Analysis

Multinational Organizations' Efforts to Assist Countries through COVID-19 crisis

By Aidan Lawson, Manuel Leon Hoyos, and June Rhee

The International Monetary Fund (IMF), World Bank, and other multinational organizations have announced plans to make hundreds of billions of dollars available to emerging markets in response to the COVID-19 crisis. But their own experts have said these funds will probably be insufficient, and they have collectively released only a small fraction of that amount so far.

Since March, the IMF has doubled the access limit to its existing emergency loan programs, whose demands could reach up to $100 billion, and launched a new liquidity line to help countries meet balance-of-payments needs. The European Stability Mechanism has announced plans to provide €240 billion to help its members with support in financing healthcare, cure and prevention related to the COVID-19 crisis. Meanwhile, the World Bank and other multilateral development banks have announced more than $250 billion in COVID-19-related programs.

While resources are being deployed through credit lines, expanded lending arrangements, and support to developing countries, multinational organizations will require additional resources through increased contributions or additional debt issuances to adequately respond to the economic damage caused by the pandemic (see the YPFS reports here). Table 1 shows the amounts available and deployed in response to the COVID-19 crisis under each organization. It is not meant to be exhaustive and will continue to be updated.

This post discusses different efforts by multinational organizations set forth thus far in response to the COVID-19 crisis and highlights the key elements in these efforts that ensure the support adequately meets the needs of the most vulnerable member countries facing the global pandemic.

1. Purpose: what is the mission and mandate of different multinational organizations?
2. Form of action: loan, grants or forbearance? Other forms of action?
3. Size: how do you determine the size of assistance ensuring a country's needs are covered?
4. Funding for programs: how do multinational organizations fund these assistances?
5. Speediness: how does assistance reach member countries in a timely manner?
6. Eligibility: who is eligible for support – i.e. governments or private entities?
7. Term: how long is the assistance for?
8. Limitations and other conditionalities: are there conditionalities and if there are, what conditionalities accompany the assistance?

9. Coordination and cooperation: how are different multinational organizations coordinating and assisting their efforts?

10. Post-crisis plan: do these actions consider means to rebuild the economy after the crisis has ended?

Table 1: Multinational Organization Resources for COVID-19 and Deployment

Multinational Organization	Available Resources	Deployment (calculated based on YPFS Resource Guide as of April 28, 2020)
International Monetary Fund (IMF)	$1 trillion (current total lending capacity of the IMF, including amounts already allocated. The IMF allows augmentation and/or rephasing of existing arrangement to respond to COVID-19 crisis)	$17.6 billion in emergency financing, grants and augmentation of existing arrangements
European Stability Mechanism (ESM)	€240 billion	N/A (expects to open June 1)
Multilateral Development Banks		
World Bank Group	$160 billion will be made available in the next 15-months ($14 billion fast-track package)	$2,73 billion from fast-track $2.3 billion from broader resources and redeploying existing financing
European Investment Bank (EIB)	€25 billion guarantee €5.2 billion to EU response for outside EU (part of €20 billion Team Europe response to support partner countries)	€16 million (€11 million to outside EU)
European Bank for Reconstruction and Development (EBRD)	€21 billion	€162.5 million
Asian Development Bank (ADB)	$20 billion	$5.1 billion
Inter-American Development Bank (IDB)	$12 billion	$99 million
Asian Infrastructure Investment Bank (AIIB)	$10 billion	$355 million
African Development Bank (AfDB)	$10 billion	$50 million

Source: Authors' analysis

1. PURPOSE

The IMF's mandate is to ensure the stability of the international monetary system. This includes the system of exchange rates and international payments that enables countries to transact with each other, and was extended to include all macroeconomic issues relating to global financial stability in 2012. Its main activities to fulfill this mandate consists of (i) economic surveillance, (ii) lending, and (iii) capacity development. The main focus of the IMF's COVID-19 response has been lending, with a focus on solving balance of payment problems to help rebuild international reserves, stabilize currencies, continue paying for imports, and restore conditions for strong economic growth.

The ESM's purpose is to financially assist euro area countries if it is necessary to protect financial stability of the entire Euro area. Additionally, the European Investment Bank (EIB) is the lending arm of the EU, promoting equality for EU citizens and helping the economy in developing member states.

On the other hand, the World Bank Group and other multilateral development banks promote long-term economic development and poverty reduction. The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) form the World Bank. The World Bank, together with three other organizations - the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes - makes up the World Bank Group. The IDA focuses on the world's poorest countries, while the IBRD assists middle-income and creditworthy poorer countries.

2. FORM OF ACTION

Actions of multinational organizations include loans, grants, guarantees, and forbearance. As the IMF mainly focuses on solving balance of payment problems, it provides medium-term loans and grants. For example, the IMF's Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) disburse emergency loans to meet balance of payments needs and the Catastrophe Containment and Relief Trust (CCRT) provides grants for debt relief so a country has enough resources to meet exceptional balance of payments needs created by disasters rather than having to assign those resources to debt service.

During the COVID-19 crisis, the IMF has also established a Short-term Liquidity Line (SLL), which provides 12-month repurchase obligations to serve as a revolving international liquidity backstop. The SLL builds on the framework of the Short-term Liquidity Swap (SLS) discussed by the IMF Board in 2017. At the time in 2017, the SLS did not secure consensus necessary for implementation.

The ESM provides a credit line designed to serve as an insurance for member countries. If a member country applies for the credit line, funds do not necessarily have to be drawn.

The European Commission's Coronavirus Response Investment Initiative (CRII) allows member states to hold the unspent pre-financing by the European Structural and Investment Funds (ESIFs) for 2019 and this provided the member states with an immediate liquidity buffer of €8 billion. Normally, the member states would have to reimburse the unused pre-financed ESIF funds by the end of June 2020. Additional amounts are also available for member states.

Multilateral development banks, including the World Bank, generally have two major lending windows. One is to provide assistance on market-based terms, in the form of loans, equity investments, and loan guarantees. For example, the ADB provides loan guarantees to partner financial institutions to support supply chains. The other is to provide concessional assistance at below market-based terms, in the form of loans and grants.

Additionally, the IMF and the World Bank called for a standstill of debt service to official bilateral creditors for the world's poorest countries and the G-20 responded with a plan to allow requests for forbearance to suspend repayment starting on May 1. The World Bank also called on private creditors to participate in the initiative on comparable terms and asked the IMF to review the debt challenges of middle-income countries and explore solutions to fiscal and debt stress in those countries on a case-by-case basis. For further discussion on debt challenges of emerging markets, see this YPFS blog post.

3. SIZE

The IMF has doubled the access limit to its two existing emergency facilities, the RCF and RFI, in response to the COVID-19 crisis and it projects that the demand could be as high as $100 billion. The IMF determines the size of individual assistance using quotas, which are broadly based on a country's relative position in the world economy. In response to urgent COVID-19 related financing needs, the IMF increased the access limit for the RCF. Normally, the facility is limited to 50% of a member's quota per year and 100% of quota on a cumulative basis, but the IMF temporarily increased the limit from 50% to 100% of quota per year and from 100% to 150% on a cumulative basis. The higher access limits are scheduled to apply until October 5 and may be extended by the Board. Regardless of the increase, this assistance is still based on quotas and not on the need of a country. This may mean countries in dire need of IMF assistance may not be able to receive the necessary amount.

On the other hand, for the IMF's FCL, there is no cap on access; support is based on the member's actual or potential balance of payments needs. For more information on the size of existing IMF measures, see Table 2 below.

The World Bank has vowed to make $160 billion available for the next 15 months, including $14 billion of fast-track financing. Support to an individual country under the IBRD's Catastrophe Deferred Drawdown Option is limited at $500 million or 0.25% of GDP.

The ESM grants 2% of the respective member states' GDP as of end-2019 under its pandemic credit line. If all 19 member states were to draw from the credit line, this would amount to a combined volume of around €240 billion.

The ADB's Supply Chain Finance Program determines the amount of funds partnering financial institutions will receive based on their "risk appetite[s], presence in [Developing Member Countries], and monitoring capabilities." The EU Solidarity Fund (EUSF) provides assistance as a percentage of total public expenditures on COVID-19-related measures, and successful applicants can request up to 25% of this funding to be advanced immediately.

Table 2: IMF facilities currently used for COVID-19 crisis

Program	Size	Term
Rapid Financing Instrument (RFI)	• 100% of quota per year • 150% of quota on a cumulative basis	• 1 to 2 years
Short-term Liquidity Line (SLL)	• 145% of quota per year • Revolving access	• 12 months
Flexible Credit Line (FCL)	• No outright limit • Determined case-by-case	• 1 to 2 years
Catastrophe Containment and Relief Trust (CCRT)	• Approximately $500 million available for grants to pay debt service owed to the IMF	• Up to 6 months to 2 years
Precautionary and Liquidity Line (PLL)	• 125% of quota (can be extended up to 250%) for 6 months; or • 250% of quota for the first year and a total of 500% of quota for the entire arrangement • 500% of quota on cumulative basis	• 6 months (can be extended once); or • 1 to 2 years
Poverty Reduction and Growth Trust		
Rapid Credit Facility (RCF)	• 100% of quota per year • 150% of quota on a cumulative basis	• 10 years with 5 ½ year grace period
Extended Fund Facility (EFF)	• 145% of quota per year • 435% of quota on cumulative basis (These limits can be exceeded in exceptional circumstances)	• 4½–10 years

4. FUNDING

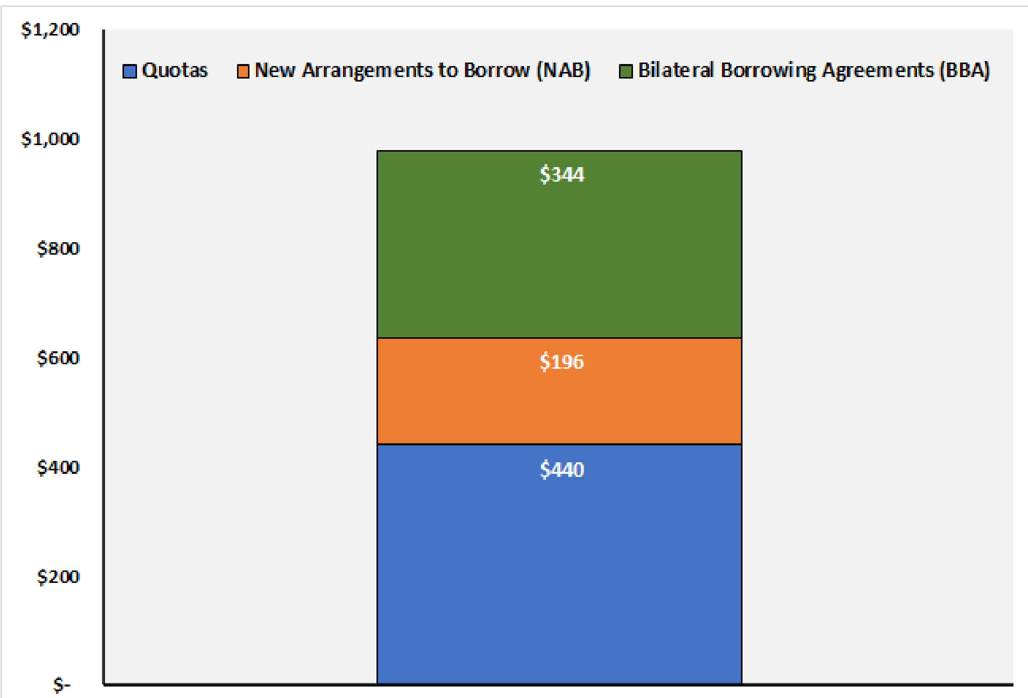
Based on the projected needs of the emerging markets alone, it is clear that further fundraising efforts may be necessary, despite current efforts to maximize available funding.

The IMF is composed of 189 member countries and member quotas are their main source of funding. Additionally, the IMF can supplement its resources through the New Arrangements to Borrow (NAB). Forty higher-capacity members stand ready to lend if member countries representing 85% of committed funds agree to activate the NAB. The IMF last activated the NAB during the 2007-09 global financial crisis (GFC). At that time, the US and G-20 led an initiative to increase the NAB, and the IMF tripled its lending capacity to $750 billion. Under the CARES Act passed in the US to cope with the COVID-19 crisis, the Treasury may expand the NAB it can provide to the IMF through loans for up to $28.2 billion. The leaders of the US response to the GFC have argued that the US plays a leadership role in ensuring international financial institutions have enough resources to vigorously address emerging economic and financial crises.

The third line of defense for the IMF are Bilateral Borrowing Agreements (BBA), providing additional resources that will only be drawn "after resources from quotas and the New Arrangements to Borrow are substantially used." Currently, 40 members have agreed to contribute to the BBA; activation requires the approval of creditor countries whose contributions represent 85% of the total. The Board approved on March 31 a framework for a new round of bilateral borrowing by the IMF from January 1, 2021, and this helped the IMF maintain its lending capacity of $1 trillion.

Lastly, concessional lending and debt relief for low-income countries are financed through separate contribution-based trust funds. For example, the IMF's CCRT was able to extend its capacity after the UK, Japan, Germany, Singapore, the Netherlands and China pledged additional contributions. The IMF hopes to increase the commitment to $1.4 billion. Figure 1 provides an overview of the IMF's lending capacity at the end of March.

Figure 1. IMF lending capacity ($ billions, end-of-March 2020)



Source: IMF & Authors' analysis

While the IMF reports that total lending capacity sits just shy of $1 trillion, the amount readily available for lending is lower. The IIF calculates that the IMF has $270 billion readily available and can access an additional $508 billion if members agree to activate extraordinary resources. Another calculation concludes that $787 billion is the maximum lending capacity as of March 20 due to the possibility of borrowings by members whose quota is expected to be available for lending and uncertainty around continued availability of funds from borrowed sources.

The ESM's current lending capacity is €410 billion and the pandemic credit line is expected to take up less than €240 billion. It is also planning to issue social stability bonds to finance this credit line. The ESM has paid-in capital of €80 billion from the 19 member countries but this cannot be used to make loans. With this backing from member countries, the ESM raises money from the financial markets to provide liquidity assistance to its member countries.

Multilateral development banks raise funding from international capital markets to make non-concessional loans. They are backed by shareholder member governments and thus are able to raise funding at very low market rates. For example, the World Bank's IBRD, which lends mostly to middle-income developing countries, raises most of its funds from issuing bonds in the capital markets. Additionally, the ADB sold 2-year and 5-year global benchmark bonds in the US dollar bond market to facilitate its capacity and enhance its liquidity in responding to the COVID-19 crisis. The AfDB raised $3 billion by selling a Fight COVID-19 Social Bond, which was the largest dollar denominated Social Bond ever launched in the international capital markets to date. Moreover, they can increase non-concessional lending by increasing all members' shares through a general capital increase (GCI). Following the GFC all multilateral development banks simultaneously increased their members' capital allocations. For 2020, the US Congress authorized the country to participate in a World Bank GCI.

On the other hand, concessional lending windows are generally funded by contributions of their member countries. For example, the World Bank's IDA, which lends mostly to low-income countries, is financed by grants from donor nations that are replenished every 3-5 years. They also transfer some of the net income from their non-concessional loans to help fund concessional loans and grants. In 2018, however, the IDA started issuing bonds to finance its concessional programs.

5. ELIGIBILITY

Generally, the assistance is provided to member countries of the multinational organizations. Different facilities within the organization have different criteria of eligibility. For example, the IMF's CCRT is exclusively for the most vulnerable low-income countries, while the SLL is available to members with very strong macroeconomic fundamentals and track records of strong policy implementation. Similarly, members eligible for concessional and non-concessional loans in multilateral development banks have different economic backgrounds.

To be eligible for EU Solidarity Fund (EUSF) assistance, EU member states must sustain economic damage that exceeds the lesser of 0.3% of gross national income or €1.5 billion. On the other hand, the ESM's credit line is available to all EU member countries.

Some multilateral development banks have partnered with financial institutions to support certain industries. The ADB's Supply Chain Finance Program provides financing to suppliers in developing member countries that have minimum 2-year relationships with any buyers they associate with, and have "solid production and delivery track record[s]." The suppliers obtain financing through partner financial institutions and the ADB either loans funds directly to these institutions or provides assistance in the form of a guarantee.

6. SPEEDINESS

Multinational organizations are responding to the COVID-19 crisis by generally relying on existing facilities and lending arrangements to deploy resources as fast as possible. The IMF is disbursing its emergency funds mostly through its Rapid Credit Facility (RCF) and Rapid

Financing Instrument (RFI). Both are designed to deploy resources quickly by providing eligible members with funds where there are urgent balance of payments needs, without the need or capacity to have a full-fledged economic program.

On the other hand, the World Bank rolled out the Covid-19 Fast-Track Facility on April 2, with the first group of projects assisting 25 countries amounting to $1.9 billion. The purpose of the facility is to rapidly reach countries with no established funding line. The World Bank's existing Pandemic Emergency Financing Facility was only activated for COVID-19 response on April 17, which raised criticism for not responding fast enough. This facility was launched in 2016 as an additional source of financing to the world's poorest countries facing infectious diseases. It had come under scrutiny when it failed to release funds for a year as the 2018 Ebola outbreak in the Democratic Republic of Congo killed more than 2,000 people. A major reason for the delay was that funds can only be released 12 weeks after the World Health Organization (WHO) publishes its first situation report, and complex criteria including outbreak size, growth rate, deadlines and death tolls have to be satisfied.

On the other hand, the ADB has revised its policies and business processes "to respond more rapidly and flexibly to the crisis." For example, it streamlined internal business processes and widened the eligibility and scope of various support facilities.

7. CONDITIONALITIES AND LIMITATIONS ON THE USE OF FUNDING

The IMF's facilities used for emergency disbursement of COVID-19 funding do not have conditionalities. The Flexible Credit Line (FCL) and RFI provide resources without on-going conditions and RCF support comes without ex-post program-based conditionality or reviews. However, only two disbursements are allowed under the RCF in any 12-month period and repeated use may trigger transition into the Extended Credit Facility, which is a medium-term support for low-income countries with some conditionalities.

IMF conditionality in the past has raised concerns. A study in 2007 found that "a significant number of structural conditions are very detailed, and often felt to be intrusive and to undermine domestic ownership of programs." Since then, the IMF has reformed its rules around its lending to do away with "hard" conditionality. Hard conditionality for all IMF loans was phased out by May of 2009.

The ESM's Pandemic Support Credit Lines utilize the existing Enhanced Conditioned Credit Lines (ECCL). The ECCL typically requires members accessing the credit lines to adopt specific measures, but for the pandemic support, fewer conditions exist.

Most programs, however, prescribe and limit the usage of provided funds. For example, the ESM only allows countries to use the Pandemic Support Credit Lines to support direct and indirect healthcare, cure, and prevention costs due to the COVID-19 crisis. ESIFs generally have distinct investment objectives that limit the uses of their funding, but the CRII eased enforcement of these "thematic objectives" to facilitate a broader range of assistance.

8. TERM

Depending on the mandate of the organization and the purpose of the program, the term of the loan varies. The World Bank and other multilateral development banks have mandates that promote long-term economic development and poverty reduction. For example, the World

Bank provides long-term concessional loans with maturities between 30 and 40 years and additional grace periods ranging between 5 and 10 years for low-income countries.

On the other hand, the IMF, with its mandate to ensure the stability of the international monetary system, generally extends mid-term loans for eligible members. For more information on the term of existing IMF measures, see Table 2. The IMF's SLL, which aims to be an international liquidity backstop, provides revolving funding through a 12-month repurchase obligation and is only available for member countries with very strong macroeconomic fundamentals and strong policy implementation records that are experiencing moderate capital flow volatility.

The ESM loans under the pandemic credit line currently do not have a limit set on the term. In a recent interview, its managing director stated that there is flexibility around the maturity for these loans, more so than for IMF loans. The amended ESM treaty, the discussion of which was halted by the COVID-19 crisis, had sought to impose a maximum average maturity of five years.

The EU's macro-financial assistance program to 10 neighboring countries operates in tandem with and to complement IMF disbursements to these countries. Therefore, this program will only make two disbursements of loans with shorter terms than those extended by the IMF.

9. COORDINATION AND COOPERATION

Multinational organizations consult and coordinate their response to a crisis. The IMF and the World Bank continue to issue joint statements. The G-20's debt relief was a response to their joint request and they are now urged to cooperate further in providing mechanisms to coordinate this standstill and ensure that the associated debt relief is directed towards pandemic funding.

The EU's macro-financial assistance program operates to complement IMF disbursements, as seen above. Additionally, in formulating country-level responses, the ADB states that it continues to prioritize close collaboration with the IMF, the World Bank, and other bilateral and multilateral development partners. These partnerships include not only co-financing projects but also setting overall strategies responding to the COVID-19 crisis. Furthermore, in its private sector operations, the ADB collaborates with the International Finance Corporation, the European Bank for Reconstruction and Development, and other development finance institutions and reports that the frequency of communication has been stepped up during the COVID-19 crisis.

Further collaboration and coordination also goes beyond organizations concerning economic development and financial stability. Due to the nature of the pandemic, these institutions are closely coordinating and exchanging information with the United Nations, including the WHO, to ensure alignment in addressing the COVID-19 crisis.

10. POST-CRISIS RECOVERY PLAN

The IMF has yet to announce specifics but its managing director recently acknowledged the importance of considering how to avoid a prolonged recession emerging from the pandemic. For emerging economies, she said the IMF envisions that these measures will include regular lending instruments, including those of a precautionary nature. She acknowledged that this may require considerable resources and stands ready to deploy its full lending capacity and to mobilize all layers of the global financial safety net. For the poorest members, the IMF considers more concessional financing.

She said she was also aware that more lending may not always be the best solution for every country; adding to high debt burdens may lead members down an unsustainable path. Therefore, the IMF is contemplating innovative approaches in collaboration with other multinational organizations and the private sector.