LICs, and it is a natural bridge connecting production and global markets. We agree with the key priorities to help promote private sector financing for growth and sustainable development as calibrated in paragraphs 43 to 46 in the staff report.

We welcome the initial discussion on a possible SDR general allocation of 650 billion USD, from which LICs would receive 21 billion USD. LICs will benefit from the SDR allocation by building up reserves and receiving liquidities without adding to debt burdens. It would also free up resources for LICs to purchase vaccines and facilitate economic development. We encourage the LICs to make good use of the newly allocated SDR to boost productivity, lower poverty, and accelerate domestic reforms.

The IMF could play an important role in supporting LICs by providing concessional financing, delivering capacity development assistance, and contributing with policy advice. We look forward to the upcoming review of concessional financing and policies. That said, we encourage qualified LICs to use multi-year UCT arrangements to aid the recovery from the pandemic with appropriate conditionality on growth-enhancing reforms and improving public finance management.

We agree with staff that the DSSI and the Common Framework for Debt Treatment will help LICs address sovereign debt challenges. China has implemented the DSSI in a timely and comprehensive manner. The total amount of debt service suspended by Chinese creditors is the largest among all G20 members. China is also the only country whose commercial creditors have participated in the DSSI. We reiterate that full participation of all creditors is critical for a successful implementation of the DSSI and the Common Framework. Noting that debt restructuring might bring medium-to-long-term negative impact on international private investors' confidence, we emphasize that debt restructuring should be deployed as the last resort after exhausting all other alternatives.

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/863

March 24, 2021

**Statement by Ms. Shortino and Mr. Gudicello on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We want to thank staff for their comprehensive review of the macroeconomic environment facing low-income countries (LICs) and their assessment of LIC financing needs. We agree with staff that the current crisis presents an even greater challenge to LICs than the Global Financial Crisis of over 10 years ago. Staff's paper clearly lays out the difficult recovery path for LICs and the risk of widening divergence between LICs and the rest of the world. We look forward to discussing the IMF's strategy in responding to these challenges as part of a broader discussion of the future of the Poverty Reduction and Growth Trust (PRGT). **Given the massive need identified by staff, any strategy to fill these gaps must center around an ambitious reform agenda by LICs aimed at mobilizing domestic revenues over the medium term, supported by well-integrated financing from international financial institutions (IFIs), private sector investors, and debt restructuring, as needed.**

**We agree with staff that it is critical that LICs make necessary reforms to mobilize domestic sources of revenue, induce private investment, and promote sustainable growth.** Even with an expanded international effort, LIC financing needs cannot fully be met by IFI lending. Over the medium term, LICs will need to improve domestic resource mobilization through simplifying and broadening the tax system and developing local capital markets. Countries should also seek to attract private capital in a manner consistent with debt sustainability. Stronger public financial management and public investment management will be essential to effectively leverage financing into sustainable and inclusive growth.

**IMF lending will represent an important source of financing to fill gaps, but should remain a catalyst for other donor financing.** The IFIs did an extraordinary job mobilizing \$75 billion in support for LICs in 2020, of which the IMF provided about \$13 billion. As staff consider their reform proposals for LIC financing, we stress the need for countries to transition from emergency financing to upper credit tranche (UCT) programs and to commit to advancing structural reform agendas. Even the most ambitious expansion of the IMF's lending facilities for LICs cannot and should not carry the entire burden of international support. The IMF should aim to bring programs to the Board that contain broad financing

support in the form of World Bank and other MDB contributions, bilateral grants, and financing assurances from creditors as appropriate.

**An upcoming SDR allocation should also help to bolster LICs' reserves and could help address near-term financing gaps.** It will be critical that the IMF promote the transparent use of new SDRs resulting from the upcoming allocation, in line with sound macroeconomic and governance principles. The international community, in particular the citizens of LICs, deserve to know how their governments are using the allocation to promote sustainable and inclusive growth. And we urge LICs to leverage the additional SDRs to increase economic confidence and, as appropriate, support urgent health and social spending including on vaccine distribution.

**The IMF should provide LICs with technical assistance to attract private investment, develop domestic sources of revenue, and build the capacity to productively absorb increased financing.** We commend staff for continuing their technical assistance to LICs throughout the pandemic. Improved capacity will also be necessary to facilitate the absorption of increased international financing. Moving forward, the IMF should rigorously prioritize its scarce capacity development resources with a preference for high-impact interventions. To this end, we strongly encourage staff to fully integrate capacity development into their program and surveillance reviews.

**The IMF should work with LICs to prevent overborrowing and expedite the restructuring of unsustainable debt.** We highlight that large volumes of IFI financing also contributes to debt risks, particularly as such financing falls outside of the perimeter for restructurings; we call on staff to keep this issue clearly in focus. We continue to encourage countries with unsustainable debt to seek treatment under the Common Framework and we encourage creditors to respond quickly to debtors' requests. We would also note that debt sustainability considerations highlight the need for staff to rigorously apply limits on non-concessional borrowing when designing or reviewing a program to limit the risks of unsustainable borrowing.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/865

March 24, 2021

**Statement by Mr. Mohieldin, Mr. Geadah, and Ms. Al-Riffai on Macroeconomic  
Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

The COVID pandemic is unraveling decades of progress for LICs as the health, social and economic impacts of the pandemic affect these economies with varying degrees. The lockdowns reduced their fiscal space by lowering tax revenue and COVID-related needs elevated their spending, further deteriorating their fiscal balances, and their debt levels are significantly rising. Staff find that over half of LICs are assessed to be at high risk of, or are in, debt distress in 2020 and more than 80 percent are not expected to reach their pre-COVID convergence paths by 2025, and there is still great uncertainty over the pace of recovery.

LICs are facing elevated spending needs that are critical to limit the scarring effects of the pandemic, build up adequate external buffers, and intensify development efforts to converge towards advanced economy GDP per capita levels. The magnitude of the spending needs required to achieve these three objectives over the medium term is immense and requires a multifaceted approach that combines efforts from within LICs, from the international community as well as from the private sector. LICs' steadfast reform efforts are critical to achieving these objectives and aligning them with SDG targets can help in policy formulation as well as in coordinating the financing efforts. We too see a role for MDBs to play in supporting LICs as part of a coordinated approach. They can provide a range of instruments to support LICs, including risk mitigation instruments aimed at mobilizing private capital as well as political and regulatory risk guarantees that can also help countries attract FDI, equity and debt financing. We see value in further scaling-up MDBs' concessional financing and instruments to crowd-in private finance where needed.

We concur that each low-income country's initial conditions will determine their respective spending needs. PRGT-eligible fragile and conflict-affected economies and commodity exporters faced the COVID pandemic with weakened economies and they have the highest COVID recovery and additional investment spending needs across all LICs. We welcome the ongoing review of the Fund's lending framework that aims to facilitate greater financing to LICs and also welcome the recent temporary increases in access limits to Fund financing as well as the debt service relief initiatives presented through the CCRT as well as through the

G20 DSSI and common framework. However, some fragile and conflict affected countries are unable to access the Fund's emergency financing facilities and are unable to engage in a Fund supported program due to their conflict status and/or their unsustainable debt dynamics. These countries have had to tackle the impacts of the pandemic through falling donor support and lack of access to the Fund's emergency financing facilities. We would welcome efforts to address the financing constraints facing these specific countries since they are in danger of falling even further behind.

A new SDR allocation would help meet a long-term need to supplement existing reserves, boost confidence, and provide liquidity to all IMF members without adding to their debt burden. We also see a benefit from directing SDRs to the PRGT as one effective way to channel these resources towards LICs.

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/866

March 24, 2021

**Joint Statement by Mr. Bevilaqua, Mr. Buissé, Mr. Fanizza, and Ms. Riach on  
Macroeconomic Developments and Prospects in Low-Income Developing Countries—  
2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

**We thank staff for the very informative and comprehensive report on the macroeconomic developments and prospects in Low-Income Countries (LICs).** The report provides a thoughtful analysis of the impact of the pandemic for this group of countries, their needs for external financing and options for their sustainable financing moving forward. We underline that this work is particularly timely and constitutes a valuable contribution to what is arguably one of IMF's largest medium-term challenges – that is, how to address LIC financing needs to ensure that they are able to mount more effective responses to the COVID crisis, build buffers, and resume their pre-COVID convergence path.

**The report provides useful insights into the potential size of LICs' financing needs up to 2025, as well as on the appropriate policy responses, actions from the international community and the role of private sector financing and investment to address those financing needs.** The magnitude of these challenges requires an ambitious and coordinated approach across actors, with the Fund leading the way through enhanced and catalytic medium-term financing support, as well as tailored policy advice and capacity development activities. This analysis should feed into the Fund's work to ensure that its toolkit for LICs remains fit-for-purpose over coming years. In this regard, the PRGT financing strategy will need to ensure that the Fund is able to deliver on par with the scale of the challenge. The paper also considers the role of domestic policies, which are key to correcting existing vulnerabilities and to attracting much needed private investment. In this respect we agree with staff that bridging financing gaps will rest on a combination of domestic elements, official support and private financing. With this in mind, we wish to make the following specific remarks.

On the impact of the COVID Pandemic on LICs' economic performance and the international response:

**LICs were already facing significant challenges before the pandemic, and the COVID crisis has compounded their vulnerabilities.** LICs have had limited capacity and means to respond to the immediate needs created by the pandemic, and have therefore been

unable to do so with the same scope and caliber of policy action as advanced and emerging economies. Support from the Fund, other International Financial Institutions (IFIs), and bilateral donors and creditors (including through the DSSI) has been critical to help finance the added health and non-health expenditure needed to cope with the pandemic fallout. We share the urgency of ensuring vaccine availability to LICs and strengthening social safety nets to prevent scarring, including from containment measures that may otherwise have lasting impacts on development, such as keeping children out of school. We also appreciate the distinction made in the report between vaccines and vaccination, as the latter requires efficient planning of both financial and skilled human resources.

**The disruption and the potential social and economic scarring caused by the pandemic are particularly worrisome and the current crisis risks morphing into a permanent shock to the development trajectories of LICs. This requires a comprehensive response strategy.** In addition, beyond the crisis, countries have significant development needs and will need to transform to adapt to climate and digital transitions.

On external financing needs:

**We agree with staff that increased support is needed to directly address the pandemic induced crisis needs, to build sufficient buffers and to finance investment to resume the pre-COVID convergence path.** The report makes clear the scale of the financing needs. In the baseline scenario, additional financing needs over 2021-25 would amount to about \$200 bn for external buffers and the spending response to COVID, with an additional \$250 bn to support LICs convergence with advanced economies. We also thank staff for doing the analysis under an adverse scenario, as laid out in annex II, which would increase the needs by an additional \$120 bn. Nevertheless, the adverse scenario omits non-COVID related risks, such as climatic shocks and fragility risks, which could further increase financing needs. It would have been useful to have an upside scenario presented in the analysis, for example reflecting faster vaccination campaigns. This could have demonstrated the strong value-for-money in quicker and more effective policy actions, and stronger international support for LICs, including for their vaccination campaigns.

Table 2 illustrates that, with substantial financing needs and limited financing options, Fund support to its poorest and most vulnerable members will continue to be particularly important.

On sustainable financing options:

**Since only about a third of spending needs could be financed through new borrowing, particularly in light of rising debt vulnerabilities, we must look at the whole picture of medium-term financing options for LICs.** We agree with staff that, given the size of needs, a mix of financing options will be necessary, including concessional financing from IFIs and bilateral donors, private finance and debt operations. The report also usefully describes some of the key domestic reforms that LICs generally should pursue to foster sustainable and inclusive growth, enhance private investment, raise public revenues, and increase the efficiency of public spending. It would have been very helpful to see quantifications for the various financing options, to provide a better sense of potential burden sharing. We appreciate that such quantifications would be difficult to produce, but encourage staff to undertake further work in this area where possible. For now, the report

could illustrate how a new general SDR allocation of \$650 billion would help fill the financing gap. Specifically, on the different financing options:

- **On LIC reforms**, we strongly agree with the need for LICs to pursue ambitious structural reforms to raise long-term growth. We therefore support the advice on necessary reforms laid out in the report, and underline that it should be tailored on a country-specific basis. While we maintain that countries should use the crisis to undertake needed reforms, but we need to be realistic about the timeframe for reform efforts to yield monetary benefits, particularly given that some domestic reforms have been long outstanding for several reasons, including political reasons. We also need to be realistic about the potential for reform efforts to quickly yield results in low capacity environments, particularly fragile states. On top of the elements highlighted in the report, we also underline the role the Fund and development partners in supporting countries' reform efforts. These include helping to build fiscal resilience, for example through (i) helping LICs in improving taxation and domestic resources mobilization; and (ii) helping LICs to tackle the sources and channels of illicit financial flows; and (iii) improving governance, for instance for extractive industries contracts. We also welcome the emphasis placed in the report on creating an enabling environment for private sector and foreign investment. More generally, special attention needs to be paid to cushioning the impact of the adjustment on the most vulnerable countries and on the most vulnerable people within countries. To support countries to implement reforms, strong efforts in terms of CD delivery will be needed, given their limited capacity.
- **With regards to IMF financing and policies**, we fully agree with the report that the Fund's financing strategy for LICs must be commensurate with the depth of the challenge, and we very much look forward to discussing reform options and a PRGT financing strategy (including potential re-use of SDRs to support vulnerable countries) in the upcoming Review of Concessional Financing and Policies. Beyond the much-needed SDR general allocation, those include changes to parameters in the PRGT lending framework and enhanced PRGT financing capacity to ensure that it remains fit-for-purpose in supporting countries to stabilize and recover from the pandemic. We agree with the paper that an increase in overall access levels under the PRGT would help facilitate the transition to UCT-quality programs that support strong programs with appropriate levels of financing. Indeed, we need a toolkit that is fit-for-purpose, to support the development and implementation of coherent, holistic and robust UCT-quality programs that are adapted to individual country circumstances.
- **The Fund should continue to play its catalytic role, and we agree with the report regarding the critical role that MDBs and bilateral donors will play in helping to address financing needs.** We underline the importance of ensuring smooth cooperation between the Fund and other IFIs. We would also caution that we need to be realistic about potential future ODA flows given donor countries' domestic budget constraints.
- **We agree that private sector financing and investment are paramount to improving growth prospects and bridging financing needs.** Harnessing and promoting them requires a range of domestic and international actions, as rightly laid out by staff in the paper, and the Fund can help design appropriate programs that foster private sector interest. We welcome the emphasis placed in the report on creating an enabling environment for private sector and foreign investment. We

underscore the critical role that risk mitigating instruments deployed by MDBs can play in mobilizing private flows.

- **Attention to debt vulnerabilities is critical, as highlighted in figure 20 showing the impact of debt amortization on gross external financing needs.** LICs facing protracted debt vulnerabilities should not delay adjustment and, where applicable, should request the implementation of the Common Framework sooner rather than later. We maintain that future UCT-quality programs should pay particular attention to avoiding a new cycle of over-indebtedness and in this regard, we welcome the Fund's commitment to preserving debt sustainability.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/867

March 24, 2021

**Statement by Mr. Bhalla and Mr. Natarajan on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

1. We thank the staff for the detailed paper on the **macroeconomic developments and prospects in Low-Income Countries (LICs)**. More than a year into COVID-19 crisis, the paper helps to take stock of the current situation and provides a detailed perspective of the medium-to-long term financial needs and sustainable financing options. Importantly, the paper sets the premises for further discussions on the subject by different stakeholders – country authorities, IMF, multilateral development banks (MDBs) and private sector.
2. We echo the concern that a quicker and effective vaccination to cover the entire population is necessary to ensure a durable recovery. Recognizing this critical necessity, India has been expanding global vaccine supply providing about 59 million supplies (till mid-March) to over 70 countries - mostly LICs. A successful vaccination drive could potentially minimize the magnitude of financial challenges estimated in the paper and pave way for a robust recovery.
3. The assessment of financing needs diverges widely based on assumptions made and dynamic nature of the situation. When the pandemic crisis hit the global community in 2020 multiple estimates were made regarding financing needs, but the actual needs have been comparatively low. The aggregate financing needs of US \$ 450 billion indicates the immensity of challenge before the LICs. As a further step, disaggregation of these estimates of financial needs and a detailed sub-categorization for each country will be useful. It can help the countries to prepare a suitable action plan and the international community to make country specific responses. *Staff may comment.*
4. The paper refers to the importance of sustainable financing needs and the roles of IMF, MDBs and private sector apart from the country authorities. IMF has an important role in proactively identifying countries in potential distress and providing

timely financial support through continuous efforts in boosting surveillance. Role of MDBs is crucial and central in reviving and rebuilding these economies. Improving foreign direct investment of the private sector has a huge potential to catalyze infrastructure development while providing stable financing. However, enhancing governance and business environment take long time to yield results. Therefore, it would be also useful to assess avenues for stable private sector financing which can be available in the medium-term. *Staff may comment.*

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/868

March 24, 2021

**Statement by Ms. Mannathoko and Ms. Nainda on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

We thank staff for this discussion of recent macroeconomic developments and their thoughtful assessment of the financing needs of low-income countries (LICs), that have been exacerbated by the COVID-19 pandemic. We concur with staff's assessment of the imminent risks of divergence between LICs and advanced countries, absent adequate financing. Of note is the finding that LICs had been on a path of convergence with advanced economies in the decade up to 2019, but the large adverse impact of the pandemic on growth has negated this, setting LICs' development back several years with significant scarring.

**An ambitious financing and reform agenda is needed to avoid “a Great Divergence” on the back of declining ODA, capital flow reversals, and subdued FDI, fueled by limited and uneven access to vaccines, to reverse the current path by 2025.** As the paper notes, concerted efforts both at the domestic and international level, will be essential to meet pandemic-related spending needs (\$180 bn), rebuild external buffers (\$20 bn) and raise the infrastructure investment (\$250 bn) required to enable convergence with AEs. Innovative assistance at the international level, coupled with targeting of country-specific “low-hanging fruits” and a drive to implement reforms can help to meaningfully close financing gaps and boost growth.

**We are of the view that the financing scenarios in Table 1 understate the financing need, given the extent of scarring; and emphasize the importance of treating scenario 2 (\$570bn) as the minimum required.** SSA countries are extremely vulnerable to external shocks and have been subjected to recurring climate, external demand, commodity price, and health shocks over the past decade and a half, so scenario 2 which allows for shocks is in fact more realistic. In addition, we also feel the WEO may have been overly optimistic with respect to growth projections for our region, however the augmentation provided by staff in the baseline scenario likely underestimates the extent and depth of scarring from what is now a prolonged crisis in our region. Scenario 2, therefore is likely to be the minimum required for countries to begin reverting to a convergence path by 2025. *Could staff clarify how they*

*reconcile the enormous difference between the estimated average LIC financing gap of about 16 percent of GDP per annum in the 2021 SDN slides on financing the SDGs shared with the Board earlier this month, and the 4.1 percent of GDP per annum they are proposing here?*

**Regarding the estimation of borrowing space available to LICs, staff estimate in Table 2 and Annex II that space for additional debt in LICs is limited to only about a third of the stated financing needs, but we note this share would drop** We would like to highlight furthermore, that the one-third estimate is an averaged approximation and it could turn out to be more for some countries, depending the specific context and vulnerabilities.

**In assessing borrowing space for LICs, we appreciate staffs' use of both capacity-to-repay and debt sustainability metrics; and believe this allows for fairer treatment on financing for LICs, relative to the rest of the membership.** When determining borrowing space at the country level, we urge staff to apply the two approaches in a manner that optimizes leeway for countries to borrow to support their recovery (while retaining debt sustainability).

**Based on staffs' analysis of borrowing constraints, the bulk of resources needed to fill the financing gap will have to come from non-debt creating sources such as outright grants and domestic revenue mobilization, alongside new FDI.** On revenue mobilization, while our countries are making every effort to advance domestic revenue mobilization (DRM) and rebuild revenues, international effort is needed to help reduce leakages due to illicit financial flows, tax base erosion and profit shifting out of poorer regions such as SSA. These are resources that would otherwise support development, limiting the drain on foreign exchange and domestic resources, and maintaining macroeconomic stability. While mobilizing domestic revenues remains critical, at the same time, it is worth recognizing that at some point, DRM will reach its limit. This could happen while it still falls far short of the financing gap that remains after borrowing. Grant support will therefore still be necessary.

**Investment flows are also an important source of financing that supports growth, and long-term development.** On FDI, we encourage staff to consider a regional breakdown of inward investment trends as this is likely to show a very different picture from that provided in Figure 31 in SSA. IMF data for many of our countries indicate a sustained decline in FDI over the past decade. *In addition, as seen in Figure 32, FDI to all 54 countries in SSA is less than 1 percent of the global total. We welcome staff views on the extent to which this differentiated effect reflects infrastructure deficiencies in SSA.*

**Other domestic actions such as integrating informal activities into formal economies in LICs provide a sustainable approach that could be facilitated by an aggressive digitalization drive.** We agree that there is significant scope to improve the business environment including through investments in soft and hard infrastructure alongside digitalization to reduce informality. Such investments and their associated reforms could enhance competitiveness, remove infrastructure bottlenecks, strengthen governance, and facilitate financial inclusion, linking formal and informal sectors, including MSMEs.

**We welcome the temporary extension of modifications to access limits in the Fund's lending facilities but recognize that further modifications may be needed in the future to accommodate medium term needs and allow more even-handed treatment.** We urge staff to revisit the question of how countries that are close to access limits can be helped. We note that the exposure of Fund resources to LICs is marginal, given reliance on the PRGT. Furthermore, in the scenarios presented in this paper, Fund exposure for the median country would peak at a lower level than seen for some more developed members during the global financial crisis.

**We agree that the G20 DSSI and Common Framework (CF) should be implemented more effectively and note the importance of resolving ongoing CF delays that could hamper timely debt resolution and CF participation levels.** Further information from staff on progress so far and on how the process can be further facilitated is welcome.

**Finally, in the transition period ahead, we consider that UCT-quality programs, tailored to country specific circumstances and well-integrated with capacity development, will be critical in supporting economic recovery.** This will help deliver the macroeconomic foundation for debt restructuring discussions; and provide needed assurances on the adequacy of economic policies to private and official creditors, allowing LICs to close their large financing gaps. Country-specific guidance on developing efficient domestic government debt markets will also help build more resilience to shocks. In closing, we also wish to welcome the evolving role of MDBs and the Fund's current efforts to prepare the case for the general SDR allocation that will support LICs efforts to stay afloat.

## DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.
--

GRAY/21/869

March 25, 2021

**Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Alle on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021 (Preliminary)**  
**Executive Board Meeting 21/32**  
**March 26, 2021**

**We thank staff for the well-focused report on *Macroeconomic Developments and Prospects in Low-Income Countries*, which, this year, takes a particular importance given the effects of the COVID-19 pandemic.** We share the thrust of the paper, well-organized around the three main sequences of the impact of the pandemic on LICs, the financing needs stemming from the crisis and the available financing options. The analysis adds value to the thinking, and it is expected that it contributes to the discussions between IMF and country authorities, including during the upcoming Spring Meetings. Moreover, the operationalization of the report's key ideas could inform LICs' strategies in stepping up spending response to COVID, supporting the recovery and returning to their path of convergence with advanced economies (AEs). We would like to emphasize the following points.

**We share staff's account of the severe impact of the pandemic on LICs, both in terms of health and the economic fallout.** Though there was substantial heterogeneity among LICs, we agree that all income groups suffered a major economic setback in 2020. In Sub-Saharan Africa in particular, output contracted in most countries whereas real GDP growth stood on average at an annual 6.2 percent over the 2010-2016 period. This comes with significant setbacks in poverty reduction and human capital accumulation.

**The report also underscores a fact that consistently came across past staff analyses: frontier economies—more diversified than other LICs—weathered the crisis better and continued to grow at 3.5 percent in 2020.** On the contrary, the most affected on average, were fuel exporters, non-fuel commodity exporters and tourism-dependent economies. Going forward, the IMF and development partners should draw an important lesson on the need to

support more forcefully economic diversification and productive transformation in LICs to enhance their resilience.

**In the face of limited policy space in LICs, support from the international financial community was instrumental in responding to the crisis and limiting its impact.** The IMF emergency assistance helped catalyze additional financing from MDBs to address rising financing needs in the health sector and in support of households and affected firms. Debt service relief under the Catastrophe Containment and Relief Trust (CCRT) and the G20's Debt Service Suspension Initiative (DSSI) contributed to free up much-needed resources for LICs to respond to the pandemic. The adoption by the G20 of the recommendation by the IMF and the World Bank for an extension of the DSSI through end-2021 should further help the spending response to the pandemic and provide a bridge towards a more sustainable debt treatment for countries in need under the Common Framework. Given the urgency and scope of debt vulnerabilities, the timely operationalization of the latter is of the utmost importance. While we understand the pending constraints to this operationalization, this notion of urgency should come across more strongly in the report.

**Going forward, it is paramount to secure adequate vaccine coverage for LICs, including through the multilateral COVAX facility, to ensure a speedy recovery and minimize risks of great divergence with advanced economies.** We call on partners to support efforts in this regard, thus contributing to an even and solid global recovery. There is also scope for donors to consider financing vaccines for a larger share than the current 20% of LICs' populations covered by the facility. This can be done through greater bilateral financing as possible.

**We very much appreciate the exercise of evaluating LICs' external financing needs over the period 2012-25. It gives a picture of the level to which resources should be scaled up as the IMF prepares to review its concessional financing for its low-income members.**

We are of the view that the heightened uncertainty associated with the crisis and the multiple risks and potential shocks warrant projections of higher financing needs. Therefore, the 2<sup>nd</sup> scenario of around \$550 bn of financing needs seems more realistic and would put resources on the safe side.

**Regarding financing options, we agree that a combination of external financing and domestic revenue mobilization is well-suited to meet the high needs.** However, we share staff's view that LICs may face a limited capacity to boost domestic revenue, especially when the pandemic has further worsened structural weaknesses in this area. The sequencing of financing options will therefore be critical. In the near-term, external financing should be

stepped up while countries implement revenue mobilization reforms, which will bear fruits in the medium term.

**International assistance to boost domestic revenue should encompass efforts on long-standing issues such as addressing tax base erosion and profit shifting and illicit financial flows.** Capacity building, including in digitalization of fiscal administrations, should be stepped up in this regard. Private financing could play an important role in closing gaps, though it is conditioned by improved business climates. As well, financing from capital markets may take time to recover for some countries in the wake of the crisis.

**On debt and borrowing space, we stress the need to strike the right balance between considerations of debt sustainability over the medium-term and the imperative for LICs to finance their recovery and further economic transformation.** While recognizing that debt vulnerabilities have risen overall, we guard against any bias in the wake of the pandemic, which could be detrimental to LICs' borrowing strategy. We are of the view that productive debt will be needed to enhance economic resilience and support green, resilient, and inclusive development; countries' borrowing space should be assessed accordingly, also taking account of their capacity-to-repay. *Staff may comment on these points.*

**In the overall effort to help the membership build additional buffers, we welcome the latest developments regarding a new SDR allocation, with the proposal of a \$650 bn envelope.** We look forward to the materialization of initiatives to reallocate part of these resources to LICs, which need them the most. Other options should also be considered, including gold sales. The latter financing option was successfully used in the wake of the 2008 GFC which LICs entered with stronger buffers and greater policy space than the current crisis.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/874

March 25, 2021

**Statement by Mr. Mozhin and Mr. Tolstikov on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

**We thank staff for a comprehensive report, which attempted to evaluate possible additional financing needs of LICs arising from the COVID-19 pandemic.** LICs have been hit hard by the pandemic and, given the unusual nature of the global crisis, their growth path for 2020-21 will be lower than the pre-pandemic projections. At the same time, in many of them, the reported disease cases and mortality rates have been lower than in EMEs and AEs, probably due to younger population. The experts are still debating the reasons for such an outcome, while it is clear that underreporting cannot explain the observed differences. Going forward, LICs need to vaccinate their populations, which requires substantial resources. In addition to weak healthcare systems and barriers to access vaccines, many countries in this group face the lack of fiscal space necessary for providing additional support.

**The LICs per-capita-GDP convergence will slow down temporarily by the effects of the COVID-19 crisis and extraordinary fiscal and monetary stimulus in advanced economies.** For many years preceding the COVID-19 pandemic, LICs as a group have been catching up with AEs in terms of per-capita-GDP. In 2010, the ratio between per-capita-GDP of LICs and AEs was 5.8 percent, while by 2019 it reached 6.5 percent. Without the pandemic it could have grown to 7.1 percent by 2024, but the current estimate is only 6.7 percent.

**The main reason for the slowdown could be found in relative growth performance of LICs and AEs in 2021.** 2021 is the only year when AEs' per capita growth is projected to be higher than that of LICs – mostly due to AEs' massive stimulus in 2020, which will also continue in 2021. In 2022 per-capita-GDP growth rates of LICs and AEs will be even, and, in the subsequent years, such growth rates will likely return to their pre-pandemic projected levels, with LICs' per capita growth about 2 percentage points higher than that in the AEs.

After the temporary two-year break, the ratio of incomes will continue to develop in line with pre-pandemic trends (see Figure 15, page 14).

**The paper seeks to determine LICs spending needs to compensate for the temporary delay in convergence in 2021-22.** The report estimates that in order to make up, LICs would need additional \$250 billion in financing. A downside scenario of a slower global recovery could add further \$100 billion to these financing needs. In addition, LICs may require \$200 billion for 2021-25 to increase their COVID-19-related spending and build adequate financial buffers. Overall, \$450-550 billion of additional spending are required for five years. *Could staff provide an assessment of such spending increase as a share of LICs' GDP?*

**While a massive additional spending package may provide a great boost to LICs, we should not shy away from questioning the realism of such an approach.** Currently, as staff stated in the report, given the limited policy space and access to financing, LICs are not projected to increase their spending as a share of GDP in response to COVID-19 over 2021-25. It is also unrealistic to expect that domestic revenue mobilization will provide additional revenue of 5 percent of GDP per year. In the absence of substantial domestic financing sources, additional funding could be obtained through external borrowing or grants.

**In the current situation, additional borrowing may have unintended consequences.** As discussed in the report, the LICs debt level has risen significantly, and the risk of debt distress is much higher than in the 2010s. Because of debt sustainability constraints, only about a third of spending needs could be financed through new borrowing. With regard to the IMF and WB financing, we agree with Mr. von Kleist and Ms. Koh that adding further debt through Fund financing could aggravate the debt situation in many LICs, while discouraging other partners' financing. Non-concessional private sector loans are also not the most suitable form of financing public expenditure in LICs.

**We agree with staff and other Directors that grants remain the most desirable source of financing for LICs.** In the scenarios presented on page 23, about \$250-\$300 million are expected from non-borrowing sources, i.e. grants. We would welcome any reasonable efforts to attract additional grant financing. We also support the implementation of the debt restructuring initiatives, including operationalization of the Common Framework and extension of DSSI. The SDR allocation could be used to increase LICs reserves as well as support the subsidy account of the PRGT. *We would welcome staff comments on the possible impact of SDR allocation on LICs' international reserves.*

**In addition to questionable access to financing, the implementation capacity may present substantial challenges for many LICs.** Rapid increase in investment may create inefficiencies. We note that, according to the report, "LIC waste on average more than half of their infrastructure spending due to inefficiencies". From this point of view, it could be

beneficial to prioritize building capacity in project implementation and aim at substantial improvement of governance, as a precondition for successful use of additional spending.

**Finally, we would like to note that LICs do not constitute a homogenous group.** LICs in Asia (Bangladesh, Myanmar, Lao PDR, Cambodia, Nepal) are growing faster than the LICs average, and they continue to rapidly catch up with AEs even in 2021-22. Many countries in this group, which accounts for about one third of the LICs GDP, may not need additional assistance to accelerate their convergence with AEs. About half of African LICs are also growing faster than the LICs average. It means that the \$450 billion would be distributed to countries accounting for only about half of LICs' total GDP, most likely to countries with more severe capacity constraints. This makes the probability of their effective use even more uncertain. *We would welcome staff's comments on to what extent these considerations were taken into account in determining the resource needs.*

**Overall, at this uncertain stage of the crisis, we should certainly do our best to assist countries that were disproportionately affected by the COVID-19 shocks.** At the same time, financing is certainly not the only option to do that, and the international community needs to weigh the costs and benefits of a broader range of options, including ensuring access to vaccines, technical assistance, dissemination of best practices, etc. A more holistic approach to assistance would serve LICs well.

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

The contents of this document are preliminary and subject to change.
--

GRAY/21/877  
Revised

March 25, 2021

**Statement by Mr. Mouminah, Mr. Alhomaly, Mr. Keshava, and Ms. Al Saud on  
Macroeconomic Developments and Prospects in Low-Income Developing Countries—  
2021  
(Preliminary)  
Executive Board Meeting 21/32  
March 26, 2021**

**We thank staff for the valuable insights on macroeconomic developments and prospects in low-income countries (LICs) that should inform Fund’s work in its financing, catalytic, and advisory roles in the period ahead.** LICs have particularly been hit by the pandemic, which is expected to reverse hard won gains to reduce poverty and inequality. Against this background, we welcome the multi-faceted response proposed by staff to cover the additional financing needs in LICs and the clear distinction set out in this paper between the emergency needs and medium-term development needs. Indeed, the complementarity between this work and other workstreams is highly welcome; and thus we look forward to the upcoming discussing on Concessional Financing and Policies.

**While the emergency responses implemented jointly by the international community, including the Fund, the World Bank, and the G20, to mitigate the immediate impact of this unprecedented crisis are commendable, uncertainty remains high and LICs’ medium-term economic outlook is especially concerning.** Particularly, the impact of the pandemic is expected to leave long-lasting economic scarring effects, which will increase the challenges which existed before the onset of the pandemic in achieving the development objectives

**We welcome the methodological note on staff’s estimation of LICs’ financing needs.** In this connection, we welcome the holistic approach in accounting for the financing needs. Furthermore, staff has rightly differentiated between the near-term needs to mitigate the immediate impact of the crisis and the medium-term needs to reach development goals and

accelerate the income convergence with AEs. Relatedly, we welcome the consideration given to materialization of risks identified in adverse scenario and the MDBs' important role, including through crowding in private investment. *Staff elaboration on the blending model to mobilize private commercial finance and its feasibility amid the current challenges is welcome.*

**Sound domestic reforms are key to unleash alternative financing options without jeopardizing debt sustainability.** In this context, the Fund has an important catalytic and advisory role in helping countries strengthen their governance and institutional capacity and unlock different sources of financing beyond external debt, including through promoting private sector investments, developing local capital markets, and mobilizing domestic revenue while enhancing spending efficiency. Also, the largely informal nature of LICs' economies hinders the delivery of needed support to the most vulnerable. These issues could be widely covered in the Fund's core areas of lending, surveillance and capacity development. Like Mr. Tanaka, we encourage staff to further improve effectiveness and efficiency of capacity development by promoting strategic integration with lending and surveillance as well as ensuring close collaboration with other IFIs. We also join Mr. Hilbers in welcoming staff's analysis on economic diversification in LICs as many are overly reliant on one sector.

**The elevated risks of high debt distress warrant a particular focus on ensuring a path towards debt sustainability.** To this end, we positively note the committed net positive transfers to DSSI-eligible countries during this difficult period and encourage LICs to take advantage of existing opportunities to ease near-term refinancing risks. Beyond the DSSI, the Common Framework for Debt Treatments should help address sovereign debt burdens and free up additional resources to cover spending needs. Here, It would also be critically important that the Fund continue to provide technical support to facilitate the debt treatment process under the Common Framework. Indeed, the significant financing needs illustrate the importance of the Fund's catalytic role. In this regard, we echo Ms. Shortino on urging the Fund to work with LICs in speeding up the restructuring of their unsustainable debt and caution against large volumes of IFI financing with their preferred creditor status as these would work against staff's recommendation to promote private investment. In addition, we welcome the progress made towards a general SDR allocation and look forward to discussing staff's further work on options of how willing member countries can channel their resources towards countries with the most need after the Spring Meetings.

## Macroeconomic Developments and Prospects in Low-Income Countries Report—2021

Staff's Responses to Technical Questions Posed by Executive Directors in Advance of

[EBM/21/32], March 26, 2021

*Staff's responses to technical and factual questions are below. Broader policy questions in the areas of lessons from successful convergence experiences, country-level financing needs estimates, quantifying the different financing sources and the effect of an SDR allocation will be addressed in staff's oral intervention at the Board meeting.<sup>1</sup>*

### International experience in convergence

1. ***We would also be interested in the determining factors of successful convergence processes of, for example, transition countries and whether there are lessons for LICs.***
  2. ***Small and medium MICs are facing comparable development challenges to LICs. A similar analysis would also be useful for this group of countries.***
- Staff will respond to these questions during the Board meeting.

### External Financing Needs

3. ***Can staff provide an estimate of financing needs in an “upside scenario”?***
  4. ***Upside scenarios could usefully be labelled “reform scenario” to make clear that without domestic reforms additional external financing (both from public as well as private sources) is unlikely to materialize in the first place and would – on its own – not ensure more positive economic outcomes over time. Staff's comments are welcome.***
  5. ***Since longer-term economic stagnation cannot be completely ruled out, we would appreciate more details about the prospects in LICs if anticipated financing will be in fact lower.***
- The report highlights the great uncertainty surrounding the WEO baseline. Economic outlook is uncertain not only for LICs but for all countries. This is why the report includes an adverse scenario and specifies that there are risks as to the financing

---

<sup>1</sup> EDs have requested that staff indicate those areas for which responses will be provided during staff's oral intervention in the Board. This avoids the need for EDs to repeat their questions during the discussion. In addition, staff may also indicate specifically in this document which questions they intend to address orally.

estimated in the WEO. It is beyond the scope of the report to make further assertions as to the WEO baseline assumptions.

- If additional financing was to be lower than anticipated in the report, LICs will ceteris paribus not be able to return to their pre-pandemic convergence path and will progress more slowly towards meeting the SDGs. This may have a negative long-term impact on diverse areas, including health, employment, education, and infrastructure.
- Besides, even in an “upside scenario”, compared to the WEO baseline, financing needs for LICs would remain significant. As part of the research done for this report, an optimistic scenario was considered. A faster economic recovery could materialize if the distribution of vaccines turned out to be faster and more widespread than expected. This would then lead to higher private financing flows relative to the WEO baseline. Specifically, trying to mimic the optimistic scenario of the October 2020 WEO, if we were to introduce positive shocks to current accounts, fiscal deficits, and capital flows (the opposite of what was done for the adverse scenario), while assuming the same additional spending needs to address COVID-related scars, for development, and to build external buffers as in the baseline, then the financing needs of \$446bn for all LICs could possibly be reduced by around \$75 bn compared to the baseline, i.e. to \$372bn, which remains very significant. The reason why this scenario has not been brought up in the report is because staff assesses such a scenario to be less likely than, for example, a pessimistic scenario would be. Also, while there might be a likelihood of quicker than expected vaccination or recovery in AEs or EMEs, this is less likely to be the case for LICs.

**6. *The underlying fiscal multipliers may, for example, be on the optimistic side and we would appreciate staff’s comments whether those reflect fiscal multipliers prior to the pandemic or assume significant domestic reform efforts.***

**7. *Staff analysis suggests that mean multipliers are well below 0.5, which might be a more realistic assumption. Additional staff comments on potentially overestimating fiscal multipliers would be welcome.***

- Staff agree that LICs tend to have lower fiscal multipliers than EMEs. The paper accounts for that, as it uses multipliers taken from the literature that are simulated *specifically for low income countries*. In particular, in the underlying simulations, authors assume a relatively low public investment efficiency and a relatively high share of import content in public investment spending, as both factors contribute to smaller output multipliers for public investment in low income countries. Besides, the multipliers do not assume significant domestic reforms. Authors have simulated a distribution of multipliers to account for parameter uncertainties.
- The reason why our central estimates focus on the 75th percentile multipliers is because the model simulates multipliers from normal economic conditions (no recession, no effective lower bound), which typically generates smaller multipliers than those simulated with a deep recession and accommodative monetary policy, while

LICs are now in a deep recession in which multipliers are expected to be higher. However, taking multipliers corresponding to the mean of the distribution (i.e. corresponding to normal economic conditions) would also lead to LICs getting back to their pre-covid convergence path, in 2025, as shown in the second chart of Box 3.

- Please also note that the paper provides as well a sensitivity analysis, using an alternative model simulating the economy of an average or “representative” LIC (Box 3), that yields to similar results, with the average LIC getting back to a near vicinity of the pre-COVID convergence path by year 2025.

**8. *The document highlights the increase of amortization obligations as a significant component of the external financing needs (figure 20). An analysis of the debt to be amortized would be useful; how effective its use and the investments financed by debt, as well as what measures or lessons can be extracted to improve upon in the future. Staff’s comments are welcomed.***

- We agree that analyzing the effective use of debt financing is an important topic. Chapter 2 of the October 2020 Fiscal Monitor looked at this issue, examining how governments can undertake public investment in a timely manner while safeguarding quality. It noted that the quality and content of fiscal policy packages—and within them, public investment choices—will be key to supporting the economy and creating jobs in the near term but will also determine socioeconomic outcomes for decades.

**9. *Disaggregation of these estimates of financial needs and a detailed sub-categorization for each country will be useful. It can help the countries to prepare a suitable action plan and the international community to make country specific responses. Staff may comment.***

- Staff will respond to this question during the Board meeting.

**10. *Could staff clarify how they reconcile the enormous difference between the estimated average LIC financing gap of about 16 percent of GDP per annum in the 2021 SDN slides on financing the SDGs shared with the Board earlier this month, and the 4.1 percent of GDP per annum they are proposing here?***

**11. *Would staff agree that a return to the pre-pandemic convergence process should aim for a green and inclusive recovery to help achieve the SDGs?***

- The LIC report does not provide an estimate of the needs to achieve the Sustainable Development Goals. It estimates the additional financing needed to restore the pre-pandemic convergence path with AEs subject to absorption capacity constraints. On the other hand, the SDN on SDGs, as well as other studies (see footnote 1 page 22), provide estimates of financing needs for a larger group of countries and a different

time period, and have different assumptions on constraints, such as absorption capacity.

- Staff agrees that additional spending to resume and accelerate the pre-pandemic convergence path with AEs should aim for a green and inclusive recovery to help achieve the SDGs. This is included in the report.

**12. Could staff provide an assessment of such spending increase as a share of LICs' GDP?**

- On average, LICs would need to spend an additional 2.4 percent of GDP per year to step up their COVID crisis response, and another 1.7 percent of GDP per year to come closer towards meeting their development goals. Spending to GDP ratios would be on average 4.5 percent of GDP higher than under the WEO baseline by 2025.

**13. We would welcome staff's comments on to what extent these considerations were taken into account in determining the resource needs.**

- The above mentioned considerations are taken into account as the analysis is done on a country by country basis and only LICs which fulfill the following criteria are estimated to have additional financing needs: i) their COVID response is lower than the average EM response, ii) their reserves buffers are below 3 months of imports, and iii) their government spending to GDP ratio is below the EM average. Furthermore, the report takes absorption capacity constraints into account by limiting the maximum amount of spending increase in a given year based on historical spending increases by LICs.

**Sustainable Financing Options**

**14. Of the financing needs identified by staff, how much could reasonably be met through domestic policy actions, support from traditional development partners, private finance mobilization, debt treatments, and other sources? Different financing scenarios would also be helpful, for example, how would financing needs change following a US\$ 650 billion SDR allocation?**

**15. The discussion of the comprehensive list of sustainable financing options is useful in designing the appropriate mix of financing support for LICs that is conducive to their respective country specificities. It would also be useful if this analysis could be replicated by country teams at the individual country level – including a mapping exercise of the potential available funding sources. Staff comments welcome.**

**16. We would therefore welcome follow-up work by staff quantifying the potential contribution of different financing sources to the external financing gap of LICs.**

- Staff will respond to these questions during the Board meeting.

**17. Public financial management and governance reforms will be key to strengthen the attractiveness of low-income developing countries for private sector investments. We would appreciate staff's comments on the G20 Compact with Africa in this context.**

- We fully agree that fiscal and governance reforms are important elements for maintaining macro stability and raising private financing. These are also measures that are discussed in the G20 Compact with Africa (CWA) Initiative. One of the main areas of the CWA initiative is on the Macroeconomic Framework, which aims at maintaining macroeconomic stability and providing adequate investment in non-commercial infrastructure by ensuring sustainability of public debt and implementing sound public investment management and investment-friendly tax reforms. The related fiscal and governance reforms would also help to enhance the Business Framework as discussed in the CWA initiative.

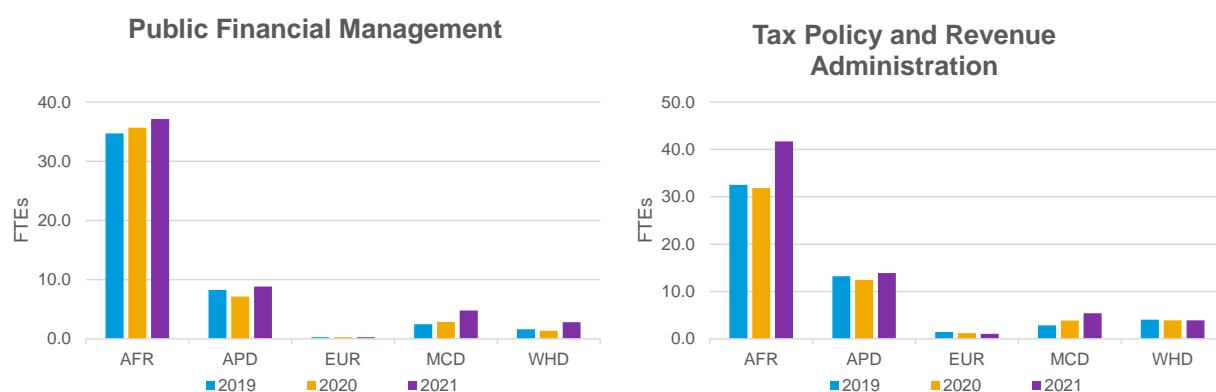
**18. Would staff consider providing an action plan to LICs on developing bond markets with possible technical assistance?**

- We agree that developing domestic bond markets would be very helpful to increase private sector financing in LICs. The IMF and the World Bank recently published a [guidance note](#) (GN) on developing government local currency bond markets. The GN includes an action plan, and MCM together with the World Bank envisage further capacity development in this area to Fund members, including LICs.

**19. As the management of public finances becomes an increasingly complex issue, technical assistance by the IMF would be welcomed. Could staff summarize the TA situation for these countries?**

- In FY20, Fund capacity development (CD) delivery on fiscal issues amounted to about \$100 million (45 percent of total delivery), of which around 54 percent were delivered to LICs. Delivery to LICs continued during the pandemic, with over 1200 engagements on fiscal issues since March 2020. Overall, the total number of TA missions during March 2020-21 amounted to 4153, with 1878 to LICs (45 percent share).
- LIDCs and fragile states continue to receive a large share of FAD's CD support in the tax and public financial management areas. There has been a large estimated increase in FY21, post-COVID across most regions.

## FAD CD to LIC and Fragile States



Note: FY21 are estimates.

### Tax policy and revenue administration

FAD continues to support LIDCs extensively, with their domestic revenue mobilization efforts, particularly as the heavy impact of COVID-19 on domestic revenue flows continues to be felt. The VAT continues to be a central element of tax systems in most LIDCs (raising an average of 30 percent of their tax revenue), and its introduction is planned in more. FAD CD in the last 2 years has been critical in:

1. Helping countries to plan the implementation of the VAT (e.g., Afghanistan, Bhutan, Guinea Bissau, Sao Tome & Principe).
2. Helping countries implement the VAT (e.g., Angola (2019)).
3. Helping countries address specific aspects of the VAT, e.g., VAT gap estimates, tax expenditure analysis, managing VAT credits/refunds, compliance improvement plans (CIP) etc., including as part of the comprehensive MTRS (e.g., Benin, Cabo Verde, Chad, Congo DR, Kiribati, Malawi, Sierra Leone, Senegal (MTRS) Ethiopia (MTRS), Uganda (MTRS), Rwanda (MTRS)).
4. Helping countries assess the efficiency and shortcomings of their VAT systems as part of general tax system diagnostics.

FAD has also been focused on other VAT-related activities:

5. CD training seminars and webinars on the VAT, including the recent series of four Webinars on various aspects of the VAT that was hosted by the IMF with attendance from many LIDCs.
6. Analytical work, including the 2019 Board Paper on LIDCs that had a chapter on the VAT.

### Public Financial Management (PFM)

The focus of PFM CD continues to be on strengthening the institutional capacity in core PFM functions, with assistance on identification of reform priorities and reform planning. CD has been directed to the strengthening of PFM legal frameworks and organizational arrangements in ministries of finance, and acquisition of core competencies in the areas of macro-fiscal forecasting, budget planning and execution, cash management, and fiscal transparency and reporting. These have included COVID-19 related support provided in the year 2020.

There has been increasing interest in improving public investment management and developing capacities in fiscal risks analysis and management. As a result, support on these, including through the various standardized tools, such as Public Investment Management Assessment (PIMA) and Fiscal Transparency Evaluation (FTE) has significantly increased in the past couple of years.

- PIMAs have been conducted in 25 LICs
- Fiscal Transparency Evaluations have been conducted in 6 LICs

In addition, FAD has conducted seminars/workshops to increase awareness and disseminate information on emerging topics, such as gender budgeting. A few small islands have received climate change policy assessment.

- FAD has also developed simple Excel-based tool, such as for government cash flow forecasting and planning specifically in fragile states and low capacity countries, and for assessing and managing fiscal risks such as a SOE Health Check, a COVID-19 Fiscal Stress Test tool, and a Fiscal Risk Assessment tool which have recently been applied in LIDCs, including Angola, Kenya, Cabo Verde, and DR Congo.

**20. We stress the importance of debt management and transparency. We would welcome staff's comments on the possibility of reinforcing capacity development and conditionality to strengthen both. We would also welcome staff's comments on the option of fostering the use of state contingent debt instruments.**

- The IMF has been expanding its capacity development in the area of debt management and transparency with support provided through the Debt Management Facility, via bilateral partners and IMF funding. During the Covid-19 pandemic, the IMF has expanded its delivery of both virtual TA and training in debt management in conjunction with the World Bank, as well as onboarding new regional advisors in the Caribbean and the Pacific, building on existing debt management CD in West and Central Africa, including a number of fragile and conflict-afflicted states. In addition, it has launched a massive open online course in the area of medium-term debt management strategy, a foundational element in debt management, as well as a new guidance note and framework on local currency bond market development.

- On debt transparency, the IMF launched a new training course on debt management and investor relations in 2020, which is now being rolled out further through the IMF's training institutes. The IMF is working with the World Bank and partners to develop new debt reporting and monitoring training under the DMF, building from the foundations upwards, which will be piloted shortly. A new IMF working paper has been published on best practices in sovereign investor relations, which provides useful guidance for all countries – LICs, EMs and AEs.
- A recent IMF SDN analyzed the role of state-contingent instruments in debt restructurings. A debt restructuring provides an opportunity to replace the entire restructured debt stock, whereas inclusion of state-contingent instruments in new issues would only gradually increase risk-sharing. State-contingent instruments may reduce conflicts over current valuations in an environment of uncertainty and facilitate more sustainable agreements between creditors and debtors. But past use of state-contingent features has been limited by the lack of appeal to fixed income investors, who typically steeply discounted these features. This results in a in poor value for the cost to the sovereign issuer. While specific decisions on issuance choices are those of member countries, those providing debt management CD will engage with country authorities on the potential use of such instruments. In addition, for relevant regions, CD is also being initiated to assist countries in the use of climate-resilient debt management instruments.

**21. We wonder whether staff could elaborate a bit more on the stated “[recently increasing] interest in debt swaps (e.g. debt for climate swaps), or other forms of debt relief conditioned on spending or policy commitments in debtor countries” (FN 23), including on their assessment of feasibility given the already very high complexity of debt operation situations at hand.**

- A number of creditor and debtor countries have expressed interest in the potential role for debt swaps. Debt swaps may not be a generally good instrument to resolve deep debt crises, since they create spending commitments and creditors are less likely to provide additional debt relief to compensate. But well-designed swaps could play a useful role in low and middle-income countries that have sustainable debt but lack fiscal space, since these countries may not be eligible for debt relief otherwise. Staff is currently exploring options linking debt relief to climate finance (in collaboration with the World Bank). Work remains at a preliminary stage and there are no specific proposals yet.

**22. We encourage the Fund and the Bank to finalize debt data reconciliation and would like to ask staff to update on its progress.**

- All DSSI participating countries have met their commitment to disclose public debt through detailed data submissions to the World Bank's Debt Reporting System which

are reported granular detail by the International Debt Statistics:  
<https://datatopics.worldbank.org/debt/ids/>

- The Bank-Fund staff debt reconciliation proposal for DSSI participants from 2020 did not gain G20 support, including after modifications to the proposal to allow flexibility for more aggregated reporting by creditors. Going forward, the Common Framework presents opportunities for case-by-case debt data reconciliation, as a means to support creditor confidence in the accuracy of the data on official claims used to develop the treatment, rather than for publication purposes. The Fund would be supportive of such a case-by-case debt data reconciliation process.

**23. Staff notes that (only) about a third of LICs are projected to need additional financing to build up adequate reserves. Could staff comment on whether a possible SDR allocation would likely further reduce the number of LICs with lower than warranted reserves?**

**24. Could staff indicate how an SDR allocation would feed into their analysis of financing needs?**

**25. We would welcome staff comments on the possible impact of SDR allocation on LICs' international reserves.**

- Staff will respond to these questions during the Board meeting.

**26. We stress that Fund policy advice must take into account political economy considerations and practicalities of implementation, including capacity constraints. While the staff paper presents a sound strategy and makes the case for strong domestic reforms, there is often a huge gap between strategy and practical implementation on the ground. How do staff account for such realities in the financing scenarios and what steps are staff taking to account for these challenges in policy advice?**

- The Comprehensive Surveillance Review emphasizes the importance of taking into account country specific realities on the ground, including political economy issues, in formulating policy advice. For example, the background work on economic sustainability notes that broad trends like climate change but also political economy developments can ultimately affect sustainability and economic stability. Therefore, a broader understanding of sustainability can help better account for socio-political and institutional constraints and reflect those in Fund policy advice. The work on traction stresses that engagement with authorities through timely and robust work and and/or discussing tradeoffs in measures and alternative policy options, while recognizing better political economy constraints are all elements of good traction. On formulating a more unified policy advice, there is also emphasis of taking into account political

economy considerations, including for the appropriate sequencing of reforms. The revisions to the guidance note following the discussion and endorsement of the CSR at the Board, will reflect on operationalizing these considerations for surveillance.

- Political economy issues and capacity constraints were examined as part of the 2018 Review of Conditionality, and were the factors behind the recommendation for staff to apply greater realism in implementation timetables and estimated reforms payoffs, while considering longer Fund engagement to support structural reform agendas. Finally, as set out in the answers above, the Fund has continued to provide significant Technical Assistance to build capacity in LICs to help improve implementation capacity.

***27. The implementation capacity on the beneficiary side can hinder efficient use of ODA resources, but red tape, transactional costs and processes could benefit from further streamlining and improvements to drive greater efficiencies. Staff comments welcome.***

- Many LICs are already at high levels of debt, and grants and concessional bilateral loans will be necessary. While grants and concessional loans will be undoubtedly limited by fiscal constraints in donor countries, there would be scope to increase ODA. Having said this, the implementation capacity of LICs to absorb ODA is also important. The LIC report flags the importance of reducing red tape and improving governance as part of the LICs' structural reform needs. Governance and PFM measures to increase transparency, efficiency and accountability of the public sector will not only be important to help unlock significant foreign and domestic private sector investment but also ODA.

***28. It would be also useful to assess avenues for stable private sector financing which can be available in the medium-term. Staff may comment.***

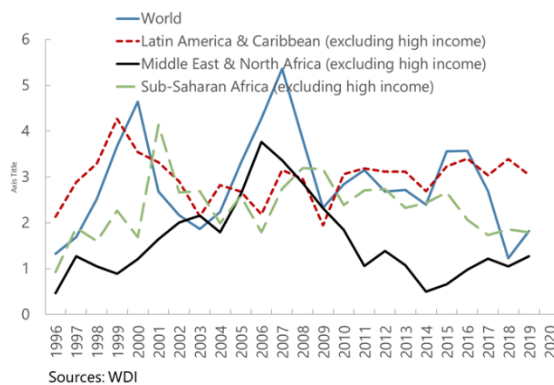
- Staff agree that some governance and business measures would take time to reform. There are several ongoing international proposals and initiatives to promote private sector financing through different aspects, such as the G20 Compact with Africa Initiative. Some medium-term policies could include measures such as maintaining macroeconomic stability; improving project preparation and standardizing contract; standardizing credit enhancement; prioritizing commercial financing; blending concessional resources and private capital; and reviewing incentives for crowding-in private sector resources.

***29. On FDI, we encourage staff to consider a regional breakdown of inward investment trends as this is likely to show a very different picture from that provided in Figure 31 in SSA. IMF data for many of our countries indicate a***

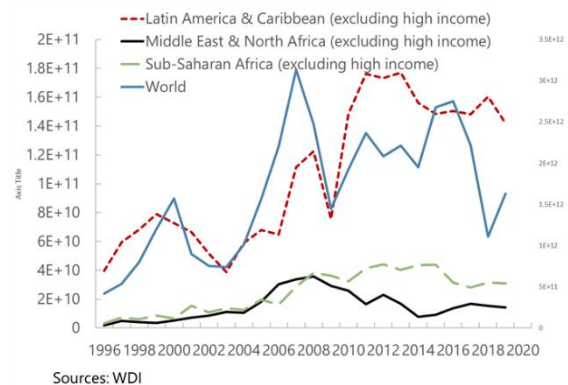
**sustained decline in FDI over the past decade. As seen in Figure 32, FDI to all 54 countries in SSA is less than 1 percent of the global total. We welcome staff views on the extent to which this differentiated effect reflects infrastructure deficiencies in SSA.**

- Thank you for the suggestion. As shown in the charts below, FDI inflows to SSA have some declines in recent periods when measured in nominal term and in percent of GDP, suggesting raising private financing remains a challenging issue for SSA. Please note that it could be partly due to the recent declining trend of FDIs in the world. Low FDIs are correlated with infrastructure deficiencies and vice versa. As the report also mentions, there are significant bottlenecks to increase involvement of institutional investors. For instance, many SDG-related investments are not targeted by institutional investors due to the risk-return profile and illiquidity of infrastructure assets.

Foreign direct investment, net inflows (% of GDP)



Foreign direct investment, net inflows (BoP, current US\$)



**30. We are of the view that productive debt will be needed to enhance economic resilience and support green, resilient, and inclusive development; countries' borrowing space should be assessed accordingly, also taking account of their capacity-to-repay.**

- The methodology used in the paper to determine the borrowing space is based on the assumption that countries borrow up to a limit that does not endanger capacity to repay.

**31. Staff elaboration on the blending model to mobilize private commercial finance and its feasibility amid the current challenges is welcome.**

- There is significant scope to expand the blending model, which uses concessional financing from donors and public commercial finance to mobilize private commercial finance (IMF, 2021). The use of the blending model is concentrated in EMs and

remains limited in LICs. Expanding the blending model in LICs would trigger opportunities. But there are also important challenges and risks associated with blended financing, especially PPPs, that need to be recognized in a timely and comprehensive way.

## CONSTITUENCY CODES

### OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

### OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

### OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

### OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

### OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

### OEDCC

China

### OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

### OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

### OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

### OEDFF

France

### OEDGR

Germany

### OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

### OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

### OEDJA

Japan

### OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

### OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

### OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

### OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

### OEDRU

Russian Federation and Syrian Arab Republic

### OEDSA

Saudi Arabia

### OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

### OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

### OEDUK

United Kingdom

### OEDUS

United States