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JOINT IMF-WBG STAFF NOTE: DSSI FISCAL MONITORING UPDATE

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September 7, 2021

JOINT IMF-WBG STAFF NOTE: DSSI FISCAL MONITORING UPDATE

Executive Summary

The COVID-19 pandemic put significant pressures on fiscal accounts during 2020 through a contraction of revenues and increased spending needs to tackle the pandemic and its economic fallout. In response to these pressures, the countries benefitting from the Debt Service Suspension Initiative (DSSI) have faced difficult choices to reprioritize spending, especially capital spending, even as they allowed higher overall fiscal deficits.

The efforts of DSSI beneficiaries in 2020 to address the challenges associated with the pandemic despite lowered revenues are expected to broadly continue in 2021, reflecting health and economic costs that the beneficiaries are incurring while the pandemic continues. At the same time, these projections for 2021 indicate some unwinding of the developments and efforts of 2020 together with divergence across the DSSI beneficiaries. However, the submitted 2021 projections are still very preliminary, with considerable uncertainty surrounding economic and fiscal prospects for the DSSI beneficiaries. Materialization of downside risks (e.g., pandemic intensification) could result in lower revenues, higher COVID-related spending, lower capital expenditure, and wider fiscal deficit than the current projections. Going forward, effective and timely implementation of the Common Framework is urgent owing to the expiration of the DSSI at the end of 2021, and hence increased fiscal pressures that countries will face as they re-start debt service payments in an environment of continued uncertainty regarding economic prospects due to the coronavirus pandemic.

The DSSI beneficiaries are in the process of implementing measures to enhance accountability and transparency arrangements in the context of COVID-related spending. Such governance and anti-corruption measures were commitments made under IMF arrangements, including emergency financing, as well as under World Bank financing, including Development Policy Financing, COVID-19 related investment financing, and IDA's Sustainable Development Financing Policy. The World Bank and IMF have provided capacity development support to strengthen the DSSI beneficiaries' Public Financial Management and other governance and anti-corruption reform.

Information on each beneficiary's fiscal data and related commentary are provided in the Country Annex.

Approved By
Paolo Mauro (IMF)
and Marcello Estevão
(WB)

Prepared by the IMF's Fiscal Affairs Department and the World Bank's MTI. The IMF team was led by Kenji Moriyama and included Keyra Primus, with administrative assistance from Sofia Cerna Rubinstein, Julie Vaselopulos, and Melissa Artavia Caravaca and research assistance from Isaura Alejandra Garcia Valdes. The World Bank team was led by Chiara Bronchi and included Robert Utz, Massimo Mastruzzi (MTI), Adenike Sherifat Oyeyiola, and Srinivas Gurazada (GOV). This paper has benefitted from extensive contributions from the country teams in the IMF as well as the World Bank.

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I. INTRODUCTION AND CONTEXT

1. This note summarizes the findings from the update of the fiscal monitoring system for the COVID-19 Debt Service Suspension Initiative (DSSI).¹ The DSSI was endorsed by the G20 Finance Ministers on April 15, 2020, and extended twice in October 2020 (until end-June 2021) and April 2021 (until end-2021). During May–December 2020 (the first phase), 43 countries participated, and 42 countries have formally requested their participation in the initiative during January–June 2021 (the second phase, as of July 30, 2021).²

2. In the ongoing unprecedented circumstances, the DSSI continues to provide breathing space for the poorest countries in the world, adding to increased WBG and IMF financing. The DSSI has provided about \$10.3 billion (including a national development bank participating as a private creditor) in debt service relief through end-June 2021 for 47 countries since it became effective in May 2020. It is expected that there will be additional debt service suspension as a result of the final DSSI extension until end 2021.

3. The IMF and the WBG have significantly escalated their financial support for the poorest countries with the aim of providing significant positive net transfers. From April 2020 through June 2021, the IMF disbursed US\$23 billion (US\$19.6 billion in net transfers) to DSSI-eligible countries through its various facilities, including the Catastrophe Containment and Relief Trust (CCRT). During the same period, the World Bank committed US\$52.4 billion in International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) financing to DSSI-eligible countries; its total gross disbursements to these countries (IBRD, IDA, and RETF) amounted to US\$31.1 billion, of which US\$8.8 billion on grant terms (US\$28 billion in net transfers). IFC support amounted to US\$4.9 billion in commitments (own account and mobilization) and US\$2.0 billion in disbursements (own account). A number of other MDBs provided US\$22.2 billion in commitments and US\$17.7 billion in gross disbursements of COVID-19 related support to DSSI-eligible countries from April 2020 to May 2021.³

4. DSSI beneficiaries agree to direct the financial resources released by the debt service suspension toward mitigating the health, economic, and social impacts of the COVID-19 crisis.⁴ DSSI resources are intended to help beneficiaries undertake COVID-related spending and

¹ The first fiscal monitoring analysis was presented in Section III in Joint IMF-WBG Staff Note: “Implementation and Extension of the Debt Service Suspension Initiative,” <https://www.devcommittee.org/sites/dc/files/download/Documents/2020-10/Final%20DC2020-0007%20DSSI.pdf>.

² 39 countries participated in both phases, whereas four countries participated only in the first phase and three countries joined from the second phase. Request to the third phase (July–December 2021) is currently in progress.

³ Based on most recent data for April 2020 to May 2021, as reported by ADB, EBRD, IsDB, NDB, AfDB, ILaB and EIB.

⁴ The term sheet of the DSSI, available at <https://www.tresor.economie.gouv.fr/Articles/009a4adf-23c2-4283-b88f-83ce405e1272/files/ec1895a7-ac0d-4eaf-a300-e8d8a057a2fd>, indicates “Each beneficiary country will be required to commit to use the created fiscal space to increase social, health or economic spending in response to the crisis.”

protect priority spending relative to other expenditures in the context of generally declining domestic revenues.

5. The fiscal monitoring system reports fiscal policy responses to the COVID-19 pandemic against the backdrop of overall fiscal and economic activity developments (see Box 1). The monitoring system reports information on: (i) aggregate fiscal developments; (ii) the evolution of priority spending, as well as current and capital expenditure; (iii) COVID-related spending in response to the crisis; and (iv) debt service suspension.⁵ When interpreting the results, it is important to recall that COVID-related spending and priority spending in most cases overlap, with priority spending generally having broader coverage.

6. This note reports fiscal developments and efforts by the DSSI beneficiaries, based on the information provided through the fiscal monitoring system. The analysis of the report covers the DSSI beneficiaries as of June 8, 2021. The note mainly focuses on aggregate developments and efforts (for example, averages and medians), while deferring analysis and assessment of each individual beneficiary to country teams. A list of the beneficiaries is presented in Appendix I. Information on each beneficiary's fiscal data and related commentary are provided in the Country Annex. The data and commentary were collected in April–June 2021. First, the note shows the fiscal efforts in 2020 (calendar or fiscal year) of the 43 reporting beneficiaries that participated in Phase 1.⁶ Second, the 2021 fiscal efforts (calendar or fiscal year) of the 43 beneficiaries,⁷ which have requested participation in Phase 2, are presented.⁸ The note then briefly touches on fiscal governance and transparency measures taken by the DSSI beneficiaries aimed at ensuring that the money and measures are effectively used to mitigate the crisis and support provided by the World Bank and IMF.

⁵ The distinction between capital and current spending follows the individual budget classifications of countries included in the DSSI fiscal monitoring. Capital spending would typically cover spending on non-financial assets, but in many countries it includes broader spending on development projects (often financed by development partners).

⁶ The data report the change from the 2020 (calendar or fiscal year) outturn to the original 2020 budget (or 2020 initial forecast, based on the January 2020 WEO projections), in local-currency-denominated inflation-adjusted terms, normalized by the 2020 pre-pandemic (or the original budget) GDP forecast.

⁷ St. Vincent and the Grenadines' participation in the second phase since March 18, 2021, is not included in this fiscal monitoring report due to the explosive volcanic eruption that began on April 9, 2021. This report includes Liberia and Myanmar in the second phase as both countries were on the list of participants as of June 8 2021, but were later removed. Liberia sent requests for DSSI to non-Paris Club creditors from May 1 to December 31, 2021 on April 30, 2021. However, on June 11, 2021 the non-Paris Club creditors reported to its members that the request for Liberia was for July–December 2021 (the third Phase) only. Myanmar requested an extension on December 15, 2020, but withdrew its extension request on June 14, 2021. As a result, the report includes 43 beneficiaries for the second phase.

⁸ The data report the change from the latest 2021 (calendar or fiscal year) projections (or the April 2021 WEO projections) to the 2020 outturn, in local-currency-denominated inflation-adjusted terms, normalized by the 2020 initial GDP forecast. By using the same GDP for normalization, the numbers of 2020 and 2021 presented in the report are comparable (i.e., eliminating any distortions from using different denominators). To complement the change from the 2020 outturn to the 2021 projection, the note also shows the 2021 projection vis-à-vis the pre-pandemic 2020 projection for the Phase 2 beneficiaries.

Box 1. The IMF-World Bank DSSI Fiscal Monitoring Framework

The IMF and the World Bank have been tasked by the G20 to assist beneficiaries of the DSSI to put in place a monitoring framework for their fiscal efforts in response to the COVID-19 crisis. The framework for monitoring DSSI beneficiaries' fiscal efforts in response to the crisis was endorsed by the G20 on June 23, 2020, and was developed and put in place soon thereafter.

The framework for fiscal monitoring supports the objectives of the DSSI. The monitoring system is guided by a set of principles and objectives, including a direct link to the objectives of the DSSI, strong government ownership and transparency, use of sound public financial management (PFM) practices, and flexibility to reflect country circumstances. The data reported draw on countries' integrated financial management information systems and PFM systems and use countries' own existing budget classifications (therefore, priority spending and COVID-related spending are not in general comparable across countries). The use of existing systems as a starting point increases prospects for accuracy, in view of limited capacity in several low-income country administrations, which are further stretched by the impact of the COVID-19 pandemic.

The key output consists of a quantitative information table and text commentary designed to complement and explain the information for each participating country. The table reports: (i) aggregate fiscal developments to inform the analysis of revenue and spending developments; (ii) debt data, which include overall debt service (domestic and external); (iii) priority spending aggregates, such as spending on health, education, and the social protection system or social assistance; and (iv) COVID-related additional spending undertaken to deal with health impacts and protect vulnerable households, businesses, SOEs, and government entities.¹ This fourth entry is intended to include only those spending items that are additional compared with preexisting support programs and that would not have been undertaken in the absence of the crisis. The text commentary provides information on: (i) the timing and intensity of the pandemic; (ii) economic impact of the pandemic; (iii) government response to the pandemic; (iv) donor support received; (v) domestic fiscal transparency and accountability measures, including arrangements to track COVID-related spending; and (vi) any special factors requiring explanation for a clear interpretation of the developments reported in the table.

¹ Government entities include any government unit not included in the main fiscal data, this could include subnational (state and local) government units or extrabudgetary government funds or agencies partially or fully financed by the budget.

II. FISCAL EFFORTS IN 2020

7. The COVID-19 pandemic and deep economic recession have created significant pressures on the fiscal accounts of the DSSI beneficiaries in 2020 (Table 1). Such pressures occurred on two fronts: (i) increased spending needs to mitigate the health, social, and economic impacts of COVID-19; and (ii) government revenue losses stemming from a sharp decline in economic activity and, for many commodity exporters, a concurrent drop in commodity prices. For most beneficiaries, limited fiscal space constrained fiscal policy actions.

- **The beneficiaries devoted substantial resources to tackle the COVID-19 crisis.** On average, the beneficiaries spent 1.6 percent of GDP on COVID-related items in 2020 (calendar or fiscal year).⁹ Although there were major differences across beneficiaries, on average, COVID-related spending was broadly evenly allocated across three areas: (i) prevention, containment and management; (ii) support to households; and (iii) support to businesses, SOEs and government entities.

Table 1. Summary of Fiscal Policy Responses, 2020¹

	Change from Original 2020 Projection/Budget to 2020 Outturn (In percentage points of GDP used for the original 2020 projection/budget)				Share of Countries with Lower Revenue (Higher Spending) in Actual Outturn than the Original
	Average	Median	25 percentile	75 percentile	(Percent)
Overall revenue	-2.4	-1.9	-3.9	-0.1	77%
Tax revenue	-2.2	-1.8	-3.0	-0.3	79%
Grants	0.2	0.0	-0.5	0.9	51%
Other revenue	-0.4	-0.1	-0.9	0.3	60%
Overall spending	-0.6	-0.5	-2.2	1.7	40%
Current expenditure	0.5	0.1	-0.4	1.6	60%
Capital expenditure	-1.1	-0.8	-2.2	0.3	30%
Priority/social sector spending²	0.1	0.2	-0.3	0.6	60%
of which,					
Health	0.2	0.1	-0.1	0.6	59%
Education	-0.2	-0.1	-0.3	0.0	32%
Social protection	0.1	0.0	0.0	0.4	56%
COVID-related spending	1.6	1.3	0.7	2.2	
of which,					
Prevention, containment, and management	0.5	0.3	0.1	0.8	
Households	0.4	0.3	0.1	0.7	
Businesses, SOEs and government entities	0.6	0.3	0.1	0.6	

¹ Change from the last pre-pandemic 2020 projection/budget to the 2020 outturn, with inflation adjusted and normalized by GDP used for the pre-pandemic projection/budget. Note that the definition of priority spending and COVID-related spending varies by country, the values presented in the table are interpreted only as illustrative.

² Countries were requested to report priority sector spending based on local definitions that pre-date the COVID-19 pandemic.

⁹ Simple averages are used because a quarter of DSSI beneficiaries are small states and a GDP weighted average would result in overlooking them (or, largely reflecting developments in larger countries). The definition of small states follows WBG classification of small states: <https://www.worldbank.org/en/country/smallstates/overview>. Tables 1 and 2 also report medians.

- ***The pandemic triggered significant revenue losses in most beneficiary countries.*** On average, overall revenue declined by 2.4 percentage points of (pre-COVID budget/projected) 2020 GDP. This was almost entirely driven by the decline in tax revenue (by 2.2 percentage points, with about 80 percent of the beneficiaries facing lower tax revenue), reflecting the decline in incomes, consumption, trade, commodity prices, tourism, and remittances.¹⁰ In contrast, grants increased moderately by 0.2 percentage point of (pre-COVID-budget/projected) 2020 GDP.

8. In response to these pressures, the beneficiaries faced difficult choices to reprioritize spending while allowing higher overall fiscal deficits.

- ***Substantial offsetting measures limited the average increase in overall spending, and 60 percent of the recipients reduced overall spending relative to the projection before the COVID-19 outbreak.*** On average, overall spending (including interest payments) declined. The overall increase in current spending averaging 0.5 percentage point of GDP is significantly below COVID-related spending estimated at 1.6 percent of GDP, indicating that the beneficiaries substantially reprioritized recurrent spending.¹¹ Capital spending on average was cut by 1.1 percentage points, on average (70 percent of beneficiaries seeing declines), with potentially adverse long-term impacts on development. DSSI beneficiaries also reallocated spending within priority spending, as overall priority spending only slightly increased relative to the level projected before the outbreak of COVID-19.¹² For example, the beneficiaries increased health and social protection spending indicators relative to the original budget/the last projection before the pandemic, while cutting education spending (e.g., about 70 percent of the beneficiaries spent less on education than planned before the outbreak of the pandemic). Also, COVID-related spending on prevention, containment, and management (0.5 percentage point of GDP) is larger than the increase in health spending (0.2 percentage point of GDP), which may imply some reprioritization of spending within the health sector toward tackling the pandemic. However, priority spending in 2020 is on average higher than 2019 by about one percentage point of GDP, suggesting the DSSI beneficiaries have maintained priority spending despite weaker revenues and higher spending needs (not overlapped with priority spending) to tackle the pandemic and its economic fallout.
- ***The overall fiscal deficit widened, on average, by 1.8 percentage points of GDP.*** The rise in fiscal deficits was much smaller than in advanced economies (AEs) or emerging market economies (EMs) with access to market financing, reflecting tighter financing constraints—even after larger external grants and exceptional emergency and concessional financing. For example, relative to the pre-pandemic projections, on average, fiscal deficit widened by about 8

¹⁰ Only a small number of beneficiaries report revenue loss due to policy measures.

¹¹ Also, lower external interest payments somewhat helped reprioritize non-COVID-related recurrent spending (on average slightly less than 0.1 percentage point of GDP).

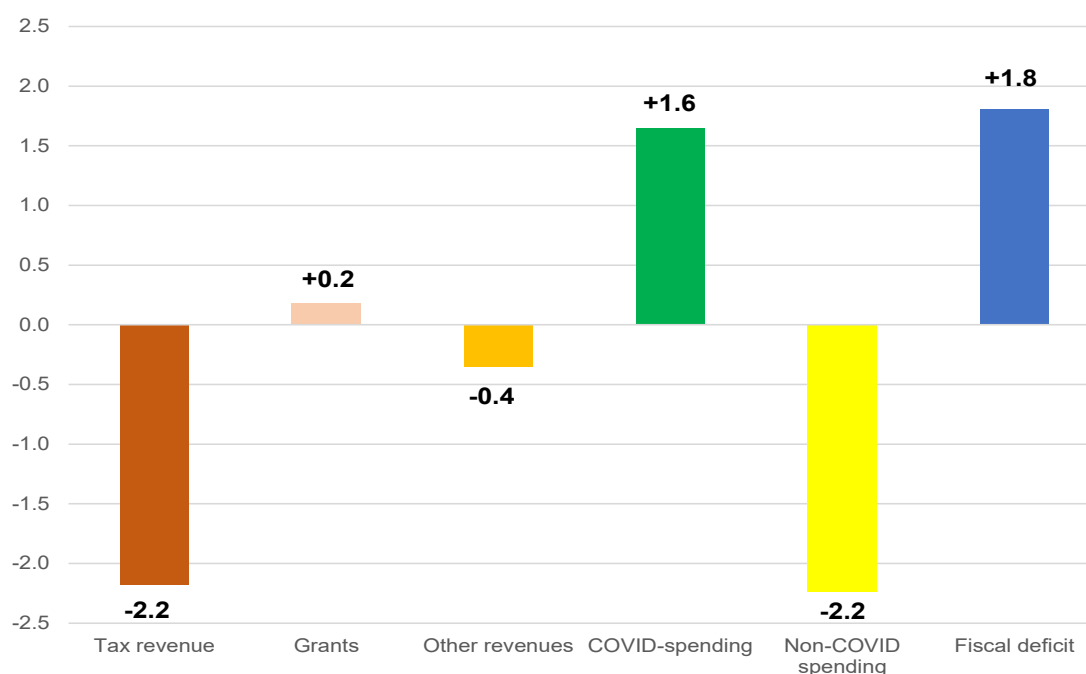
¹² Larger increases in COVID-related spending than priority spending partly reflect differences in coverage. (For example, the former includes spending on support for businesses, SOEs, and government entities, as well as measures to promote and enforce lock-downs and social distancing which typically would not be counted as health spending).

percentage points of GDP in AEs and 5.5 percentage points in EMs. Both are significantly larger than that of the Phase 1 DSSI beneficiaries. As illustrated in Figure 1, for the Phase 1 DSSI beneficiaries, an increase in COVID-related spending (green bar) was made possible, despite the fall in tax and other revenues (brown and orange), by more grants from donors (pink bar), non-COVID expenditure cuts (yellow bar, including both capital and current spending), and higher deficits (blue bar).¹³ Higher deficits, in turn, were facilitated in part by additional financing from the global community, including the DSSI.

9. The public debt outlook in DSSI beneficiary countries has also deteriorated owing to the pandemic. Many DSSI beneficiaries entered the COVID-19 crisis with high debt vulnerabilities, which have continued to increase during the pandemic, as highlighted by other studies by IMF and World Bank staff.¹⁴ The deterioration reflects the widened deficit, as summarized above, as well as lower economic growth.

Figure 1. Revenues, Expenditures, and Fiscal Deficits in 2020: Contribution to Support COVID-related Spending

(Change from Pre-COVID Projections, in Percentage Points of GDP, Simple Average of 43 Phase 1 DSSI Beneficiaries)



Source: DSSI beneficiary country authorities.

¹³ The figure is based on the data consistent with Table 1.

¹⁴ For example, *the World Bank Group and International Monetary Fund Support for Debt Relief under the Common Framework and Beyond*, March 2021, available at <https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/04/01/World-Bank-Group-And-International-Monetary-Fund-Support-For-Debt-Relief-Under-The-Common-50321>.

10. The DSSI, together with other exceptional financing, helped countries to respond to the COVID-19 pandemic. COVID-related spending (1.6 percentage points of GDP) far exceed the liquidity support from the DSSI in 2020 (US\$5.7 billion, about 0.5 percentage point of GDP). Other financing from the IMF, WB, and other MDBs, from bilateral donors and other sources of new net borrowing has enabled countries to run larger deficits than envisaged before the pandemic (1.8 percentage points of GDP).¹⁵

11. However, there is considerable heterogeneity in fiscal developments and responses across individual beneficiaries. While the report focuses on aggregate fiscal developments and responses, the quartile bands in Table 1 show wide ranges of the adverse impact on revenues and policy reactions. Likewise, Appendix II shows that the distributions of some items are skewed and fat-tailed. These observations reflect the complexity of the variations in fiscal impacts and responses against the pandemic and its economic fallout as they depend on many factors reflecting country circumstances, including economic structure, development of health system, existing economic vulnerabilities, concerns regarding debt sustainability, available financing, and institutional capacity. Therefore, careful assessment by country teams is warranted to reach concrete assessment of each individual beneficiary case.

III. PROJECTED FISCAL EFFORTS FOR 2021

12. This section summarizes preliminary 2021 fiscal developments and efforts by 43 Phase 2 beneficiaries, measured by the latest 2021 projections compared to the 2020 outturn, supplemented by the pre-pandemic 2020 projection.¹⁶ The projections collected through the monitoring system during April–June 2021 are still very preliminary and subject to revision, given considerable uncertainty surrounding the evolution of the pandemic, containment measures, and economic recovery.

13. On average, only a modest change in the overall fiscal effort is projected for 2021 compared to 2020 so far (Table 2). Overall revenue and spending are projected to increase by 0.2 percentage point of GDP and 0.3 percentage point of GDP, respectively, while, as indicated by the wide quartile bands, there is considerable heterogeneity across beneficiaries. This leaves the 2021 fiscal balance broadly unchanged relative to the 2020 outturn, a sharp contrast to advanced economies or emerging market economies with access to market financing, that project a decline in fiscal deficits (e.g., Chapter 1 in the April 2021 Fiscal Monitor).

¹⁵ The DSSI number is taken from *World Bank Group and International Monetary Fund Support for Debt Relief under the Common Framework and Beyond*, March 2021.

¹⁶ St. Vincent and the Grenadines' participation in the second phase since March 18, 2021, is not included in this fiscal monitoring report due to the explosive volcanic eruption that began on April 9, 2021. As a result, the 2021 projections are based on the 43 beneficiaries (as of June 8, 2021). Numbers are normalized by the last pre-pandemic 2020 GDP projection. By this, the 2021 projections vis-à-vis the pre-pandemic 2020 projections are given as the sum of the fiscal efforts in 2020 and the changes in the 2021 fiscal efforts vis-à-vis the 2020 outturn.

14. Within the modest change in the overall fiscal efforts from 2020 to 2021, the data indicate some unwinding of the developments and efforts in 2020 and divergence across the DSSI beneficiaries in 2021 (Table 2).

- Partly supported by the improved economic environment, on average, some fiscal aggregates show a partial reversal of the developments and efforts during 2020.*** They include: (i) tax revenue is projected to increase in $\frac{3}{4}$ of the recipients (on average by 0.2 percentage point of GDP) after about 80 percent of the Phase 1 beneficiaries faced lower tax revenues than the pre-pandemic projection, although some of the increase is offset by a decline in grants; (ii) over 60 percent of the recipients will increase capital spending (on average by 0.2 percentage point of GDP), after 70 percent of the beneficiaries reduced capital spending in 2020 compared to pre-pandemic 2020 projections (on average 1.1 percentage points of GDP, suggesting still lower than the pre-pandemic projections); and (iii) COVID-related spending is projected to be lower than 2020 in $\frac{3}{4}$ of the beneficiaries. These fiscal developments reflect an expected rebound of economic growth and reduced pandemic related fiscal support needs in 2021.¹⁷
- 3/4 of the beneficiaries project lower COVID-related spending in 2021 compared to 2020, reflecting planned unwinding of health and business support measures, while support to households is expected to be sustained.*** On average, COVID-related spending in 2021 is projected to be lower than the 2020 outturn by 0.5 percentage point of GDP, but the spending is still sizeable (1 percentage point of GDP). The decline is not uniform across the three components of COVID-related spending. On average, support to businesses, SOEs, government entities is projected to decline by 0.2 percentage point, while prevention, containment and management, and support to households are projected to stay at the level of 2020.¹⁸ This suggests that the beneficiaries continue their efforts to tackle the pandemic and protect vulnerable households until the recovery becomes firm. However, wide quartile bands reflect continued heterogeneity with regard to countries' control of the pandemic and economic recovery and associated spending needs.
- Revenue trends diverge across different groups.*** Over half of the small state beneficiaries project lower non-grant revenue in 2021 compared to 2020, while only 20 percent of other beneficiaries project lower non-grant revenue. This reflects considerable challenges that small

¹⁷ For example, the April 2021 WEO projects a stronger recovery in 2021 and 2022 for the global economy compared to the previous rounds, with growth projected to be 6 percent in 2021 and 4.4 percent in 2022.

¹⁸ Due to the concern about the size of the sample, which reflects that not all beneficiaries report the composition of COVID-related spending (especially for 2021), the median is also reported because it is more robust than average in cases of a small sample-size. Also, this means that the sum of the components may not be identical to the overall COVID-spending. It should be emphasized that the figures that are reported are based on the projections, not outturns, and thus are subject to revision.

states are facing, including sharp declines in tourism during the pandemic, and its slow resumption.¹⁹

Table 2. Summary of Fiscal Policy Responses, 2021¹

	2021 Projections versus 2020 Outturn (In percentage points of 2020 GDP used for the 2020 original projection/budget)				Share of Countries with Lower Revenue (Higher Spending) in Actual Outturn than the Original
	Average	Median	25 percentile	75 percentile	(Percent)
Overall revenue	0.2	0.6	-0.5	1.9	42%
Tax revenue	0.2	0.6	-0.1	1.5	28%
Grants	-0.1	0.0	-0.4	0.5	51%
Other revenue	0.1	0.0	-0.3	0.2	60%
Overall spending	0.3	0.8	-1.5	2.0	65%
Current expenditure	0.0	0.5	-1.0	1.1	58%
Capital expenditure	0.2	0.4	-0.4	0.9	63%
Priority/social sector spending²	0.1	0.1	-0.4	0.6	59%
of which,					
Health	0.0	0.0	-0.2	0.4	62%
Education	0.1	0.1	0.0	0.3	65%
Social protection	0.0	0.0	-0.1	0.1	56%
COVID-related spending	-0.5	-0.4	-1.1	0.2	27%
of which,					
Prevention, containment, and management	0.0	-0.1	-0.3	0.2	41%
Households	0.0	0.0	-0.3	0.2	28%
Businesses, SOEs and government entities	-0.2	-0.1	-0.3	0.0	31%

¹ Change in values from the 2020 outturn to the latest 2021 projections, normalized by the 2020 GDP used for the initial projection/budget for 2020. Note that the definition of priority spending and COVID-related spending varies by country, the values presented in the table are interpreted only as illustrative.

² Countries were requested to report priority sector spending based on local definitions that pre-date the COVID-19 pandemic.

15. The fiscal developments and efforts in 2020, protecting spending to address the pandemic despite lowered revenues, are projected to continue in 2021. Reflecting only modest change in the fiscal efforts in 2021 vis-à-vis the 2020 outturn, the lower revenues and substantial

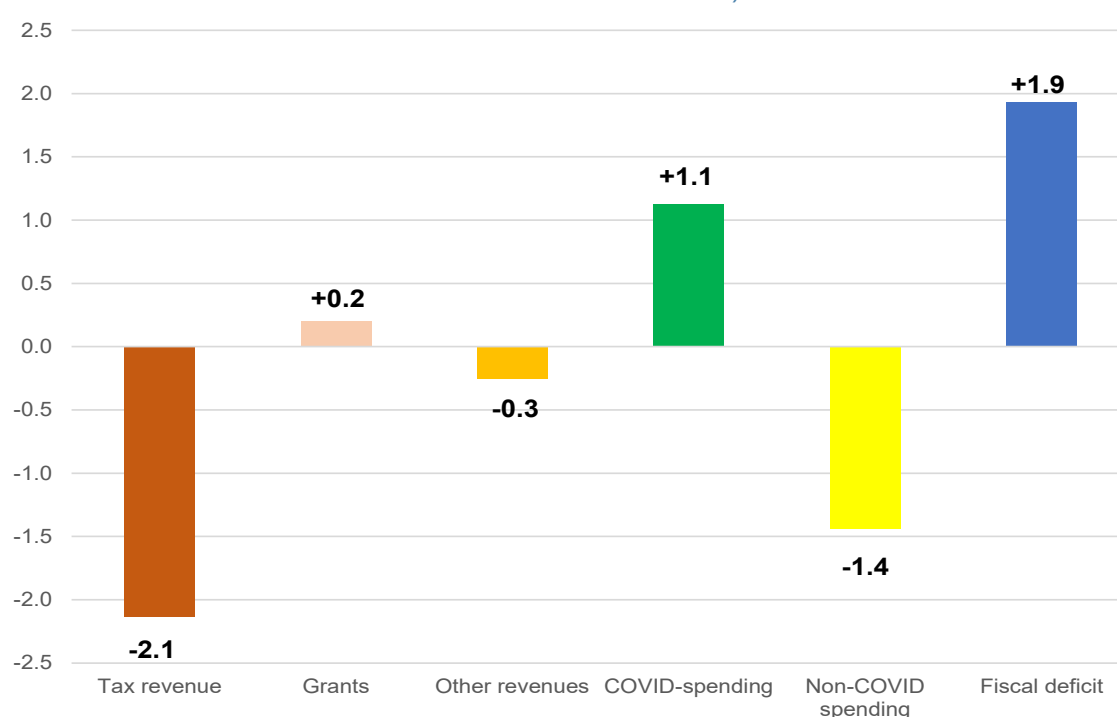
¹⁹ The definition of small states follows WBG classification of small states:

<https://www.worldbank.org/en/country/smallstates/overview>. For example, on average, GDP contracted by nearly 10 percent (about 5½ percent, median) in small state DSSI beneficiaries in 2020 (based on the April 2021 WEO data), while about one percent (one percent, median) in other beneficiaries. Despite the huge contraction (i.e., the base effect) in 2020, growth projection of small states for 2021 is lower than other beneficiaries (2.7 percent vs. 3 percent, on average, and 3 percent and 3.4 percent, on median).

COVID-related spending vis-à-vis the pre-pandemic projections for 2020 are being maintained in 2021. Figure 2 (analogously to Figure 1) compares current projections for 2021 to pre-pandemic projections for 2020 of the Phase 2 beneficiaries. The story in the previous section still qualitatively holds: an increase in COVID-related spending is projected to be made possible despite a fall in revenues, by more grants from donors, together with lowering expenditure by reprioritization, and by higher deficits. However, compared to Figure 1, reprioritization of non-COVID-related spending becomes smaller (yellow bar, including capital and current spending), in line with smaller COVID-related spending (green bar) and more modest tax revenue losses (brown bar).

Figure 2. Revenues, Expenditures, and Fiscal Deficits in 2021: Contribution to Support COVID-related Spending Relative to the 2020 Pre-COVID Projections

(Change from Pre-COVID Projections, in Percentage Points of GDP, Simple Average of 43 Phase 2 DSSI Beneficiaries)



Sources: DSSI beneficiary country authorities.

16. Liquidity needs are expected to remain high in 2021 and 2022 and debt sustainability outlooks have deteriorated further. The IMF and the WBG have taken significant measures to provide needed concessional financing. The IMF has responded swiftly to the needs of its members by: (i) reforming its lending toolkit to flexibly support Low Income Countries' financing needs during the pandemic and the recovery;²⁰ (ii) extending substantial financial assistance through emergency

²⁰ [Fund Concessional Financial Support for Low-Income Countries—Responding to the Pandemic](#). The centerpiece of this reforms is a 45 percent increase in the normal limits on access to concessional financing, coupled with the elimination of hard limits on access for the poorest countries.

financing and IMF-supported programs; and (iii) providing debt service relief to its poorest members via the Catastrophe Containment and Relief Trust (CCRT). The IMF is exploring options to increase its concessional lending capacity—including through the voluntary channeling of Special Drawing Rights (SDRs) from members with strong external positions to countries most in need. This will also help magnify the liquidity support already provided by the general allocation of SDRs that was implemented in late-August for an amount of about US\$650 billion. Additionally, the WBG has heavily frontloaded its resources to: (i) respond to IDA countries' most pressing needs in FY21 arising from the COVID-19 crisis, and (ii) support their efforts to develop and implement COVID-19 vaccination programs. IDA is now advancing the IDA20 replenishment process, working closely with IDA Deputies and stakeholders. The efforts on the financing side should be complemented by measures that directly address DSSI-eligible countries' growing debt vulnerabilities. Effective and timely implementation of the Common Framework (CF) is urgent owing to the expiration of the DSSI at the end of 2021, and hence increased fiscal pressures that countries will face as they re-start debt service payments in an environment of continued uncertainty regarding economic prospects due to the coronavirus pandemic.

17. The projections for 2021 are still very preliminary and subject to revision, given considerable uncertainty surrounding the evolution of the pandemic, containment measures, and economic recovery. In case downside risks materialize, the beneficiaries could face another round of pressures on fiscal accounts through additional spending needs and/or lower tax revenues.²¹ These pressures may result in fiscal efforts similar to that observed in 2020, including cutting domestically financed capital spending further, which is already lower than the pre-pandemic projection level, with further potentially adverse impacts on long-term growth and the recovery.

IV. FISCAL GOVERNANCE AND TRANSPARENCY MEASURES

18. Governments of the DSSI beneficiaries have so far played a significant role to help combat the pandemic and its economic fallout, which calls for enhanced transparency and accountability in COVID-related spending. The expanded role of the government is essential but also increases opportunities for corruption (as evidenced in past catastrophes). This pandemic also highlights the importance of addressing governance and corruption vulnerabilities and ensuring appropriate control and oversight over emergency spending. Recognizing these risks, the World

²¹ While downside risks should reflect country circumstances, the April 2021 WEO (Chapter 1) lays out pandemic resurgence, tighter financing conditions, extended scarring, intensified social unrest, increased frequency of natural disasters, and geopolitical, trade, and technology risks as downside risks.

Bank and IMF have called for enhanced transparency and accountability measures, to help ensure that the money and measures are effectively used to mitigate crisis impacts.²²

19. Countries receiving IMF and World Bank financing during the crisis have commonly committed to specific governance measures to enhance accountability and transparency, including arrangements to track COVID-related spending.²³ These additional commitments bolster DSSI beneficiaries' assurances that the resources freed up by the debt service suspension will be used to mitigate the health, social, and economic impacts of the pandemic. In the context of requests for IMF's emergency financing related to COVID-19, DSSI beneficiaries commonly committed to multiple governance and anti-corruption measures in the authorities' Letter of Intent.²⁴ These commitments include publishing pandemic-related procurement contracts and the beneficial ownership of companies awarded these contracts, as well as COVID-19 spending reports and pandemic spending audit results, while tailoring measures to country circumstances and the severity of corruption risks.²⁵ Also, the World Bank has provided financing to many DSSI beneficiaries during the pandemic, including Development Policy Financing, COVID-19 related investment financing and IDA's Sustainable Development Financing Policy, which typically include commitments in support of enhanced transparency and accountability.

20. Some studies provide preliminary snapshot of the implementation status of such measures, by country. For example, a recent IMF survey provides information on the implementation of the committed governance measures in the context of IMF emergency financing.²⁶ Also, the fiscal monitoring commentary (domestic accountability and transparency) of each beneficiary in the Country Annex highlights specific arrangements for governance measures.

²² For example, see "Progress in Implementing the Framework for Enhanced Fund Engagement on Governance" (available at: <https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/07/15/Progress-In-Implementing-The-Framework-For-Enhanced-Fund-Engagement-On-Governance-49576>), and "Sustainable Development Finance Policy of the International Development Association: FY21 Board Update," IDA, December 7, 2020 (available at: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/355111607655700541/sustainable-development-finance-policy-of-the-international-development-association-fy21-board-update>).

²³ For example, see IMF (2020), "Progress in Implementing the Framework for Enhanced Fund Engagement on Governance", and Chady El Khoury, Jiro Honda, Johan Mathisen, and Etienne Yehoue (2021), "Checking the Receipts from Pandemic-Related Spending," available at <https://blogs.imf.org/2021/05/20/checking-the-receipts-from-pandemic-related-spending/>.

²⁴ DSSI term sheet states that access to DSSI will be limited to countries that are benefiting from, or have made a request to IMF Management for, IMF financing including emergency facilities.

²⁵ In addition, for all countries receiving IMF's emergency financing, safeguards assessments of the central bank are required, although it is beyond the scope of the fiscal monitoring. All countries receiving emergency financing must commit to undertaking a "Safeguards Assessment" (unless such an assessment has already recently occurred). These assessments provide reasonable assurance to the IMF that a central bank's framework of governance, reporting, and controls is adequate to manage resources, including IMF disbursements.

²⁶ *Implementation of Governance Measures in Crisis-Related Spending, May 2021*, IMF, available at <https://www.imf.org/-/media/Files/Topics/governance-and-anti-corruption/implementation-status-of-governance-commitments-on-crisis-related-spending-may-2021.ashx>. Also, Chady El Khoury, Jiro Honda, Johan Mathisen, and Etienne Yehoue (2021) provide the summary of the study.

21. The World Bank and IMF, in collaboration with other development partners, have provided capacity development (CD) for the DSSI beneficiaries to enhance accountability and transparency. Despite the challenges to provide CD in the context of the pandemic, the DSSI beneficiaries have benefitted from timely and on-demand support.²⁷ Such CD support typically covers Public Financial Management, fiscal statistics, and other areas to strengthen governance. Its objective is better utilization of financial resources, including DSSI, to tackle the COVID-19 pandemic and its economic fallout.²⁸

²⁷ The areas of CD vary, depending on the country's needs. These CD efforts help the authorities publish procurement information, collect, and publish beneficial ownership information, undertake ex-post audits of COVID-related spending, and report on COVID-related spending. For example, IMF Fiscal Affairs Department has provided fiscal capacity development support to 42 beneficiaries during 2020-21. World Bank CD is provided through enhanced implementation support for COVID-related projects and regular implementation support for other projects, with country teams collaborating through technical assistance with client countries to transparency and accountability across the Public Finances, including procurements. Also, the World Bank's Governance and Institutions COVID-19 Response notes (<https://www.worldbank.org/en/topic/governance/brief/governance-institutions-covid-19-response-resources>) provide suggestions and examples of good practices that could be used by countries to address weaknesses and deficiencies in institutions during the pandemic and possible quick solutions on diverse topics.

²⁸ The CD support focuses on: (i) establishing emergency treasury procedures, where they are absent; (ii) strengthening public procurement; (iii) adapting and protecting internal control processes; (iv) ensuring timely financial reporting for policy actions; (v) supporting the proper and accurate reporting of fiscal statistics by DSSI beneficiaries; and (vi) supporting internal audit and Supreme Audit Institutions work to ensure transparency and accountability.

Appendix I. DSSI Eligibility and Participation

All DSSI eligible countries, as of July 30, 2021, are listed. The 47 countries that have requested to participate as of July 30, 2021, are denoted by an asterisk (*), one additional asterisk is added to the 39 countries that have requested to participate in 2020 and mid-2021. Request to the third Phase (July-December 2021) is currently in progress.

AFRICA

Angola**	Benin	Burkina Faso**
Burundi**	Cameroon**	Cabo Verde**
C.A.R.**	Chad**	Comoros**
Congo, Democratic Rep. of**	Congo, Republic of**	Cote d'Ivoire**
Ethiopia**	Gambia, The**	Ghana
Guinea**	Guinea-Bissau*	Kenya*
Lesotho**	Liberia*	Madagascar**
Malawi**	Mali**	Mauritania**
Mozambique**	Niger**	Nigeria
Rwanda	Sao Tome and Principe**	Senegal**
Sierra Leone**	Somalia	South Sudan
Tanzania**	Togo**	Uganda**
Zambia**		

EAST ASIA

Cambodia	Fiji**	Kiribati
Lao, PDR	Marshall Islands	Micronesia
Mongolia	Myanmar*	Papua New Guinea**
Samoa**	Solomon Islands	Timor-Leste
Tonga**	Tuvalu	Vanuatu

SOUTH ASIA

Afghanistan**	Bangladesh	Bhutan
Maldives**	Nepal**	Pakistan**

EUROPE AND CENTRAL ASIA

Kosovo	Kyrgyz Republic	Moldova
Tajikistan*	Uzbekistan	

LATIN AMERICA AND CARIBBEAN

Dominica**	St. Vincent and the Grenadines*	Grenada*
Guyana	Haiti	Honduras
Nicaragua	St. Lucia**	

MIDDLE EAST AND NORTH AFRICA

Djibouti**	Yemen, Republic of*	
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Appendix II. Distribution of Main Fiscal Indicators, 2020

