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September 23, 2020

**Joint Statement by Ms. Levonian, Mr. Rosen, Mr. Weil, and Mr. Grohovsky on Fund's
Pandemic Response - Lending Options to Support Members During the Next Stage of the
Crisis
(Preliminary)
Executive Board Meeting
September 25, 2020**

The Fund has moved quickly to support its members as they face the COVID-19 pandemic and associated economic fallout. The economic situation is stabilizing in many countries and health authorities and the public are becoming better equipped to minimize the spread of the virus. With the acute phase of the crisis behind us, we support the proposed shift away from emergency financing and toward greater use of UCT programs that can help address imbalances, limit debt vulnerabilities, and support a resilient recovery.

The Fund's approach to lending and conditionality will need to remain flexible as we enter the stabilization phase. We agree with staff's overall perspective that no matter the approach ultimately taken by the Fund with respect to the toolkit, program conditions will need to be more flexible and tailored. Staff are used to dealing with uncertainty, designing conditionality based on the best data available, and applying judgement where necessary. But the very significant uncertainty regarding the medium-term global outlook will no doubt require staff to make further use of the flexibility afforded to them under existing policies to adapt Fund lending as the crisis evolves. Provided that *core* program objectives remain anchored, we are open to adopting a review-centric approach to monitoring conditionality, with greater use of indicative targets and more streamlined use of quantitative performance criteria. We have always called for far greater use of contingency planning in Fund-supported programs. This should be standard practice as opposed to a crisis response. Lastly, this more flexible approach will make it critical for the Fund to be more strategic in its approach, choosing 1-2 core policy objectives to underpin a program and working with the authorities

to design a reform agenda that is prioritized and sequenced accordingly. An indiscriminate approach will not work in this environment.

Structural reforms should continue to play an important role in program design and countries' adjustment. We question staff's assertion that the uncertainty surrounding the crisis necessarily prohibits authorities from undertaking structural reforms in the near term. In fact, the crisis has likely made countries' structural needs greater than before. While we are in favor of streamlined, focused structural conditionality in the current environment, we would not support backloading these reforms as they can play an important role in boosting growth as countries exit the pandemic and act as a safeguard to Fund resources by increasing the likelihood of repayment. Again, it will be important that country specific circumstances are taken into account.

We are not convinced of the need to change the toolkit in response to the pandemic. We felt the staff report did not make a strong case regarding the existence of a gap in the Fund's lending tools. Existing policies and guidelines leave staff with significant flexibility to design conditionality that is tailored to the case at hand, and the Fund's 'workhorse' instruments, the EFF and SBA, can accommodate a range of BoP needs. This would argue in favor of continuing to use the flexibility in the existing instruments (i.e., option 2), which also has the benefit of being the most parsimonious option available. Even ring-fenced, the proposal for a new pandemic facility (option 4) raises concerns regarding toolkit proliferation leading to facility shopping and, as outlined below, is not likely to address what seems to be the root concern.

If a change were genuinely required in order to avoid distorting the existing toolkit, we would favor the EFF pandemic window (i.e., option 3), with adjustments to the current proposal. Such adjustments would need to incorporate safeguards currently proposed for the new pandemic facility, including keeping programs within normal access limits, commitments in the Letter of Intent to scale up structural reforms as conditions warrant, more frequent DSAs, and a sunset clause. We would also note that the window would need to shift from "backloading" structural reforms to "streamlining" them.

Much of the impetus for change seems to be driven by communications considerations and concerns regarding perception of the Fund rather than a demonstrated gap in the toolkit. In particular, we took note of the staff report, which lists a missed opportunity to address stigma, communication with stakeholders, and perceptions regarding the Fund's responsiveness as the main arguments against leaving the toolkit unchanged. *Does staff have market research that points to the Fund being perceived as taking a 'business as usual' approach to the crisis and generally being seen as unresponsive?* We would also underscore

that there is downside risk to changing policies and facilities as a means to address stigma, as evidenced by the recent introduction of the SLL, and that changes to the toolkit should be demand driven. We would not support any changes to the toolkit absent evidence of demand and the presence of an early adopter. *Could staff indicate whether any members have expressed interest in pursuing a pandemic facility or pandemic window in the EFF? Have members requested any other changes to make the toolkit more flexible in addressing their BoP needs?*

Regardless of how we proceed, management and staff should prioritize safeguards and risk management. The heightened use of Fund resources during this crisis requires greater steps to protect those resources, including ensuring precautionary balances are sufficient. Regarding risk management, the crisis highlights the need for an enhanced risk management function, something we have long championed. In that regard, we are disappointed that we still have not seen the OIA audit on enterprise risk management, which we expect to make recommendations that will help us mitigate risks and make better-informed decisions in this period of uncertainty and substantial lending.

We support discussing implications for the PRGT toolkit as part of the ongoing review of concessional lending.