The cost of a fair and sustainable COVID-19 grant for the world’s poorest economies

Steven Kamin and Benedict Clements

ABSTRACT

The emerging-market and developing economies face a multitude of grave challenges as they confront the COVID-19 pandemic, including a critical lack of budgetary space. In this context, many policymakers and economic analysts have highlighted the need to bolster the lending capacity of international financial institutions. But for most of the world’s poorest economies, further borrowing would push their debt to unsustainable levels. Accordingly, the latest projections of the International Monetary Fund (IMF) show the advanced economies widening their budget deficits by 11.1% of gross domestic product (GDP) in 2020 to provide fiscal stimulus and help combat the pandemic. By contrast, the lowest-income economies are expected to expand their deficits by a mere 2.2%. What many of these countries require is not more lending but greater assistance in the form of grants. Providing additional grants makes sense from an ethical perspective and would lead to more sustainable economic development, while also benefiting the advanced economies by boosting global economic growth. In this policy brief, we estimate the cost of providing the world’s poorest economies with grants sufficient to allow them to undertake just half the fiscal expansion being implemented in the advanced economies. Our results indicate that this comes out to a very manageable US$308 billion, or 0.6% of the combined GDP of the advanced economies.

ARTICLE HISTORY

Received 8 January 2021
Accepted 25 March 2021

KEYWORDS

COVID-19; pandemic; grants; fiscal deficits

Introduction

The COVID-19 pandemic has created a multitude of grave challenges for the emerging-market and developing economies, which typically have weak public health systems, poor and financially vulnerable populations, inadequate social safety nets, and high exposure to global trade and commodity prices. These weaknesses have been exacerbated by the lack of budgetary space in most of these countries, which has constrained their governments from addressing these concerns to a similar extent exhibited in the advanced economies.

In part, this lack of budgetary space reflects a liquidity problem: emerging-market and developing economies typically suffer from precarious access to international capital markets. During times of strong global growth and low investor-risk aversion, international borrowing is cheap and abundant, but during global crises and investor flight to quality, that credit dries up. Indeed, international borrowing by emerging-market and developing economies ceased at the height of the pandemic-induced surge in global financial volatility in March 2020. Global financial conditions have calmed down since then, but a renewed “sudden stop” in capital flows is quite possible, given the continued vigor of the pandemic and its drag on the global economy. Such concerns motivated the G20 agreement in April 2020 on a “standstill” of debt servicing by the world’s poorest countries to their official bilateral creditors – referred to as the Debt Service Suspension Initiative (DSSI) – although that agreement is widely viewed as being inadequate if a global credit crunch were to reemerge. More ambitious proposals to address this risk include bolstering the lending power of the International Monetary Fund (IMF) and the World Bank, creating special new pandemic lending facilities, standstills, and debt relief covering broader arrays of countries and loan categories, as well as expansion of the IMF’s Standard Drawing Rights (SDR) allocation.

But besides a potential liquidity problem, many emerging-market economies and most developing economies face an almost-certain solvency problem: reflecting low incomes, structural problems, and earlier heavy borrowing, their governments cannot afford to spend, borrow, and increase their debt levels in the way that advanced-economy governments
are currently doing. Even if global credit conditions remain quiescent, therefore, most of the world’s poorest economies will not be able to take advantage of them in order to help blunt the impact of the pandemic. Simply put, taking on more debt is not sustainable or desirable; taking on more debt now would entail that countries engage in substantial spending cuts in the future to pay back this debt, setting back further progress toward achieving a sustainable path of economic development.

Besides exacerbating solvency problems, increasing debt also poses concerns about financial instability and monetary sovereignty. Most of the external debt of developing economies is denominated in foreign currencies, especially American dollars. Accordingly, shifts in the monetary policy of the United States and other advanced economies will lead to changes in the cost of debt in many countries, regardless of their domestic macroeconomic situations. Moreover, movements in these countries’ exchange rates against the dollar and other major reserve currencies, by altering the domestic currency value of external debt, will affect borrowers’ balance sheets and thus may pose concerns about financial fragility. All told, excessive foreign currency borrowing may challenge the ability of domestic authorities to promote macroeconomic and financial stability, which are necessary conditions for economic growth and development.

Most recently, the Common Framework for Debt Treatments agreed in November 2020 by the G20 nations attempts to address the solvency and debt concerns surrounding the world’s poorest economies by establishing a process for restructuring their debt. However, it is unclear how much of their debts will be reduced, especially given that there is no binding process for restructuring the debt owed to private creditors. In light of such concerns, more ambitious proposals have been mooted to make international debt restructurings and write-downs more accessible and efficacious. There have also been calls for reforms of the global monetary system to reduce dependence on dollar borrowing and to promote more sustainable capital flows.

Such far-reaching reform proposals deserve serious consideration. In the near term, a key priority remains to provide needy countries with the resources they require to address the social and economic costs of the pandemic without taking on additional and unsustainable amounts of debt. Accordingly, in this policy brief, we focus on a policy of providing grants rather than loans. In particular, we analyze IMF macroeconomic and fiscal data (IMF, 2020a, 2020b) to estimate the cost of providing the world’s poorest economies with grants to their budgets that would allow them to offer the kind of fiscal support undertaken by the world’s advanced economies. To foreshadow our key finding, if these countries were to undertake just half the fiscal expansion being implemented in the advanced economies, the cost to the advanced world would be a very manageable US$308 billion, or 0.6% of the advanced economies’ combined gross domestic product (GDP).

Materials, methods, and results

Advanced economies have undertaken a much greater fiscal response to the pandemic than emerging markets and developing economies. According to the IMF’s Fiscal Monitor for October 2020, the overall fiscal deficit is projected to widen from an average of 3.3% of GDP in 2019 to 14.4% in 2020 in the advanced economies, a swing of 11.1 percentage points; conversely, the emerging-market economies are projected to experience a widening of only 5.8 percentage points of GDP, while the low-income developing economies experience a swing of a mere 2.2 percentage points of GDP. To be sure, the IMF projects a greater deterioration in economic growth in the advanced economies (7.5 percentage points) than in the low-income developing economies (6.5 percentage points), but that difference hardly seems enough to explain the huge disparity in projected fiscal outcomes.

Tables A3 and A4 provide country-specific details on these projections along with details on how the calculations were derived. Table A3 presents per capita incomes and deficits for the targeted recipients of the G20 DSSI proposal, which includes all recipients of the World Bank’s concessional International Development Association (IDA) program as well as “least developed countries” as defined by the United Nations. Table A4 looks at the next tier up from this group, “lower-middle income economies” as defined by the World Bank. In both tables, Column 5, titled “Gap with Advanced Economies,” shows the difference between the average widening of deficits in the advanced economies (11.1 percentage points) and the widening of the deficit in the individual developing country. In nearly all of these economies, the expansion of fiscal deficits falls very far short of the expansion enjoyed by the advanced economies, almost certainly reflecting their limited scope for taking on additional debt.

Clearly, what many of the world’s poorest economies require is not more lending, which would push their debt to unsustainable levels, but greater assistance in the form of outright grants. The standard rationales for foreign aid grants remain as valid as ever, namely promoting a stronger global economy leads to greater trade and commercial activity which redound to the benefit of the donor economy. And providing aid to the world’s poorest economies
makes sense from an ethical perspective. The COVID-19 pandemic highlights two additional considerations. First, the global recession reinforces the economic rationale for aid; indeed, with the donor economies operating below capacity, they can provide resources to the recipient economies without sacrificing their own consumption (at least, in the short run). And, second, assistance to the world’s poorest countries will help them get COVID-19 under control, a prerequisite for the global suppression of this disease, given that the rollout of vaccines in these countries is expected to take a considerable amount of time.

A proposal to provide grants may raise concerns regarding aid dependency and its consequences for economic development and fiscal policy in developing economies. The literature on the impact of aid on growth is mixed (see Addison, Morrissey, and Tarp (2017) and Mongongo Dosa, Tezanos Vázquez, and Molenaars (2019) for recent reviews). Many studies nevertheless point to positive effects if aid is used well (e.g., Adam and Bevan 2006). With respect to the effects on fiscal policy, a key issue is whether aid depresses tax revenues. While some authors find a positive effect for aid (e.g., Clist and Morrissey 2011), most of the literature reports that aid reduces tax revenues (Benedek et al., 2014; Asongu and Jellal 2016; Combes, Ouedrago, and Tapsoba 2016; Crivelli and Gupta, 2017). Another key issue is whether the composition of aid (grants versus concessional loans) matters for the revenue effort. Gupta et al. (2004) find that grants tend to depress revenues more than concessional loans. These results from the literature suggest that the COVID-19 grant should be temporary in nature, which would help avoid any adverse long-term effects of this aid on countries’ efforts to raise revenues to support fiscal sustainability over the longer term. And such a temporary provision of grants is exactly what we are proposing in this policy brief.

The need for grant aid is receiving attention in the international community, but to a lesser degree than measures to ensure access to credit markets. Moreover, there has been little discussion of what the price tag would be for advanced economies of providing consequential grant support to developing economies.

How much would it cost the advanced economies to provide such support? Table 1 provides some insight into the magnitudes that might be involved. It is premised on a number of heroic assumptions:

- The widening of the fiscal deficits in the lowest- and low-middle income economies projected by the IMF in its October Fiscal Monitor forecast will be financeable for these countries in the short term. However, a material further expansion of borrowing beyond that level would not be financeable or incompatible with achieving fiscal sustainability over the long run. As such, higher deficits would require grants rather than loans.

- The expansion of fiscal deficits in the advanced countries represents an appropriate response to the increased health needs, demands on the social safety net, and shortfall in revenues induced by the pandemic. The size of this expansion in the advanced economies would likely constitute an upper bound for the appropriate expansion of fiscal deficits in the world’s poorest countries since they are projected to have a smaller decline in economic growth and generally have experienced a smaller increase in COVID-19 cases.

- The cost of providing the fiscal support would be borne by the advanced economies in a manner strictly proportional to the size of their economies, as measured by dollar-value GDP.

Based on these considerations, Table 1 provides cost estimates for three aid packages that could be provided by the advanced economies. Note that these approximations are based on data and projections for 2020, which is now over. However, with the pandemic likely to weigh on the developing economies through much of 2021, especially as they will likely be slower to be able to disseminate vaccines, these economies will continue to face substantial budgetary demands. Accordingly, the figures in Table 1 should provide a good sense of the likely resource needs of the world’s poorest economies and the cost to the advanced economies of providing them.

In Option 1, advanced-economy governments provide grants to the lowest-income economies – those targeted to benefit from the G20 DSSI, as listed in Table 1 – equal to half of the projected shortfall of their deficit expansion relative to the average of the advanced economies (11.1 percentage points of GDP). For example, as indicated Table A3, Bangladesh’s fiscal deficit is expected to deteriorate from 5.4% of GDP in 2019 to 6.8% in 2020, a widening of only 1.4 percentage points; accordingly, Option 1 would provide it with grants equal to 4.8 percentage points of GDP, half of its total gap of 9.7 percentage points. Despite the tremendous help this would represent for the world’s poorest economies, the cost to the advanced economies would be manageable: US$308 billion, amounting to 0.59% of the advanced economies’ projected 2020 GDP (in PPP dollars). For the United States, the cost would be US$123 billion.

Of course, many of the low-middle income countries shown in Table A4 are not much more able
than the DSSI recipients, if at all, to cope with the pandemic, and it might be reasonable to provide them, as well, with some modicum of aid. Accordingly, Option 2 adds to the assistance accorded the DSSI recipients by providing the remaining low-middle income countries with a quarter of their projected shortfall in deficit widening relative to that of the advanced economies.

Table 1. Cost to advanced economies (AE) of fiscal support (billions of US dollars).

| Option | Provide DSSI recipients half the projected deficit shortfall | Provide DSSI recipients half and low-middle income countries one-quarter projected shortfall | Provide all countries with 1% of their GDP |
|--------|--------------------------------------------------------------|-------------------------------------------------------------------------------------------|------------------------------------------|
| Total  | 307.96                                                      | 548.55                                                                                   | 205.18                                    |
| Share of AE 2020 PPP GDP | 0.59%                                                        | 1.05%                                                                                    | 0.39%                                     |
| Australia | 7.71                                                          | 13.73                                                                                    | 5.13                                      |
| Austria | 2.91                                                          | 5.18                                                                                     | 1.94                                      |
| Belgium | 3.39                                                          | 6.04                                                                                     | 2.26                                      |
| Canada | 10.66                                                         | 18.99                                                                                    | 7.10                                      |
| Czech Rep. | 2.54                                                           | 4.52                                                                                     | 1.69                                      |
| Denmark | 1.98                                                          | 3.52                                                                                     | 1.32                                      |
| Finland | 1.61                                                          | 2.86                                                                                     | 1.07                                      |
| France | 17.41                                                         | 31.00                                                                                    | 11.60                                     |
| Germany | 26.25                                                         | 46.75                                                                                    | 17.49                                     |
| Greece | 1.83                                                          | 3.26                                                                                    | 1.22                                      |
| Iceland | 0.12                                                          | 0.21                                                                                     | 0.08                                      |
| Ireland | 2.64                                                          | 4.70                                                                                     | 1.76                                      |
| Italy | 14.23                                                         | 25.35                                                                                    | 9.48                                      |
| Japan | 30.85                                                         | 54.95                                                                                    | 20.55                                     |
| Korea | 13.51                                                         | 24.07                                                                                    | 9.00                                      |
| Luxembourg | 0.42                                                          | 0.74                                                                                     | 0.28                                      |
| Netherlands | 5.81                                                         | 10.36                                                                                    | 3.87                                      |
| New Zealand | 1.21                                                        | 2.16                                                                                     | 0.81                                      |
| Norway | 2.06                                                          | 3.67                                                                                    | 1.37                                      |
| Portugal | 2.00                                                          | 3.57                                                                                    | 1.33                                      |
| Slovak Rep. | 1.03                                                          | 1.84                                                                                    | 0.69                                      |
| Slovenia | 0.47                                                          | 0.84                                                                                    | 0.31                                      |
| Spain | 10.45                                                         | 18.61                                                                                    | 6.96                                      |
| Sweden | 3.25                                                          | 5.79                                                                                     | 2.17                                      |
| Switzerland | 3.48                                                        | 6.20                                                                                    | 2.32                                      |
| UK | 17.55                                                         | 31.26                                                                                    | 11.69                                     |
| United States | 122.60                                                       | 218.38                                                                                   | 81.68                                     |

Sources: Authors’ calculations; IMF Fiscal Monitor, October 2020; IMF World Economic Outlook Database, October 2020.

Table 2. Advanced economies official development assistance.

| Country    | Foreign aid budget (2019) | Share of 2019 GDP | Shortfall from paying 1% of GDP | Nominal Payment in 2020 (US$ Billions) |
|------------|---------------------------|------------------|---------------------------------|---------------------------------------|
|            | Nominal (US$ Billions)    | Share of 2019 GDP | Share of 2019 GDP               | Nominal Payment in 2020 (US$ Billions) |
| Australia  | 2.95                      | 0.22%            | 0.78%                           | 10.20                                 |
| Austria    | 1.21                      | 0.23%            | 0.77%                           | 3.80                                  |
| Belgium    | 2.18                      | 0.35%            | 0.65%                           | 3.74                                  |
| Canada     | 4.67                      | 0.24%            | 0.76%                           | 13.75                                 |
| Czech Rep. | 0.31                      | 0.07%            | 0.93%                           | 4.01                                  |
| Denmark    | 2.55                      | 0.73%            | 0.27%                           | 0.91                                  |
| Finland    | 1.13                      | 0.4%             | 0.6%                            | 1.64                                  |
| France     | 12.18                     | 0.38%            | 0.62%                           | 18.32                                 |
| Germany    | 23.81                     | 0.51%            | 0.49%                           | 21.83                                 |
| Greece     | 0.31                      | 0.09%            | 0.91%                           | 2.83                                  |
| Iceland    | 0.07                      | 0.32%            | 0.68%                           | 0.13                                  |
| Ireland    | 0.93                      | 0.21%            | 0.79%                           | 3.54                                  |
| Italy      | 4.90                      | 0.18%            | 0.82%                           | 19.81                                 |
| Japan      | 15.51                     | 0.28%            | 0.72%                           | 37.70                                 |
| Korea      | 2.52                      | 0.11%            | 0.89%                           | 20.41                                 |
| Luxembourg | 0.47                      | 0.64%            | 0.36%                           | 0.25                                  |
| Netherlands| 5.29                      | 0.51%            | 0.49%                           | 4.84                                  |
| New Zealand| 0.56                      | 0.26%            | 0.74%                           | 1.52                                  |
| Norway     | 4.29                      | 1.21%            | −0.21%                          | −0.73                                 |
| Portugal   | 0.37                      | 0.1%             | 0.9%                            | 3.06                                  |
| Slovak Rep.| 0.13                      | 0.07%            | 0.93%                           | 1.63                                  |
| Slovenia   | 0.09                      | 0.1%             | 0.9%                            | 0.72                                  |
| Spain      | 2.90                      | 0.14%            | 0.86%                           | 15.25                                 |
| Sweden     | 5.40                      | 0.95%            | 0.05%                           | 0.28                                  |
| Switzerland| 3.09                      | 0.5%             | 0.5%                            | 2.95                                  |
| UK         | 19.36                     | 0.59%            | 0.41%                           | 12.21                                 |
| United States | 34.62                  | 0.16%            | 0.84%                           | 174.78                                |
| Total      | 151.78                    |                  | 379.38                          |                                       |

Sources: Authors’ calculations; IMF Fiscal Monitor, October 2020; IMF World Economic Outlook Database, October 2020; OECD, 2020.
Thus, India, whose deficit is projected to widen in 2020 by 6.2 percentage points less than in the advanced economies, would receive about 1.56 percentage points of its GDP in grants. As indicated in Table 1, this option would be almost twice as expensive, amounting to 1.05% of advanced economy GDP, or US$549 billion. The bill to the United States would come out to US$218 billion.

Finally, for readers inclined to make their own calculations, Option 3 details the cost of providing each DSSI recipient and low-middle income country with 1% of the GDP in aid, a still-non-negligible sum: a mere 0.4% of advanced economy GDP, or US$82 billion for the United States.

Note that all three of these cost estimates for the advanced economies are clustered around broadly similar shares in donor-country GDP: 0.4–1.1%. What constitutes a reasonable means of balancing the political and social resource constraints of the advanced economies with the urgent needs of the world’s poorest countries? Obviously, there are no “right” answers to this question. Table 2 describes one such approach, based on the past foreign development aid of the members of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD). It shows that in 2019, most of the members contributed 0.3% of GDP, or less, to foreign development aid. This was well below the DAC recommendation of 0.7% of gross national income (GNI) and even further below the 1% mark achieved by the Scandinavian members of the DAC. If the Scandinavian countries can do this in normal times, the rest of the DAC should be able to do it in times of extraordinary urgency. Column 3 of Table 2 describes each country’s shortfall from a 1% standard for aid as a fraction of 2019 GDP. If these countries were to each contribute that share of their projected 2020 GDP as part of pandemic relief, it would sum to US$379 billion, much more than enough to finance either Option 1 in Table 1 – half of the DSSI’s shortfall in deficit expansion relative to the advanced economies – or (Option 3) to provide all DSSI recipients and low-middle income countries with 1% of their GDP.

**Discussion and conclusion**

The purpose of these calculations is not to propose a particular scheme for a pandemic-grant package for the world’s poorest economies, but rather to provide a rough estimate of how much such a package might cost the advanced economies. Certainly, the ultimate cost of such a package would depend on a range of country-specific considerations, including the individual recipient economies’ actual public-health and economic needs, as well as their individual capacities to sustain an increase in government debt. Costing out these factors will require much more granular analysis than we have undertaken in this policy brief. But, all things considered, our estimates suggest that the cost to the advanced economies of a material amount of grant assistance to the world’s poorest economies would be manageable.

Nor do we address the modalities by which a pandemic-grant package would be designed and implemented. Myriad issues would have to be addressed, including:

- the set of donor countries;
- whether grants would be provided bilaterally or channeled through a central institution;
- the role of concessional finance by the international financial institutions, and how to account for the additional concessional resources that are being provided this year (e.g., through the CCRT and emergency financing in low-income countries);
- the set of recipient countries;
- the formula or other means of allocating the assistance to those recipients;
- the conditions, if any, to be required of the recipient countries;
- the linkage, if any, of this assistance with programs of the World Bank, IMF, and/or other international institutions;
- and whether recipient countries will be required to seek standstills or other forms of debt relief from their private creditors.

All of these issues will be politically fraught. And successfully addressing them will require courageous political leadership to muster domestic support in the donor countries. Leadership at the international level will also be critical, especially by what remains the West’s most powerful and influential country, the United States. It is a little-known fact, outside of insider political circles, that the United States held the presidency of the G7 process in 2020. This would have been an excellent opportunity to help organize the response of the world’s richest economies’ to humanitarian and economic catastrophe and thus assist the world’s poorest economies in achieving a sustainable recovery. We can only hope that in the year to come, the leadership of the United States and the world’s other affluent countries will recognize that need.

**Notes**

1. See the G20 Communique of April 15, 2020 for a description of the standstill proposal. Bolton et al. (2020) note that this proposal is inadequate for two reasons: (1) it focuses on the poorest countries, thus leaving out many low- and middle-income countries
that may also face severe strains; and (2) participation by private creditors would be only voluntary.

2. See, among others, Bolton et al. (2020), Brown and Summers (2020), Collins and Truman (2020), Fisher and Mazarei (2020), Kharas and Dooley (2020), Truman (2020), and United Nations (2020). Note that some proposals, such as debt forgiveness and new SDR allocations, not only address countries’ liquidity needs but also represent forms of resource transfer, the main topic of this policy brief. Kharas and Dooley’s article usefully surveys a broad range of proposals to boost financing and aid to the world’s poorest economies.

3. See Kaboub (2019a, 2019b) and Samba (2020).

4. See Bruno and Shin (2015), Akinci and Queralto (2019), and Kalemli-Ozcan (2019).

5. See the statement from the Extraordinary G20 Finance Ministers and Central Bank Governors’ Meeting held on November 13, 2020 (https://www.mof.go.jp/english/international_policy/convention/g20/g20_201113_1.pdf).

6. See Buchheit et al. (2013, 2019) and Landers (2020).

7. See, among many others, Farhi, Gourinchas, and Rey (2011) and Carney (2019).

8. See International Monetary Fund (2020a), including for more details on fiscal policies undertaken by countries in response to the crisis.

9. See Ingram (2019).

10. Calls for heightened foreign aid to developing countries in response to the pandemic include Kharas and Dooley (2020), Lakner, Ozler, and Van Der Weide (2020), Loayza (2020), OECD (2020), Roy (2020), Runde, Savoy, and McKeown (2020), United Nations (2020), and UNCTD (2020).

11. Two exceptions include United Nations (2020) and Lakner, Ozler, and Van Der Weide (2020).

12. Lakner, Ozler, and Van Der Weide (2020) estimate a cost of 0.75 to 1.5% of G20 GDP – similar to our own projections – to provide assistance to the 66 poorest countries, based on a methodology targeted at keeping populations from falling below the poverty level.

Acknowledgments

John Kearns provided superb research assistance. The authors would like to thank Homi Kharas and Stephanie Segal for their very useful comments.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Geolocation Details

This study was conducted in Washington, DC, USA.

ORCID

Benedict Clements
http://orcid.org/0000-0001-8710-8927

References

Adam, C., and D. Bevan. 2006. "Aid and the Supply Side: Public Investment, Export Performance, and Dutch Disease in Low-Income Countries." The World Bank Economic Review 20 (2): 261–290. doi:10.1093/wber/lhj011.

Addison, T., O. Morrissey, and F. Tarp. 2017. "The Macroeconomics of Aid: Overview." The Journal of Development Studies 53 (7): 987–997. doi:10.1080/00220388.2017.1303669.

Akinci, O., and A. Queralto. 2019. Exchange Rate Dynamics and Monetary Spillovers with Imperfect Financial Markets. International Finance Discussion Papers 1254. Washington, DC: Federal Reserve.

Asongu, S., and M. Jellal. 2016. “Foreign Aid Fiscal Policy: Theory and Evidence.” Comparative Economic Studies 58 (2): 279–314. doi:10.1057/ces.2016.7.

Benedek, D., E. Crivelli, S. Gupta, and P. Muthuora. 2014. “Foreign Aid and Revenue: Still a Crowding-Out Effect?” FinanzArchiv 70 (1): 67–96. doi:10.1628/F0022114X679156.

Bolton, P., L. Buchheit, P.-O. Gourinchas, M. Gulati, C.-Y. Hsieh, U. Panizza, and B. Weder di Mauro. 2020. Born Out of Necessity: A Debt Standstill for COVID-19. Policy Insight 103. Washington, DC: Center for Economic Policy Research.

Brown, G., and L. Summers. 2020. Debt Relief is the Most Effective Pandemic Aid. Prague: Project Syndicate.

Bruno, V., and H. Shin. 2015. “Cross-Border Banking and Global Liquidity.” The Review of Economic Studies 82 (2): 535–564. doi:10.1093/restud/rdu042.

Buchheit, L., G. Chabert, C. DeLong, and J. Zettelmeyer. 2019. How to Restructure Sovereign Debt: Lessons from Four Decades. Working Paper 19-8. Washington, DC: Peterson Institute for International Economics.

Buchheit, L., A. Gelperrn, M. Gulati, U. Panizza, B. Weder di Mauro, and J. Zettelmeyer. 2013. Revisiting Sovereign Bankruptcy. Washington, DC: Brookings Institution.

Carney, M. 2019. "The Growing Challenges for Monetary Policy in the Current International Monetary and Financial System,” Speech at Federal Reserve Bank of Kansas City, Jackson Hole Symposium, August.

Clist, P., and O. Morrissey. 2011. “Aid and Tax Revenue: Signs of a Positive Effect Since the 1980s.” Journal of International Development 23 (2): 165–180. doi:10.1002/jid.1656.

Collins, C., and E. Truman. 2020. IMF’s Special Drawing Rights to the Rescue. Real Time Issues Watch. Washington, DC: Peterson Institute for International Economics.

Combes, J.-L., R. Ouedrago, and S. Tapsoba. 2016. What Does Aid Do to Fiscal Policy? New Evidence. IMF Working Paper WP/16/112. Washington, DC: International Monetary Fund.

Crivelli, E., and S. Gupta. 2017. "Does Conditionality Mitigate the Potential Negative Effect of Aid on Revenues?" The Journal of Development Studies 53 (7): 1057–1074. doi:10.1080/00220388.2017.1303678.

Farhi, E., P. Gourinchas, and H. Rey. 2011. Reforming the International Monetary System. London: Centre for Economic Policy Research.

Fisher, M., and A. Mazarei. 2020. A Possible IMF Pandemic Support Facility for Emerging-Market Countries. Policy Brief 20-11. Washington, DC: Peterson Institute for International Economics.

Benedict Clements
http://orcid.org/0000-0001-8710-8927

Segal for their very useful comments.
Appendix A. Calculations for Tables A3 and A4.

Define $D_i$ as the change in government net lending (the negative of net borrowing, in percent of GDP) between 2019 and 2020 for each low-middle income country $i$, as shown in Column 4 of Table A3.

**Table A1. Cost to Advanced Economies (AE) of Fiscal Support (Billions of $US).**

| Option 1: Provide DSSI recipients with half the projected deficit shortfall |
|---|
| 1. $DGAP_i$ for each DSSI recipient country $i$ in Table A3 is multiplied by that country's dollar-value GDP to equal $SDGAP_i$. |
| 2. These $SDGAP_i$'s are summed across all DSSI recipients to equal $SDGAP_{DSSI}$. This is then divided by two, shown as "Total"; this amounts to $\frac{US$307.96 billion. |
| 3. IMF October 2020 World Economic Outlook (WEO) projections for 2020 GDP in all advanced economies $j$, $AEGDP_j$, are summed to equal $SAEGDP$. Thus, the share of payments under Option 1 in total advanced economy GDP is $0.5 \times \frac{SDGAP_{DSSI}}{SAEGDP}$. |
| 4. The dollar cost to each advanced economy $j$ is based on its share in total advanced-economy GDP: $AE_{COSTj} = 0.5 \times SDGAP \times \frac{SDGAP_{DSSI}}{SAEGDP}$. |

| Option 2: Provide DSSI recipients half and low-middle income countries one-quarter the projected shortfall |
|---|
| 1. $DGAP_k$ for each low-middle income country $k$ in Table A4 is multiplied by that country’s dollar-value GDP to equal $SDGAP_k$. |
| 2. These $SDGAP_k$’s are summed across all countries in Table A4 to equal $SDGAP_{LMI}$. |
| 3. Total payments under Option 2 equal $0.25 \times SDGAP_{DSSI} + 0.25 \times SDGAP_{LMI}$, or US$548.55 billion. |
| 4. Total payments are calculated as a share of advanced-economy GDP and distributed among advanced economies as described in Option 1 above. |

| Option 3: Provide all countries with 1% of their GDP |
|---|
| 1. Dollar-value GDP for all countries in Tables A3 and A4 are summed and divided by 100, for a total of US$205.18 billion. |
| 2. Total payments are calculated as a share of advanced-economy GDP and distributed among advanced economies as described in Option 1 above. |

Tables A3 and A4. $D_{AE}$ is the average change in government net lending for the advanced economies, which is stated by the IMF’s Fiscal Monitor, October 2020, to be $-11.1\%$ of GDP. $DGAP_i$, shown in Column 5 of Tables A3 and A4 is the gap between each individual country’s expansion of net lending and the average for advanced economies:

$$DGAP_i = D_i - D_{AE} = D_i - (-11.1\%) = D_i + 11.1$$
Table A2. Advanced economies official development assistance.

Columns 1 and 2: Foreign Aid Budget (2019)
1. For each advanced economy, j, extract 2019 foreign aid in US$ billions, SFA, from Table 1 of Organization for Economic Co-operation and Development (2020), and report in first column.
2. For each country, j, report in second column 2019 foreign aid as a percent of dollar-value GDP: (SFA/$AEGDP) × 100.

Columns 3 and 4: Shortfall from paying 1% of GDP
1. In third column, report for each country, j the difference between 2019 foreign aid as percent of GDP, the second column, and 1 percent: (1 – SFA/$AEGDP) × 100.
2. In the fourth column, for each country, j multiply the shortfall share of GDP shown in the third column by projected 2020 dollar-value GDP.

| Country                  | GDP per capita (2020 US$, PPP) | Government net lending (% GDP) | Change (4) | Gap with advanced economies (% GDP) |
|--------------------------|--------------------------------|--------------------------------|------------|-------------------------------------|
| (1)                      | (2)                            | (3)                            | (4)        | (5)                                 |
| Afghanistan              | 2072                           | −1.06                          | −2.79      | −1.74                               | 9.37                          |
| Angola                   | 6978                           | 0.79                           | −2.81      | −3.60                               | 7.50                          |
| Bangladesh               | 5138                           | −5.36                          | −6.80      | −1.43                               | 9.66                          |
| Benin                    | 3443                           | −0.54                          | −3.74      | −3.20                               | 7.90                          |
| Bhutan                   | 12,057                         | −1.14                          | −5.66      | −4.32                               | 10.29                         |
| Burkina Faso             | 2202                           | −3.47                          | −6.08      | −2.62                               | 8.48                          |
| Burundi                  | 782                            | −8.26                          | −9.52      | −1.26                               | 9.84                          |
| Cabo Verde               | 6980                           | −1.83                          | −11.27     | −9.44                               | 1.66                          |
| Cambodia                 | 4441                           | 3.21                           | −2.40      | −5.62                               | 5.48                          |
| Cameroon                 | 3709                           | −3.31                          | −4.12      | −0.81                               | 6.78                          |
| Central Afr. Rep.        | 972                            | 1.42                           | −2.29      | −3.72                               | 7.38                          |
| Chad                     | 1617                           | −0.17                          | −0.64      | −0.47                               | 10.63                         |
| Comoros                  | 3013                           | −2.20                          | −3.90      | −1.70                               | 9.40                          |
| Dem. Rep. of Congo       | 977                            | −2.05                          | −1.90      | 0.16                                | 11.26                         |
| Republic of Congo        | 4232                           | 5.82                           | −2.11      | −7.93                               | 3.17                          |
| Côte d’Ivoire            | 5360                           | −2.29                          | −5.40      | −3.11                               | 7.99                          |
| Djibouti                 | 5073                           | −0.85                          | −1.52      | −0.67                               | 10.43                         |
| Dominica                 | 12,082                         | −8.83                          | −3.34      | 5.49                                | 16.59                         |
| Eritrea                  | 1824                           | −1.61                          | −5.16      | −3.55                               | 7.55                          |
| Ethiopia                 | 2771                           | −2.53                          | −3.55      | −1.02                               | 10.08                         |
| Fiji                     | 11,175                         | −5.13                          | −19.20     | −14.07                              | −2.97                         |
| The Gambia               | 2238                           | −2.53                          | −3.78      | −1.25                               | 9.85                          |
| Ghana                    | 5706                           | −7.34                          | −16.42     | −9.07                               | 2.03                          |
| Grenada                  | 16,454                         | 4.95                           | −1.73      | −6.68                               | 4.42                          |
| Guinea                   | 2515                           | −0.46                          | −3.71      | −3.24                               | 7.86                          |
| Guinea-Bissau            | 2340                           | −4.61                          | −8.27      | −3.67                               | 7.43                          |
| Guyana                   | 17,359                         | −2.59                          | −5.65      | −3.06                               | 8.04                          |
| Haiti                    | 1728                           | −2.28                          | −5.87      | −3.59                               | 7.51                          |
| Honduras                 | 5537                           | 0.09                           | −3.09      | −3.18                               | 7.75                          |
| Kenya                    | 4993                           | −7.73                          | −8.38      | −0.65                               | 10.45                         |
| Kiribati                 | 2125                           | 15.02                          | −13.24     | −28.27                              | −17.17                        |
| Kosovo                   | 11,016                         | −2.77                          | −7.04      | −4.26                               | 6.84                          |
| Kyrgyz Republic          | 4824                           | −0.14                          | −7.28      | −7.14                               | 3.96                          |
| Lao P.D.R.               | 8220                           | −5.02                          | −6.42      | −1.41                               | 9.69                          |
| Lesotho                  | 2886                           | −5.60                          | −7.31      | −1.71                               | 9.39                          |
| Liberia                  | 1535                           | −4.55                          | −3.54      | 1.01                                | 12.11                         |
| Madagascar               | 1647                           | −1.42                          | −5.52      | −4.10                               | 7.00                          |
| Malawi                   | 995                            | −6.36                          | −9.19      | −2.83                               | 8.27                          |
| Maldives                 | 22,964                         | −6.39                          | −21.93     | −15.54                              | −4.44                         |
| Mali                     | 2421                           | −1.68                          | −6.20      | −4.52                               | 6.58                          |
| Marshall Islands         | 3785                           | 0.25                           | −3.53      | −3.79                               | 7.31                          |
| Mauritania               | 5796                           | 2.75                           | −3.28      | −6.03                               | 5.07                          |
| Micronesia               | 3446                           | 16.39                          | −1.71      | −18.10                              | −7.00                         |
| Mozambique               | 1279                           | −0.15                          | −7.06      | −6.91                               | 4.19                          |
| Myanmar                  | 5178                           | −3.92                          | −6.02      | −2.10                               | 9.00                          |
| Nepal                    | 3585                           | −4.56                          | −7.93      | −3.37                               | 7.73                          |
| Nicaragua                | 5439                           | −0.45                          | −4.27      | −3.82                               | 7.28                          |
| Niger                    | 1252                           | −3.56                          | −4.82      | −1.26                               | 9.84                          |
| Nigeria                  | 5065                           | −4.76                          | −6.74      | −1.98                               | 9.12                          |
| Pakistan                 | 5160                           | −8.98                          | −8.01      | 0.97                                | 12.07                         |
| Papua New Guinea         | 3860                           | −4.96                          | −6.27      | −1.30                               | 9.80                          |
| Rwanda                   | 2392                           | −5.19                          | −7.72      | −2.52                               | 8.58                          |
| Samoa                    | 5546                           | 2.71                           | −7.26      | −9.97                               | 1.13                          |
| São Tomé and Principe    | 3836                           | −1.76                          | −4.60      | −2.84                               | 8.26                          |
| Senegal                  | 3462                           | −3.83                          | −6.23      | −2.41                               | 8.69                          |
| Sierra Leone             | 1710                           | −2.74                          | −6.37      | −3.63                               | 7.47                          |
| Solomon Islands          | 2442                           | −1.66                          | −5.59      | −3.93                               | 7.17                          |
| South Sudan              | 883                            | 0.34                           | −1.89      | −2.23                               | 8.87                          |
| Sudan                    | 3749                           | −10.88                         | −6.83      | 4.05                                | 15.15                         |
| Tajikistan               | 3559                           | −2.10                          | −6.00      | −3.90                               | 7.20                          |
| Tanzania                 | 2850                           | −1.72                          | −1.86      | −0.14                               | 10.96                         |
| Timor-Leste              | 4031                           | −32.08                         | −17.52     | 14.56                               | 23.66                         |

(continued)
### Table A3. Continued.

| Country | GDP per capita (2020 US$, PPP) | Government net lending (% GDP) | Gap with advanced economies (% GDP) |
|---------|-------------------------------|-------------------------------|-------------------------------------|
|         | (1)                           | (2) | (3) | (4) | (5) |
| Togo    | 1639                          | 2.13 | -7.12 | -9.25 | 1.85 |
| Tuvalu  | 4480                          | -8.60 | -12.30 | -3.70 | 7.40 |
| Uganda  | 2585                          | -5.01 | -6.55 | -1.54 | 9.56 |
| Uzbekistan | 7378                      | -0.26 | -4.14 | -3.88 | 7.22 |
| Yemen   | 1931                          | -5.32 | -9.21 | -3.89 | 7.21 |
| Zambia  | 3302                          | -8.14 | -6.00 | 2.15  | 13.25 |
| Zimbabwe | 2583                         | -1.65 | -1.85 | -0.20 | 10.90 |

Sources: Authors’ calculations; IMF Fiscal Monitor, October 2020; IMF World Economic Outlook Database, October 2020.

### Table A4. Fiscal projections for additional lower-middle income countries.

| Country      | GDP per capita (2020 US$, PPP) | Government net lending (% GDP) | Gap with advanced economies (% GDP) |
|--------------|-------------------------------|-------------------------------|-------------------------------------|
|              | (1)                           | (2) | (3) | (4) | (5) |
| Algeria      | 11,040                        | -5.64 | -11.49 | -5.85 | 5.25 |
| Bolivia      | 8342                          | -7.22 | -8.56 | -1.34 | 9.76 |
| Egypt        | 12,718                        | -7.41 | -7.49 | -0.08 | 11.02 |
| El Salvador  | 8401                          | -3.05 | -13.32 | -10.26 | 0.84 |
| Eswatini     | 8955                          | -7.28 | -8.67 | -1.39 | 9.71 |
| India        | 6283                          | -8.22 | -13.08 | -4.86 | 6.24 |
| Morocco      | 7608                          | -4.13 | -7.79 | -3.66 | 7.43 |
| Philippines  | 8573                          | -1.78 | -8.06 | -6.28 | 4.82 |
| Sri Lanka    | 13,113                        | -8.18 | -9.63 | -1.45 | 9.65 |
| Tunisia      | 10,381                        | -3.89 | -8.10 | -4.21 | 6.89 |
| Vanuatu      | 2,649                         | 4.63  | -7.62 | -12.26 | -1.16 |
| Vietnam      | 10,754                        | -3.29 | -6.02 | -2.73 | 8.37 |

Sources: Authors’ calculations; IMF Fiscal Monitor, October 2020; IMF World Economic Outlook Database, October 2020.