



IMF POLICY PAPER

MACROECONOMIC DEVELOPMENTS AND PROSPECTS FOR LOW-INCOME COUNTRIES—2024

March 2024

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 29, 2024, consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on February 22, 2024, for the Executive Board's consideration on March 29, 2024.
- A **Staff Supplement**.

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International Monetary Fund
Washington, D.C.



IMF Executive Board Discusses Macroeconomic Developments and Prospects in Low-Income Countries

FOR IMMEDIATE RELEASE

Washington, DC – April 2, 2024: On March 29, 2024, the Executive Board of the International Monetary Fund (IMF) discussed the IMF staff paper on macroeconomic developments and prospects in low-income countries (LICs) [link], which includes in-depth analysis of strategies for strengthening social safety nets (SSN) in LICs. The paper defines LICs as those 69 countries eligible for [the Poverty Reduction and Growth Trust](#) facilities.¹

The economic scarring of the COVID-19 pandemic, Russia's war in Ukraine and ensuing geopolitical tensions, and the tightening of financial conditions following strong inflationary pressures have hit LICs the hardest in recent years.

LICs' prospects are finally slowly improving, helped by a better global outlook, as economic growth accelerates, inflation decreases, and financial conditions ease. However, significant uncertainties and adverse risks remain in the context of a more shock-prone world. Liquidity conditions remain tight and the burden of high debt service payments limits the space for development spending.

However, there is significant heterogeneity amongst LICs. The poorest countries have been hit hardest by the pandemic and have experienced the strongest scarring in terms of output loss. Fragile and conflict affected states (FCS) have seen their recovery hindered by weak institutions and inherent fragilities. The many LICs whose exports have been concentrated in a few products, have had weaker and more volatile performance. Fuel exporters, in particular, have missed the chance to capitalize on the oil windfall and will now have to consolidate in a less favorable environment. On the contrary, diversified exporters and frontier markets have shown more resilience to shocks. Finally, many Small Developing States who are often tourism-dependent, have recovered comparatively better but need to reduce high debt levels and allocate part of their revenues to critical climate change adaptation investments.

The report points to the fact that decisive efforts are needed to accelerate income convergence with more advanced economies and make progress towards the Sustainable Development Goals. This involves boosting growth, overcoming setbacks in poverty reduction triggered by the COVID-19 pandemic, reversing negative trends in food security and women's employment, and enhancing resilience to future shocks.

Addressing these challenges requires decisive domestic actions paired with strong external support. On the domestic front, prudent fiscal and monetary policies would be key to maintain macroeconomic stability. The authorities should also focus on accelerating domestic revenue mobilization and prioritizing public spending to create additional space for critical development and social spending. In this context, efficient allocation and expansion of social safety net plays a crucial role in alleviating poverty and building buffers against external shocks. This calls for a re-direction of SSN spending from the better-off to the poorest segments. Strengthening public financial management, governance and transparency would promote

¹ The list can be found in Annex I of the report.

accountability and help build political support buy-in for reforms, including ambitious structural reforms that support inclusive growth.

At the same time, all partners should step up external support, including not just financing but also policy advice and technical assistance. In particular, grants and highly concessional financing will be crucial to support development efforts of poorer countries, while efforts to catalyze private financing should be enhanced, in particular in frontier markets. Improved creditor cooperation would be important to ensure timely debt treatment where needed. The Fund is continuing to play its part: lending more than tripled since the pandemic, the bulk of it on concessional terms, and continuing to adapt its support to respond to changing LIC needs.

Executive Board Assessment²

Executive Directors welcomed the timely opportunity to discuss recent macroeconomic developments and prospects in low income countries (LICs). They broadly agreed with the staff's assessment and the identified policy priorities, including strengthening social safety nets (SSN).

Directors welcomed that after several challenging years marked by the pandemic, Russia's war in Ukraine, and the tightening of international financial conditions, the macroeconomic outlook for LICs is gradually improving as growth picks up, inflation subsides, and international financial conditions ease. However, risks for LICs are tilted to the downside amid persistent scarring, liquidity challenges (with high debt service putting pressure on the space available for development spending), elevated vulnerabilities to shocks, and relatively low macroeconomic buffers. Some Directors also highlighted the impact of geoeconomic fragmentation on LICs.

Directors acknowledged the significant heterogeneity in macroeconomic outcomes across LICs, with the poorest and fragile and conflict affected states (FCS) facing the toughest challenges. On the other side of the spectrum, frontier markets, and in general LICs with more diversified economies and higher per capita incomes, have typically fared better. In this context, Directors emphasized that carefully tailoring the policy mix to country circumstances is vital.

Directors agreed that more growth, more inclusion, and more resilience are essential to accelerate the path of LICs' convergence with more advanced economies and support progress toward the Sustainable Development Goals. This entails, among others, reversing adverse trends in areas such as poverty reduction, food security, and women's labor force participation. Directors emphasized the importance of decisive domestic action in LICs, including further policy tightening where needed; accelerated domestic revenue mobilization and more efficient fiscal spending to create space for urgent development outlays and for protecting the most vulnerable; deepening domestic financial markets; stronger public financial

² At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

and debt management; progress on governance and transparency; well sequenced and growth enhancing structural reforms; and building climate resilience.

Directors concurred that efficient allocation and expansion of SSNs are vital for substantial poverty reduction in LICs. Both economic growth and increased SSN spending are necessary. They noted that in many LICs, a focus should be placed on better targeting benefits to the poorest segments. Simply redirecting half of the portion of SSN spending going to the richest households toward the poorest would be enough to nearly double the coverage of the most vulnerable. Directors underscored the importance of tailored SSN design to improve the poverty impact of expanding coverage and benefits. Enhancing the adaptability of SSNs to respond swiftly to various shocks is crucial, including by improving the ability to identify vulnerable households, verify their needs, and deliver benefits following shocks, making use of digitalization to the extent possible.

Directors noted staff's estimates of LICs' sizable financing needs, while recognizing that such estimates are subject to uncertainty. They agreed that decisive domestic reforms need to be complemented with strong external support by all partners, including through technical assistance and adequate financing. Directors emphasized the criticality of grants and highly concessional financing for the poorest and most fragile LICs. Meanwhile, catalyzing significant financing from the private sector would be crucial, in particular in frontier markets, to accompany their transition to middle income status. In this context, a number of Directors recommended a cautious approach to a further buildup in senior debt held by LICs, which could impact the catalytic effect of Fund financing. Directors noted that while progress has been made, debt restructuring processes, including under the Common Framework, should be further improved through closer creditor coordination to deliver timely debt relief where needed. They welcomed the work of the Global Sovereign Debt Roundtable to support this effort.

Directors commended the Fund's strong engagement with LICs through targeted policy advice, capacity building, and financing. They underscored the important role played by the Fund in helping LICs maintain or restore a stable macroeconomic environment and achieve their reform agenda. They noted that the Fund's support to LICs evolved flexibly to help them tackle changing needs and repeated shocks since the pandemic. Directors looked forward to the upcoming review of the PRGT Facilities and Financing, as well as other upcoming policy reviews that will have a bearing on the effectiveness of Fund support for LICs, including the review of the Bank Fund debt sustainability framework for low income countries (LIC DSF). Overall, Directors urged the Fund to continue to work closely with the World Bank and with other development partners and stakeholders, and leverage its comparative advantage to support LICs.



February 22, 2024

MACROECONOMIC DEVELOPMENTS AND PROSPECTS FOR LOW-INCOME COUNTRIES—2024

EXECUTIVE SUMMARY

Macroeconomic Developments and Prospects

The outlook for Low-Income Countries (LICs) is gradually improving, but macroeconomic vulnerabilities are bound to persist. Coming on the back of the COVID-19 pandemic and Russia's war in Ukraine, the tightening of international financial conditions and geopolitical tensions weighed on the global environment in 2022-23. In many LICs, the impact was compounded by policy tightening, violence, political instability, and extreme weather events. Their recoveries thus struggled to regain momentum and scarring remains deeper than in more advanced countries. Looking forward, the outlook for LICs is gradually improving as growth picks up, inflation subsides, and international financial conditions are easing. However, risks are tilted to the downside. A chief immediate concern involves liquidity challenges, with high debt service putting pressure on the space available for development spending.

There is important heterogeneity across LICs, with the poorest and most fragile countries facing the toughest challenges. The two-fifths of LICs with per capita income below the IDA threshold experienced the strongest scarring from the COVID-19 pandemic and struggle the most to regain stronger growth. On the other side of the spectrum, Frontier Markets, and in general LICs with more diversified economies and higher per capita incomes, have typically been faring better.

Significant effort is needed to achieve higher and more inclusive growth, and improve resilience. Higher and more inclusive growth are essential to accelerate the path of convergence with more advanced economies and support progress towards the Sustainable Development Goals. This entails reversing adverse trends in areas such as poverty reduction, food insecurity, and women's labor force participation. Building resilience will also be critical in the more shock-prone world ahead.

Addressing current challenges calls for decisive domestic action, complemented by strong external support and debt relief where needed. Promoting higher and more inclusive growth, as well as addressing persistent vulnerabilities call for strong policy and reform efforts, including further policy tightening where needed; accelerated domestic revenue mobilization and more efficient fiscal spending to create space for urgent development spending; stronger public financial management, including progress on governance and transparency; and structural reforms to support growth,

inclusion, and resilience. External partners should step up their policy advice, technical assistance and financial support, especially through grants and highly concessional financing to help cover LICs' large needs. Debt restructuring processes should also be further improved to ensure timely debt relief where needed.

The Fund is further stepping up its support through targeted policy advice, capacity building, and financing. Total Fund credit outstanding to LICs has reached a record SDR 24.4 billion at the end of 2023, the bulk of which (SDR 18.3 billion) on concessional terms. The upcoming review of the Fund's Poverty Reduction and Growth Trust provides an opportunity to revisit its concessional support to ensure it remains adequately resourced and well targeted to help those LICs that need it the most.

Strengthening Social Safety Nets in Low-Income Countries

In LICs, particularly Sub-Saharan Africa, poverty remains a significant challenge despite previous progress. The COVID-19 pandemic and subsequent shocks have exacerbated the situation, with poverty rates in Sub-Saharan Africa hovering around 40 percent. The aggregate poverty gap—a rough estimate of the resources needed to eradicate poverty—is about 10 percent of GDP in Sub-Saharan Africa LICs or about \$50 billion per year. Social Safety Nets (SSNs), which can be funded through domestic revenue mobilization and spending re-prioritization, emerge as crucial tools in this context, aiding in poverty alleviation, human and physical capital accumulation, and resilience building against shocks. Despite their importance, LICs coverage and benefits remain generally low and a significant portion of spending goes to the better-off.

Efficient allocation and expansion of SSNs are vital for substantial poverty reduction in LICs. Both economic growth and increased SSN spending are necessary to better alleviate poverty. In many countries, a focus should be placed on directing benefits more accurately to the poorest segments. All else equal, cutting in half the share of SSN benefits that go to top quintile households and redirecting these resources to the bottom quintile would increase nearly double coverage of the bottom quintile without increasing the SSNs spending. Recent experience also highlights the importance of tailored SSN design, including choices for expanding coverage and benefits under existing programs and capacity. Enhancing the adaptability of SSNs to respond swiftly to various shocks is crucial, emphasizing the role of digitalization.

An interplay of technical and political factors influences the design, acceptance, and success of SSNs. Political support, perceptions of fairness, and effective communication are central for successful implementation. Better public awareness and stakeholder engagement are also critical.

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Glossary

AE	Advanced Economies
AfCFTA	African Continental Free Trade Area
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
ASPIRE	Atlas of Social Protection Indicators of Resilience and Equity
BOP	Balance of Payments
CAR	The Central African Republic
CCRT	Catastrophe Containment and Relief Trust
CD	Capacity Development
CEMAC	Central African Economic and Monetary Community
CES	Country Engagement Strategies
CF	The G20 Common Framework for Debt Treatments
COVID	Coronavirus Disease 2019
CPA	Consistent Policy Assessment
CPI	Consumer Price Index
DAC	Development Assistance Committee
DRC	Democratic Republic of Congo
DRM	Domestic Revenue Mobilization
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EFF	Extended Fund Facility
EM	Emerging Markets
EME	Emerging Market Economies
ER	Exchange Rate
FAD	Fiscal Affairs Department
FAO	Food and Agriculture Organization
FCS	Fragile and Conflict-affected States
FDI	Foreign Direct Investment
FM	Frontier Markets
FSI	Financial Soundness Indicators
FSW	Food Shock Window
FX	Foreign Exchange
FXI	Foreign Exchange Interventions
FY	Fiscal Year
GDP	Gross Domestic Products
GFN	Gross Financing Needs
GRA	General Resource Account
GNI	Gross National Income

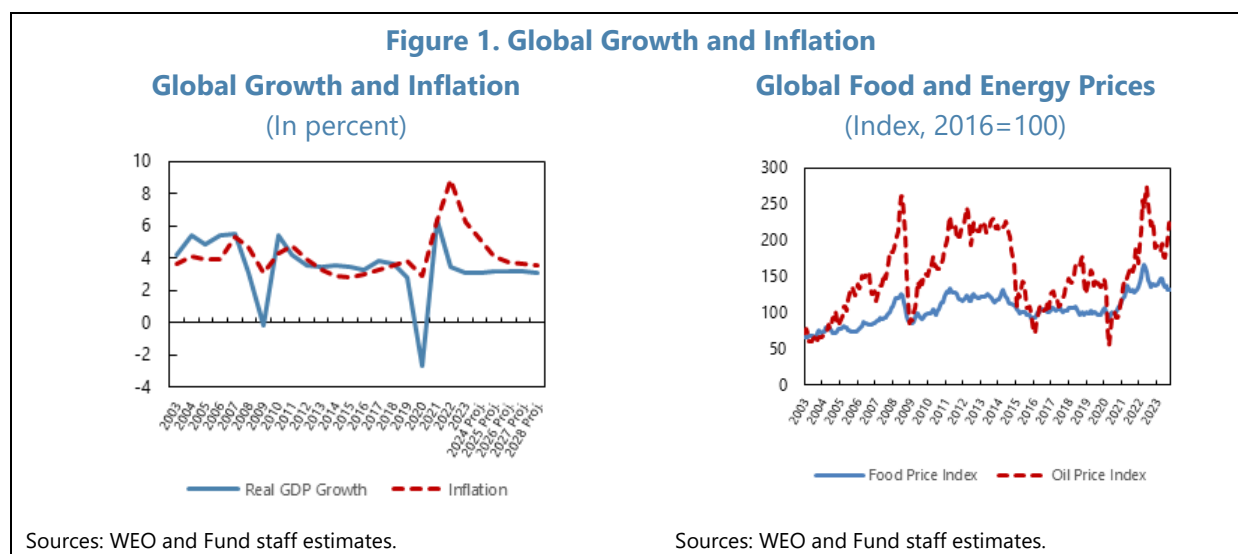
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
LICs	Low-income Countries
MDRI	Multilateral Debt Relief Initiative
MU	Monetary Union
NBER	National Bureau of Economic Research
NPL	Non-performing Loans
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Squares
PC	Paris Club
PCI	Policy Coordination Instrument
PMB	Staff-Monitored Program with Executive Board Involvement
PPP	Purchasing Power Parity
PRGT	Poverty Reduction and Growth Trust
RCEP	Regional Comprehensive Economic Partnership
RCF	Rapid Credit Facility
REER	Real Effective Exchange Rate
RFI	Rapid Financing Instrument
RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
SCF	Stand-by Credit Facility
SDG	Sustainable Development Goals
SDR	Special Drawing Rights
SDS	Small Developing States
SOEs	State-owned enterprises
SSA	Sub-Saharan Africa
SSN	Social Safety Net
TA	Technical Assistance
UCT	Upper Credit Tranche
USD	U.S. Dollar
WAEMU	West African Economic and Monetary Union
WB	World Bank
WEO	World Economic Outlook
WFP	World Food Programme

RECENT DEVELOPMENTS AND OUTLOOK

After a series of global and local shocks that have further exacerbated the economic challenges facing LICs, some of the immediate pressures have begun to subside in 2023 and the outlook is gradually improving. Median GDP growth would gradually regain pre-pandemic levels, but for many LICs—and especially the poorest and most fragile—it will remain too low. In addition, many LICs still face elevated inflation and high debt levels. All these challenges persist amid rising debt service obligations and declining net financing flows, which compress the space available for development spending. Risks to the outlook for LICs remain tilted to the downside due to persistent macroeconomic vulnerabilities and, in many cases, structural and institutional characteristics that make them highly susceptible to shocks.

A. A Challenging Global Context in 2023, Gradual Improvement Ahead

1. The global environment remained challenging in 2023 as the recovery from the COVID-19 pandemic continued to lose steam in many countries. Just as the world economy began to recover from the COVID-19 shock, inflation surged, exacerbated by the adverse effects of Russia’s war in Ukraine on fuel and food markets (Figure 1). The ensuing tightening of monetary policy and global financial conditions, as well as an increased risk aversion amid rising geopolitical tensions weighed on growth and worsened the global economic environment. While some of these factors subsided somewhat in 2023—for example, global inflation eased from its 2022 peak of 8.9 percent and key commodity prices came down from their recent peaks—global economic growth further slowed to just 3.1 percent from 3.5 percent in 2022.¹



¹ The Paper defines Low-Income Countries (LICs) as those 69 countries eligible for [Poverty Reduction and Growth Trust \(PRGT\)](#) facilities. The list can be found in Annex I of the report.

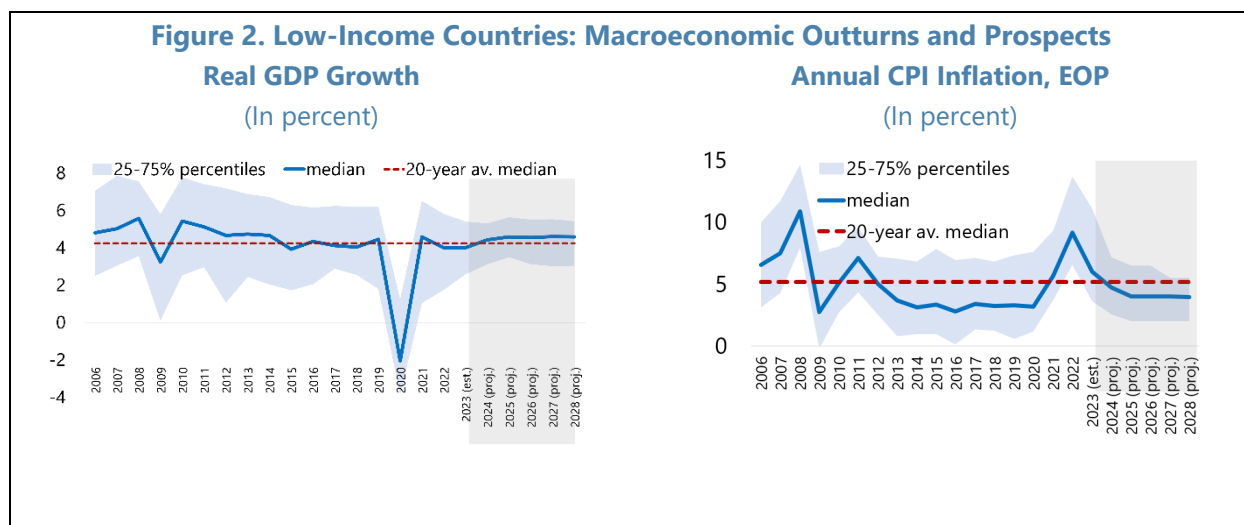
2. Looking forward, the global economic environment is poised to gradually improve.²

Global economic growth is projected to remain stable at 3.1 percent in 2024 and then improve over the medium term. Helped by strong monetary policy action in many economies as well as the recent fall in international food and energy prices, global CPI inflation is expected to decline from 6.8 percent in 2023 to 5.4 percent in 2024 and further to 4.0 percent by 2028. This trend, in turn, underpins the projection of gradually improving global financial conditions. Risks to the outlook have become more balanced as highlighted in the January 2024 WEO update.

B. Low-Income Countries on a Modest Recovery Path

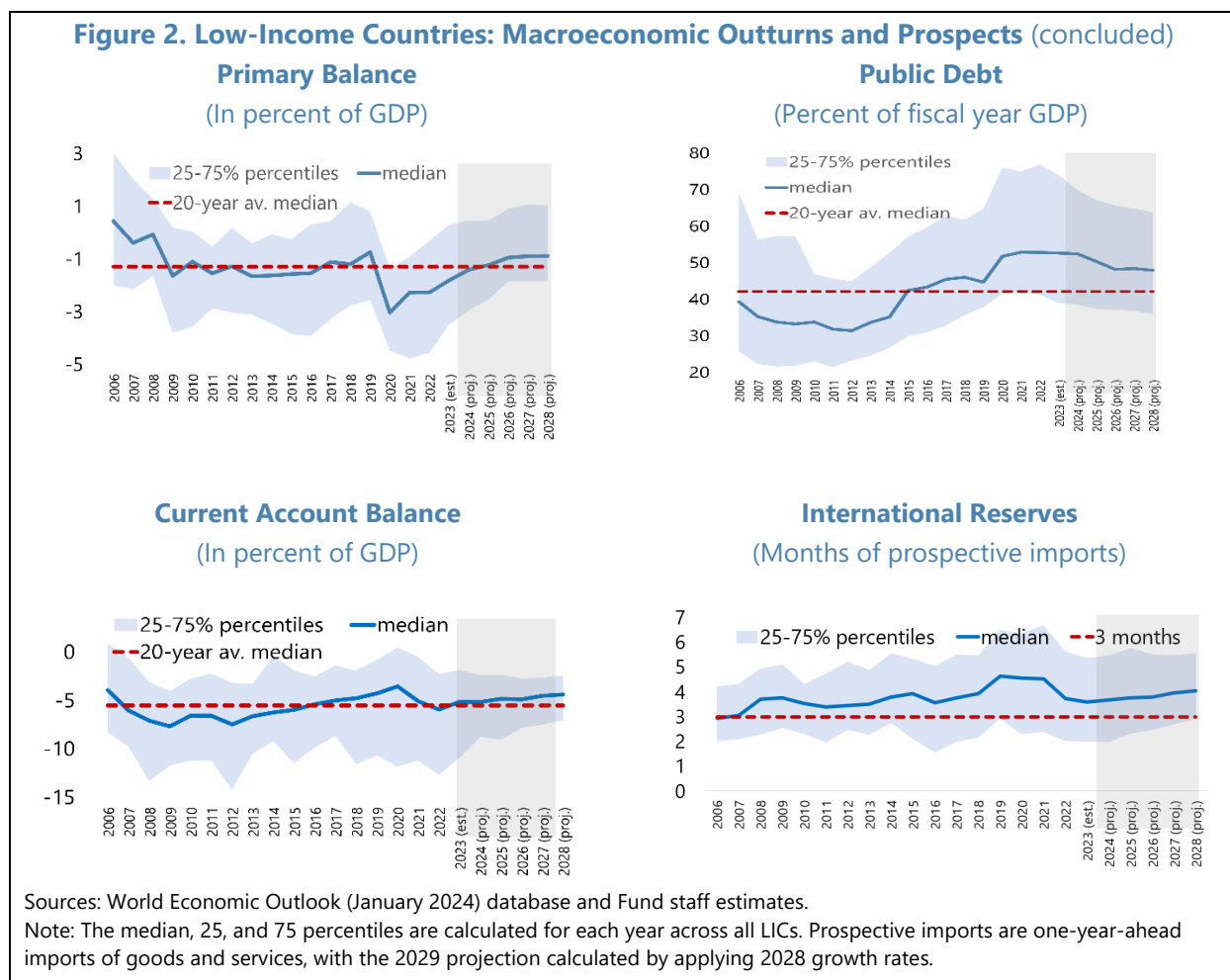
Growth and Inflation

3. **LIC growth remained flat in 2023 but is set to improve in 2024 and over the medium term (Figure 2).**³ The challenging global environment, structural impediments to growth, and other factors such as conflicts, socio-political instability and extreme climate events (e.g., floods in Mozambique and Malawi, droughts in Kenya and Somalia) weighed on LICs' post-Covid recoveries. Growth already lost steam in 2022 with median growth decelerating to 4.0 percent from 4.6 percent in 2021; and remained at that level in 2023. Median growth is expected to accelerate to 4.4 percent in 2024 and further toward the pre-COVID average of 4.6 percent over the medium term—with significant variance across countries (see ¶10-14).



² This section is based on global and country-specific IMF staff projections in the January 2024 update of the [World Economic Outlook \(IMF 2024a\)](#).

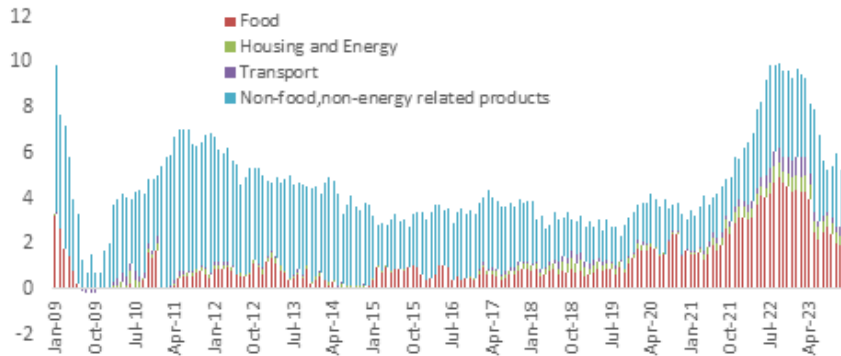
³ For the purpose of this report, the universe of low-income countries (LICs) includes the 69 IMF member countries eligible for financing from the concessional [PRGT](#) (Annex I).

Figure 2. Low-Income Countries: Macroeconomic Outturns and Prospects (concluded)


4. Inflation pressures have begun to abate and are expected to ease further, but many LICs are still facing a cost-of-living crisis. Median end-of-period consumer price inflation declined to 6.0 percent in 2023 from 9.1 percent the year before, reflecting global disinflation and the retreat of international energy and food prices from their 2022 peaks (Figure 1, Figure 2, top panel). However, price pressures in some LICs remained significant, with more than a quarter of them experiencing double-digit inflation in 2023. These persistent pressures often reflected exchange rate adjustments, monetary financing of budget deficits, and relatively long lags in the pass-through of falling international energy and food prices to domestic markets (Figure 3).⁴ Helped by a supportive international environment and continued fiscal adjustment, median CPI inflation will likely continue decelerating towards 4.0 percent by 2025 and remain around that level thereafter.

⁴ For example, almost a quarter of LICs saw annual domestic food price inflation of more than 15 percent in 2023, in spite of improving global food market conditions. For details, see IMF 2023a.

Figure 3. Low-Income Countries: Decomposition of Headline Inflation
(Median, in percent)



Sources: IMF CPI database and Fund staff estimates.

Note: The bars reflect median inflation contributions of each category across LICs, may not add up to the median inflation.

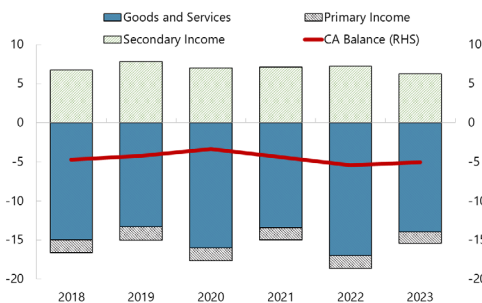
External Sector

5. Receding commodity prices brought some relief to LICs, but the median current account deficit remains wide and would narrow only marginally over the medium term.

Helped by decreasing import prices for energy and food staples and a rebound in tourism, the median current account deficit in LICs improved to 5.1 percent of GDP in 2023 from 6.0 percent of GDP in 2022 (Figure 4, top-left panel). However, of 30 assessed LICs in 2023, 15 countries were found to have an external position weaker than justified by fundamentals. LICs’ median current account would remain virtually unchanged in 2024 and then slightly fall to 4.5 percent of GDP by 2028. This only marginal improvement reflects the often protracted nature of LICs’ balance of payments problems that reflect weak (and volatile) export sectors and in some cases large investments due to development-related import needs.

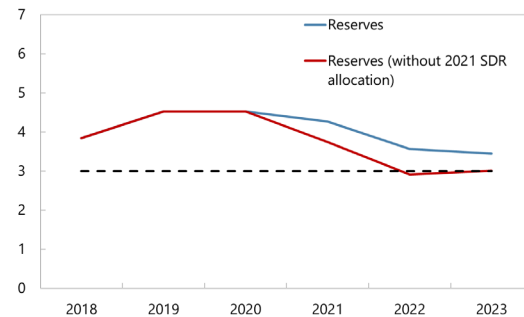
Figure 4. Low-Income Countries: External Sector Developments

LICs: Current Account Composition
(Median, in percent of GDP)



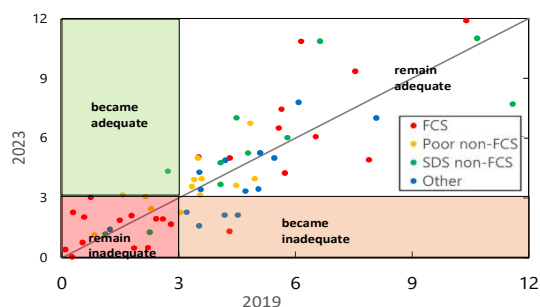
Note: The bars do not fully add up to the current account line, as LIC medians are estimated for each sub-category.

LICs’ Reserve Adequacy
(Median, months of prospective imports)



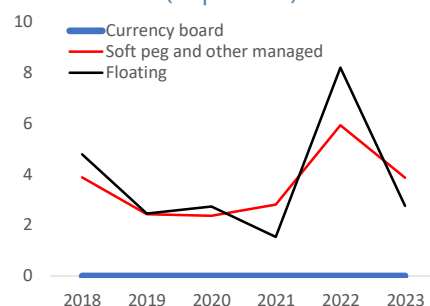
Note: Reserve accumulation is the same in both scenarios. However, post allocation dynamics are not the same because some countries have no reserves in certain years in the counterfactual scenario (no SDR allocation).

Source: Fund staff estimates.

Figure 4. Low-Income Countries: External Sector Developments (concluded)
FX Reserves by LIC Groups
 (Months of prospective imports)


Notes: Poor countries are defined as countries with GNI per capita below the IDA threshold. Prospective imports are calculated as 2024 projections for end-2023 reserves and 2020 projections (using WEO, October 2019) for end-2019 reserves.

Sources: WEO, WDI, IMF AREAER, and Fund staff estimates.

Median Nominal Exchange Rate Depreciation Against USD, by Exchange Rate Regime
 (In percent)


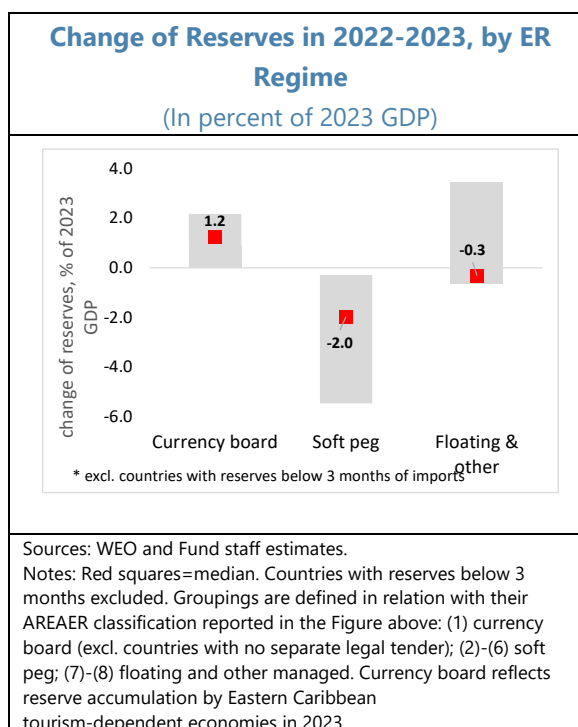
Notes: Monetary unions are included as one currency with the exchange rate regime of the monetary union. Some of exchange rate depreciation by soft peggers against USD in 2022 is related to their pegs against Euro. Sources: WEO, WDI, IMF AREAER, and Fund staff estimates.

6. Pressures on international reserves continued during 2023 and insufficient reserve levels would remain a reality for one quarter of LICs during the years ahead.

Following unprecedented external support in 2020 and the general SDR allocation in 2021, median foreign exchange (FX) reserves peaked at 4.5 months of prospective imports at the end of 2021 (Figure 4, top-right panel). However, reserves dropped subsequently to 3.7 months of imports at the end of 2022 and further to 3.6 months at the end of 2023.⁵ In about one third of LICs—predominantly Fragile and Conflict-affected States (FCS)—international reserves stood below three months of imports, a threshold widely interpreted as a minimum level of adequacy, especially in the context of an increasingly shock-prone world (see Figure 4, lower left panel). Looking ahead, the median reserve cover is projected to rise only slightly to 3.7 months of imports in 2024 before climbing to 4.0 months by 2028 on the back of a gradual improvement in current accounts. However, even at that time, one quarter of LICs would still be left with reserves below three months of imports (See Figure 2, lower right panel).

⁵ Formal framework for IMF's assessments of reserve adequacy is based on country-specific structural characteristics. See [Assessing Reserve Adequacy](#).

7. Losses of FX reserves were typically more pronounced in countries that maintained relatively inflexible exchange rate regimes. A large majority of LICs maintained fixed or strongly managed exchange rate regimes in 2023, with the exchange rate often serving as primary nominal anchor in the absence of a credible alternative.⁶ These arrangements typically helped to contain inflation pressures but this benefit came at the cost of some reserve losses. Pressures were strongest in countries with highly accommodative monetary and fiscal policies and that experienced further increases in already sizeable spreads between official and parallel market exchange rates (e.g., Burundi, Ethiopia, and Malawi). Some countries with crawl-like arrangements or stabilized arrangements, which are de facto anchored to the US dollar (e.g., Burundi, Democratic Republic of Congo, Ghana, Kenya, Lao PDR, and Malawi) eventually adjusted their exchange rates, often after significant depletion of FX reserves (text figure). By contrast, countries with floating exchange rates (e.g., Madagascar, Moldova, and Uganda) absorbed the initial shocks in 2022 through greater exchange rate flexibility while at the same time tightening monetary policy. The tightening contained depreciation pressures for these countries in 2023 (Figure 4, bottom-right panel); and, in general, these countries experienced fewer reserve losses than others (Box 1).

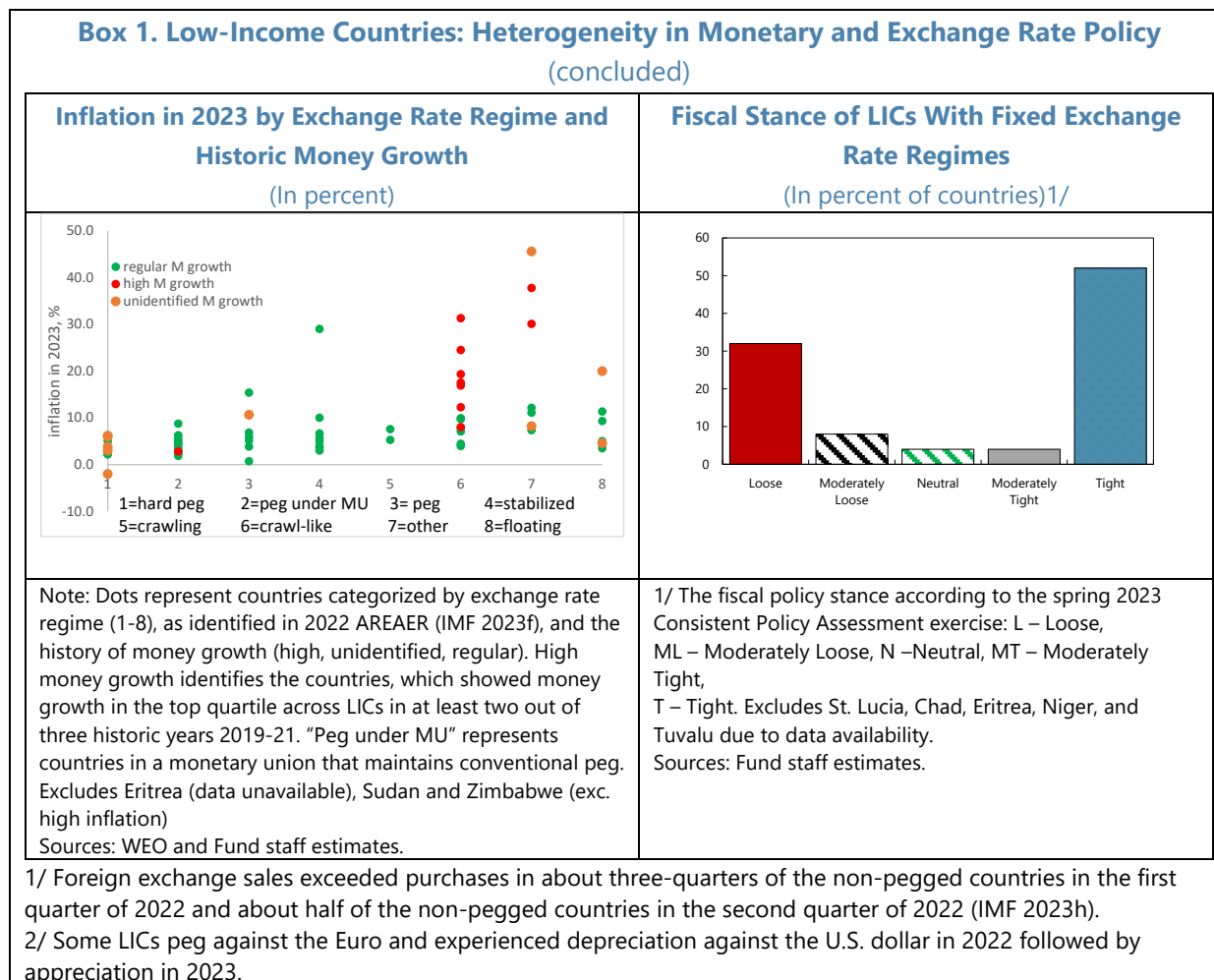


Box 1. Low-Income Countries: Heterogeneity in Monetary and Exchange Rate Policy

Relatively hard pegs and fully floating exchange rates were generally associated with better inflation outcomes than crawl-like or other managed arrangements. This outcome was often supported by relatively contained money growth. However, while many of the floaters avoided a sizable decline in reserves, while pegs required Foreign Exchange Interventions (FXI) and thus prompted larger losses of reserves in 2022-23.^{1,2}

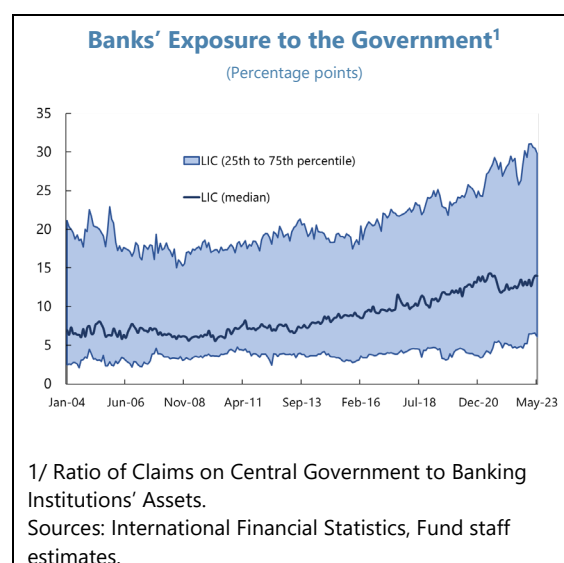
Loose fiscal policy may have complicated the conduct of monetary policy in some cases. Loose fiscal policy may lead to excessive money growth and either depreciation or loss of reserves. The latter is true especially for LICs with hard and conventional pegs, at least one third of which entered 2023 with a loose or moderately loose fiscal stance. In the absence of an independent monetary policy, protracted fiscal loosening could undermine reserve adequacy and confidence in the exchange rate arrangement.

⁶ According to IMF's latest [Annual Report on Exchange Arrangements and Exchange Restrictions](#) (IMF 2023g), of the 69 LICs, six have floating exchange rate regimes, 55 maintain pegs (10 hard pegs and 45 soft pegs), while 8 LICs have other managed arrangements. See also IMF 2023b for a discussion of managing exchange rate pressures in Sub-Saharan Africa.



Domestic Financial Markets

8. Domestic financial sectors in LICs showed resilience in 2023, but the growing sovereign-bank nexus observed over the past decade points to increasing risks. Overall, recent developments were positive, with credit to the private sector rebounding to pre-pandemic levels amid a slight improvement in NPLs. At the same time, bank profitability declined somewhat and capital adequacy ratios are still lower than before the pandemic. The growing sovereign-bank nexus observed since the early 2010s (text figure) continued in 2023 (e.g., banks in CEMAC and WAEMU member countries have increased their share of sovereign assets with zero-risk weight), raising further concerns of potential crowding out of the domestic private sector from banks' financing in some

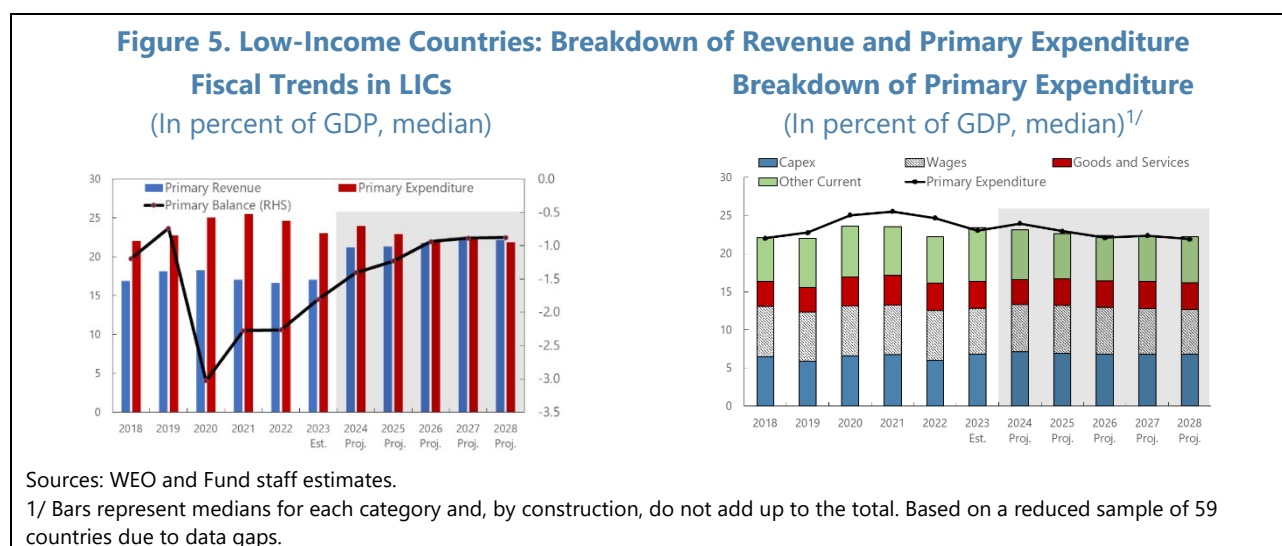


countries (e.g., Sierra Leone). Loss-making SOEs have also contributed to increasing sovereign risks on bank balance sheets in some cases.⁷

Trends in Policy Implementation

9. Policy responses to the macroeconomic headwinds often reflected limited policy space and sharp tradeoffs for policymakers.

- Fiscal adjustment has typically been gradual, incomplete and expenditure-led. (Figure 5). At the height of the COVID-19 pandemic in 2020, LICs' median primary fiscal deficit widened to 3.0 percent of GDP from 0.7 percent of GDP the previous year. Since then, fiscal adjustment proceeded in fits and starts; and LICs' median primary deficit still stood at 1.8 percent of GDP in 2023. This means that LICs' median fiscal stance is not yet supportive of reducing debt. Further consolidation in the time ahead is projected to remain modest and proceed gradually with the median primary deficit falling to 0.9 percent only by 2028. In terms of composition, fiscal consolidation has so far relied mostly on the unwinding of COVID-related spending and current expenditure restraint. Despite median tax revenue surpassing pre-pandemic levels in 2021 and further climbing to 13.9 percent of GDP in 2023,⁸ overall revenue remained largely flat over recent years as non-tax revenues slid.⁹*

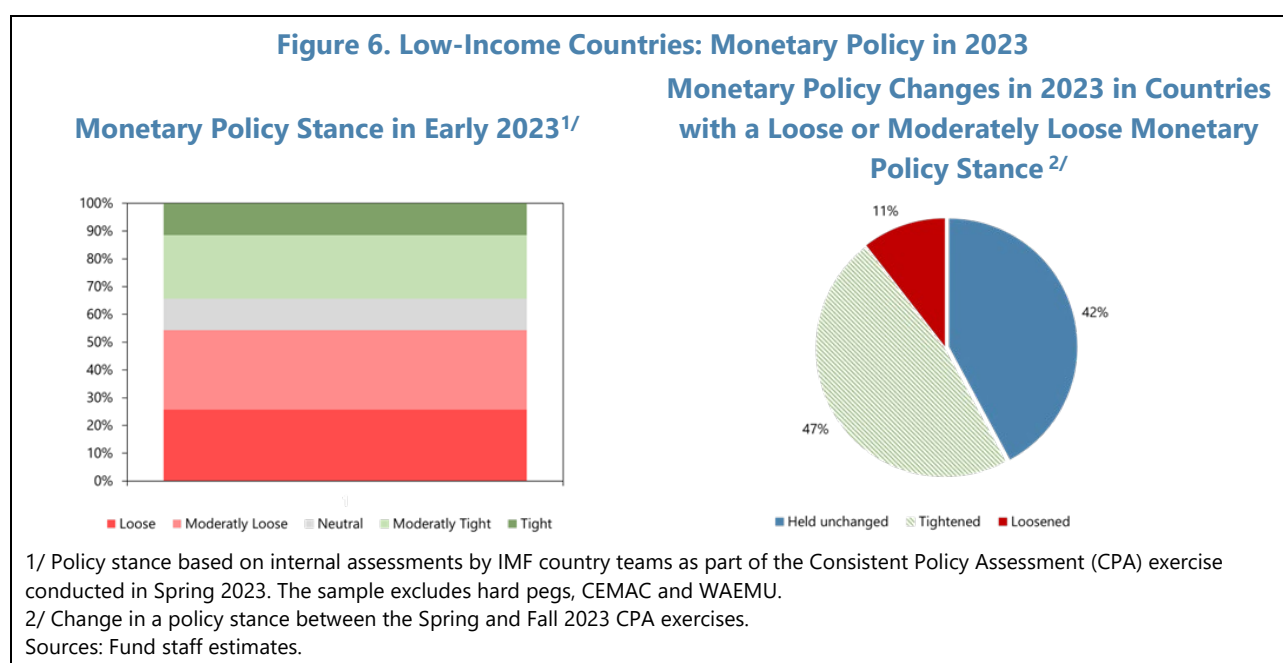


⁷ An IMF study (Deghi et al., 2022) suggests that an intensifying sovereign-bank nexus could trigger an adverse feedback loop between sovereigns and banks through multiple channels, including banks' balance sheets, lending appetite, and investor confidence.

⁸ Strong tax buoyancy in some regions has helped this recovery (Aslam and others, 2022).

⁹ LICs' median tax-to-GDP ratio remains significantly below that of Emerging Market Economies and Advanced Economies (17 and 27 percent of GDP, respectively). Challenges with revenue mobilization were observed in many recent IMF arrangements with LICs, two thirds of which saw revenue underperformance and downward revisions to projections due to shocks and policy slippages.

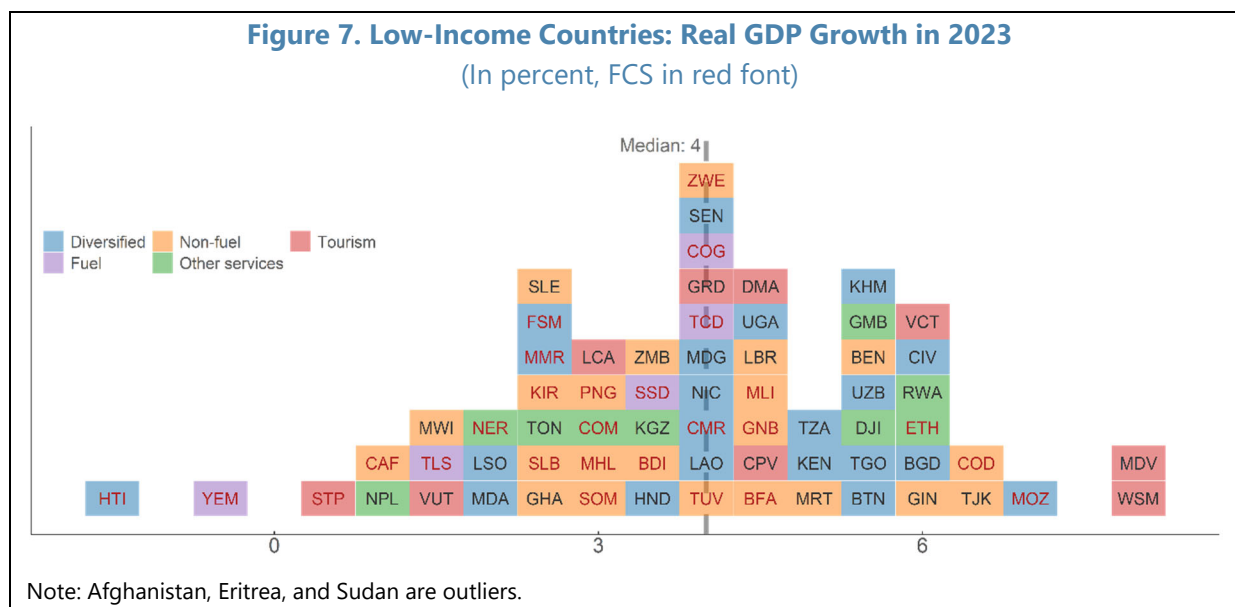
- *Even in the face of significant inflationary pressures, monetary policy tightening has often been elusive owing to fiscal dominance, institutional shortcomings, and weak transmission channels.* Among the countries that entered 2023 with a loose or moderately loose monetary policy stance, only about half tightened policy during the year. Unsurprisingly, median 2023 inflation for countries that tightened their monetary policies (e.g., Kenya, Uganda, Zambia) is projected to be lower than for those keeping a lax monetary policy stance (e.g., Sierra Leone, Lao PDR, Zimbabwe). Going forward, monetary policy trends will likely remain heterogenous in line with growing divergence in countries' inflation paths (Figure 7).
- *Financial sector policies.* Having phased out pandemic-related macroprudential measures, most countries focused on containing financial stability risks and strengthening financial sector resilience, often in the context of IMF-supported financing arrangements (e.g., Moldova and Somalia).



C. Diverse Experiences Across LICs Beneath the Aggregate Trends

10. It is critical to recognize significant diversity across LICs when assessing macroeconomic performance and the policy and reform agenda. While the 69 LICs captured in this report face common challenges, they also fall on a wide spectrum of per capita income levels, export structures, and institutional characteristics (Box 2). The poorest countries, like Burundi with per capita income barely exceeding US\$240, face very different economic challenges than countries such as Bangladesh that are approaching middle income status. But the picture is more complex: the wealthiest LICs are to a large extent Small Developing States (SDS), facing unique challenges based on geography and size, and are often tourism-dependent. At the other extreme, many of the poorest LICs are Fragile and Conflict-affected States (FCS), in itself the biggest of all LIC subgroups, which struggle to escape the fragility trap. And while Frontier Markets (FM) are often diversified exporters and equipped with financial structures resembling those of emerging market economies,

they are quite diverse regarding their per capita income level and also include a number of FCS. Finally, the small number of fuel exporters are concentrated among the poorer LICs and are all FCS as well. A quick look at the varied growth performance for 2023 confirms the multidimensional heterogeneity of the LIC group (Figure 7).



Box 2. Low-Income Countries: Three Dimensions to Capture Their Diversity

This paper analyzes LICs' economic performance, risks and vulnerabilities across three dimensions: income level, export structure, and institutional characteristics:

- **By per capita income levels**, LICs can be divided into four groupings: (1) at or below the IDA threshold (US\$1,315 in 2024); (2) less than 1.5 times the IDA threshold; (3) up to three times above the IDA threshold, and (4) the richest with per capita income of more than 300 percent of the threshold. These groupings roughly follow the distribution of LICs (about 40 percent of LICs fall below the threshold, while the richest countries are above the 75th percentile).
- **By export structure**, LIC members are classified as follows, broadly in line with the October 2023 World Economic Outlook: fuel, non-fuel commodity, diversified, tourism dependent, and other services.
- **By institutional characteristics**, LICs can be disaggregated into four groups: (1) *Fragile and Conflict-affected States (FCS)*;¹ (2) *Small Developing States (SDS)* with populations lower than 1.5 million; (3) *Frontier Markets (FM)* with past access to international financial markets;² and (4) all other LICs.

1/ The list follows the IMF's [classification](#) of Fragile and Conflict-affected States as established in the 2022 FCS strategy, which is aligned with the World Bank's [methodology](#).

2/ The grouping of seventeen Frontier Markets includes all LICs in J. P. Morgan's Next Generation Market Index, and any additional LICs with outstanding Eurobonds. This methodology is inherently backward-looking and does not take into account the ability to issue on a forward-looking basis. This methodology could be refined, for example, by removing the three Frontier Markets that are currently in debt distress.

Box 2. Low-Income Countries: Three Dimensions to Capture Their Diversity (concluded)
LIC Groupings by Income Level, Export Structure and Institutional Characteristics¹

Income Level ²	Most vulnerable LICs <=100	Threshold LICs >100<=150	Wealthier LICs >150<=300	Wealthy LICs >300
Institutional Characteristics ³				
FCS	Afghanistan (Non-Fuel), Burkina Faso (Non-Fuel), Burundi (Non-Fuel), Central African Republic (Non-Fuel), Chad (Fuel) , Democratic Republic of the Congo (Non-Fuel), Eritrea (Non-Fuel), Guinea-Bissau (Non-Fuel), Niger (Services), Mali (Non-Fuel), Myanmar (Diversified), Somalia (Non-Fuel), South Sudan (Fuel) , Sudan (Non-Fuel), Yemen (Fuel)	Haiti (Diversified), Zimbabwe (Non-Fuel),		
Frontier	Tajikistan (Non-Fuel), Rwanda (Services), Tanzania (Diversified), Togo (Diversified), Zambia (Non-Fuel),	Benin (Non-Fuel), Senegal (Diversified)	Cote d'Ivoire (Diversified), Ghana (Non-Fuel), Honduras (Diversified), Kenya (Diversified), Uzbekistan (Diversified),	
SDS			Bhutan (Diversified), Djibouti (Services), Samoa (Tourism), Vanuatu (Tourism),	Cabo Verde (Tourism), Dominica (Tourism), Grenada (Tourism), Maldives (Tourism), St. Lucia (Tourism), St. Vincent and the Grenadines (Tourism), Tonga (Services),
Other	The Gambia (Services), Guinea (Non-Fuel), Lesotho (Diversified), Liberia (Non-Fuel), Madagascar (Diversified), Malawi (Non-Fuel), Sierra Leone (Non-Fuel), Uganda (Diversified)	Cambodia (Diversified), Kyrgyz Republic (Services), Nepal (Services)	Bangladesh (Diversified), Lao P.D.R. (Diversified), Mauritania (Non-Fuel), Nicaragua (Diversified)	Moldova (Diversified)
FCS and Frontier	Mozambique (Diversified), Ethiopia (Services)	Cameroon (Diversified)	Congo, Republic of (Fuel), Papua New Guinea (Non-Fuel)	
FCS and SDS		Comoros (Services), Timor-Leste, Dem. Rep. of (Fuel),	Sao Tome (Tourism), Kiribati (Non-Fuel), Solomon Islands (Non-Fuel)	Marshall Islands (Non-Fuel), Micronesia, Fed. States of (Diversified), Tuvalu (Non-Fuel)

1/ Color coding for export structures: Fuel (Red), Non-Fuel (Green), Diversified (Blue), Tourism (Yellow) and Services (Black).

2/ The four income columns are anchored on the 2022 GNI per capita cutoff of US\$1,315 for IDA eligibility. Data for 2022 is used except for Yemen (2018) and South Sudan (2015).

3/ The six rows refer to the four institutional characteristics and their overlaps.

11. When looking for patterns in macroeconomic performance across different per capita income levels, one can observe an important divide between (relatively) rich and poor. Many of the LICs with the highest per capita income levels experienced a sharp recession in the direct aftermath of the COVID-19 outbreak but recovered rapidly over 2021-23; and as of today, FX reserves stand at relatively comfortable levels. By contrast, the post-pandemic recovery of poorer LICs has been much weaker, with growth averaging almost one percentage point less over 2021-23 compared with the average over 2003-19. And while growth would pick up in 2024 and return to the pre-pandemic trends over the medium term, FX buffers are expected to stay weak.

12. An analysis of performance based on export structure as a differentiating factor suggests that the degree of economic diversification is a key driver of outcomes (Figure 8).

- *LICs with diversified export structures, many of whom are also FMs, have typically enjoyed relatively stronger economic performance.* They typically fared better than other LICs already before the pandemic, posted stronger performance during the pandemic year, and registered a relatively robust recovery. Moreover, and notwithstanding inflationary pressures from high international fuel and food prices and exchange rate adjustments, their median 2023 current account deficit was contained at 4.3 percent of GDP and reserve levels remained at comfortable levels. Diversified economies have also experienced lower economic volatility, in real GDP growth and current accounts relative to other LICs. Looking forward, this LIC grouping is

expected to continue on its overall positive trajectory with medium-term growth projected at about 5 percent.

- *Tourism-dependent economies have benefitted from the post-pandemic global recovery in the sector after a severe initial shock, but tailwinds are expected to fade.*¹⁰ These economies rebounded from the COVID-19 pandemic with strong GDP growth, relatively low inflation (under their hard currency pegs), and declining—albeit still elevated—current account deficits. However, after reaching peaking in 2023, growth would cool off to 3 percent over the medium term, in line with expected tourism trends. Tourism-dependent economies can rely on stronger reserve buffers than other LICs, which are important given their vulnerability to swings in global demand and to the negative impact of climate change.¹¹
- *Non-fuel commodity exporters have generally experienced weaker growth and stronger vulnerabilities than diversified LICs.* These countries also saw higher inflation during the COVID-19 pandemic and amid the subsequent oil and food price shocks, but they managed to reduce median inflation to 7 percent by 2023. Median FX reserve levels remain below 3 months of prospective imports.
- *Fuel-exporting economies, which are all FCS, have performed relatively poorly and missed the opportunity to capitalize on oil windfalls.* Their growth and current account balances largely followed trends in international energy prices. Structural obstacles to growth and inherent fragility translated into their median GDP growth remaining well below the LIC average; it reached only 3.5 percent in 2023 and would only marginally improve to 4.0 percent by 2028. That said, strong post-pandemic export proceeds supported the fuel-exporters' exchange rate pegs, which in turn helped to keep inflation low. These proceeds are now under pressure in line with the fall in international energy prices, which already drove a dramatic decline in current account surpluses to 0.2 percent of GDP in 2023 from 6.2 percent in 2022.

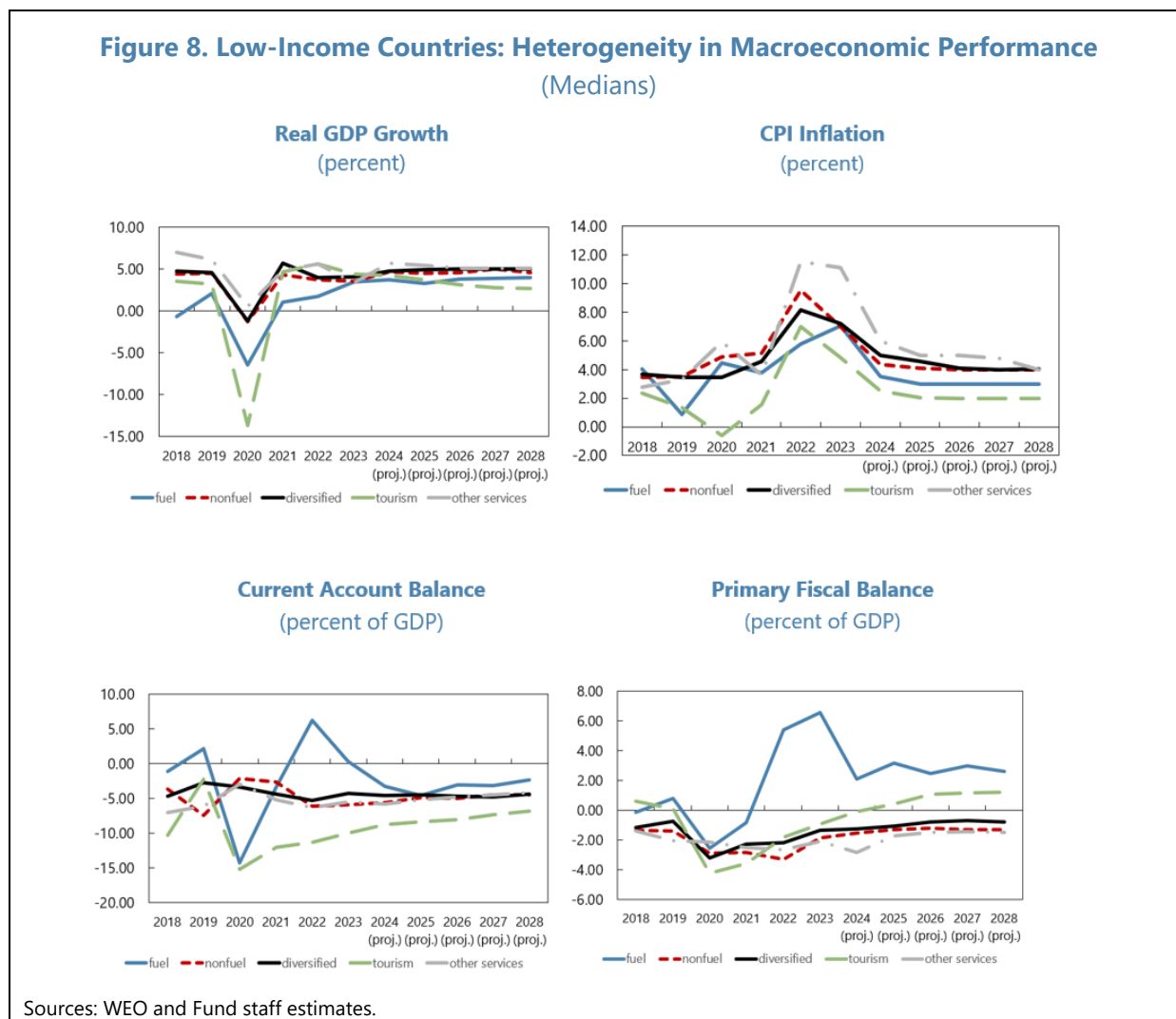
13. Moreover, countries' institutional characteristics matter for outcomes, with higher institutional quality being generally associated with better performance.

- *FMs grew more than other LICs already before the pandemic and were the only grouping among LICs to avoid a recession in 2020.* They also rebounded strongly during the past three years. These dynamics may reflect their more diversified economic structures (see above) but also more developed financial systems, access to international capital markets, and generally stronger policy frameworks. There is, however, a challenge on the horizon: median GDP growth is expected to plateau at 5.3 percent over the medium term, down from an average 5.9 percent experienced before the pandemic. More stability in their GDP and current account outcomes over time relative to other LICs may reflect their ability to tap international capital markets as a countercyclical defense against adverse shocks.

¹⁰ International tourist arrivals are approaching pre-pandemic levels in most region. For details, see IMF 2023p.

¹¹ IMF 2021.

- *By contrast, FCS experienced the strongest scarring – output loss from previous trends – from the COVID-19 pandemic and hence the weakest recoveries. Average median FCS growth over 2021-23 was 1.7 percentage point lower than before the pandemic, leading to significant output losses compared to the pre-pandemic trend. Growth only reached 3.0 percent in 2023 and median international reserves remained below 3 months of imports. Structural factors, such as large informal sectors, weak institutions and governance challenges, fewer policy tools to smooth economic fluctuations and, in some instances, conflicts and political turmoil, present major challenges for these countries. Going forward, growth in FCS is expected to gradually improve to 3.6 percent in 2024 and 4 percent over the medium-term.*
- *SDS, including three pacific island countries (PICs), were hit particularly hard by the COVID-19 pandemic due to their strong reliance on tourism (see above), before rebounding strongly.¹² Given their geographic situation, they are facing significant vulnerabilities to negative climate events.*



¹² IMF 2021.

14. Fiscal policy choices have often mirrored differences in underlying economic and institutional characteristics.

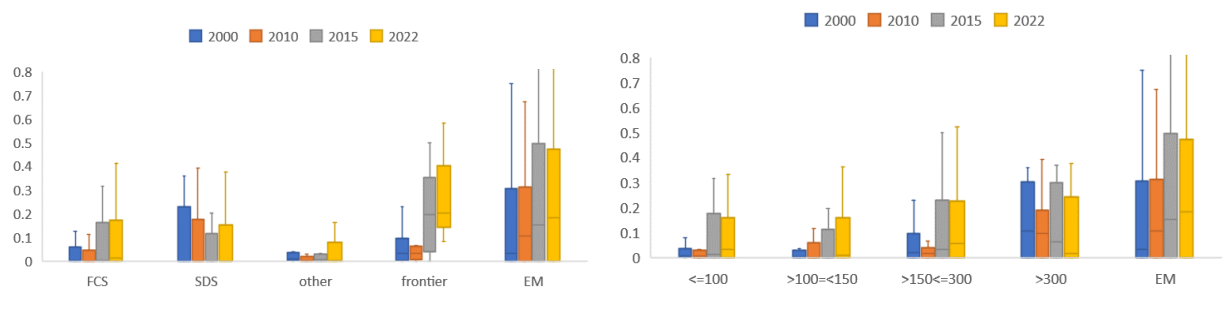
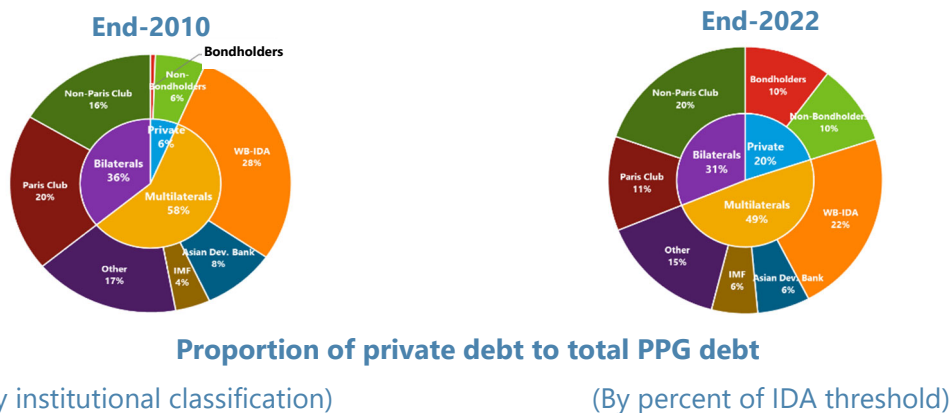
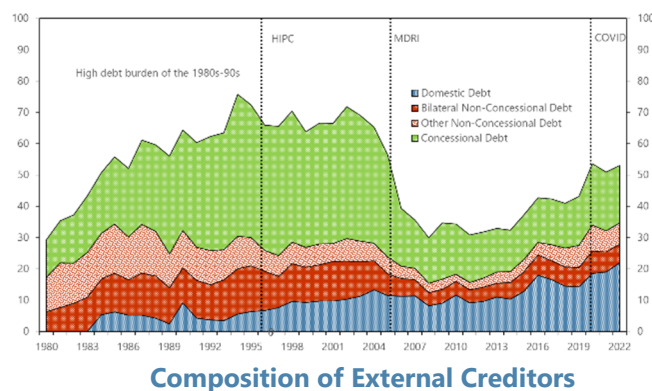
- *FM have managed to adapt fiscal policy to the evolving needs of a fast-changing environment relatively better than other LICs.* In response to the COVID-19 shock, their median primary deficit quickly increased by 2.4 points of GDP in 2020 to reach 3.6 percent of GDP. And when the oil and food price shock hit in 2022, the deficit was again increased by 0.5 percent of GDP. By contrast, 2023 saw a strong withdrawal of the support, with the median primary deficit consolidating to 1.7 percent of GDP.
- *On the other side of the spectrum, many FCS had little policy space to react to shocks.* They saw a smaller increase in their median primary deficit than other LICs in response to the COVID-19 outbreak in 2020 (only 0.7 percent of GDP), and had difficulties in organizing fiscal adjustment later with a first consolidation effort (0.4 percent of GDP) only occurring in 2023. Oil-exporting LICs represent a special case among FCS: their primary surpluses increased to 6.6 percent of GDP in 2023 from 0.8 percent of GDP in 2019 on the back of higher international energy prices; but a concomitant boost in non-oil spending will require a procyclical policy tightening in the time ahead as oil prices decline.

D. Stabilizing Debt Levels but Rising Debt Service Pressures

15. After increasing steadily over the 2010s amid a changing creditor landscape, LICs' public debt has recently stabilized at elevated levels.

- LICs' median public debt-to-GDP ratio experienced a strong increase to 52 percent in 2020 from 34 percent in 2010. Since 2020, the median debt-to-GDP ratio has been broadly stable at about 53 percent and is expected to marginally decline to 50 percent over the medium-term (See ¶3, Figure 2). While elevated, these levels remain significantly below those that gave rise to the large debt relief initiatives (HIPC and MDRI) in the mid-1990s and mid-2000s.
- Both domestic and external borrowing expanded quickly, with private and non-Paris Club bilateral creditors significantly increasing their exposure (Figure 9, top- and middle panel). However, the increase in private sector debt has been limited to frontier markets, making their debt profile more similar to that of EMs, while other LICs (including those with higher income per capita) did not manage to significantly increase their sovereign attractiveness to private investors (lower panel).

Figure 9. Low-Income Countries: Public and Publicly Guaranteed (PPG) Debt Evolution of PPG Debt
(Median, in percent of GDP)

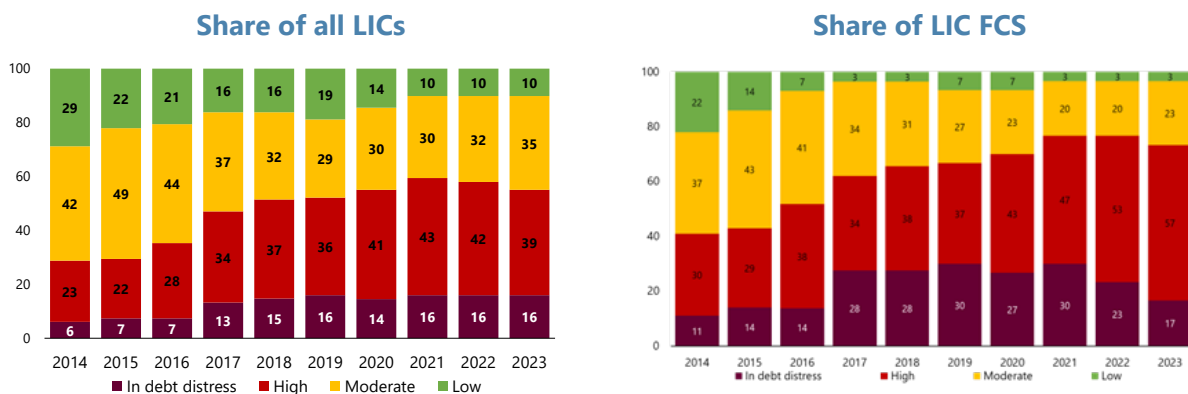


Sources: WB's IDS, WDI, WEO, and Fund staff estimates.

16. Debt vulnerabilities remain significant for more than half of all LICs, a number that has remained broadly stable since 2020. The joint WB/IMF debt sustainability assessments (DSAs) identify about 16 percent of LICs (11 countries) as being in debt distress (i.e., where there are ongoing or impending debt restructuring negotiations, or outstanding arrears to external creditors) and an additional 39 percent of LICs (27 countries) at high risk of debt distress (Figure 10), reflecting concerns over liquidity and/or solvency vulnerabilities. Together, these countries represent more than half of all LICs. When looking at these through the lens of structural characteristics and per capita income level, one finds that over 60 percent entail concentrated rather than diversified export structures; and that they are typically either relatively poor with per capita incomes below the IDA

cut-off or part of the SDS grouping that are particularly shock prone (see ¶10-14). Perhaps most strikingly, 73 percent of FCS are in debt distress or at high risk thereof, underlying the damaging effect of fragility on macroeconomic outcomes (Figure 10). For those countries for which the elevated vulnerabilities do not necessary signal imminent danger of a major, and highly disruptive, debt event, the main macroeconomic risk is rather that of a slow-moving drain on macroeconomic and social outcomes due to insufficient space to finance investment and social spending, including in priority areas.

Figure 10. Low-Income Countries: Evolution of External Public Debt Sustainability Ratings^{1/}



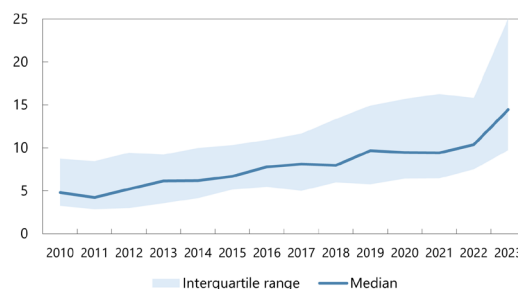
Sources: WEO and Fund staff estimates.

Note: The external debt distress risk rating remains the primary DSF output, while the overall risk rating is considered supplementary information.

17. The most pressing challenge for many LICs today involves complex liquidity and financing conditions,¹³ due to several factors:

- *Debt burdens have been growing, leading to larger debt service obligations (text figure).* While debt levels are considerably lower as of today, LICs’ outlays for debt service have reached levels last seen during the 1990s. On the one hand, the large volume of external debt accumulated during the last decade is now beginning to fall due: amortization payments in 2023—including to private and non-Paris Club creditors—are estimated to have reached 1.6 percent of LICs’ combined GDP or more than double the average level over 2010-19. On the other hand, LICs’ median exports and fiscal revenues have not kept up with the rising debt service, leading to a

Debt Service on External Public and Publicly Guaranteed Debt
(In percent of revenue net grants)

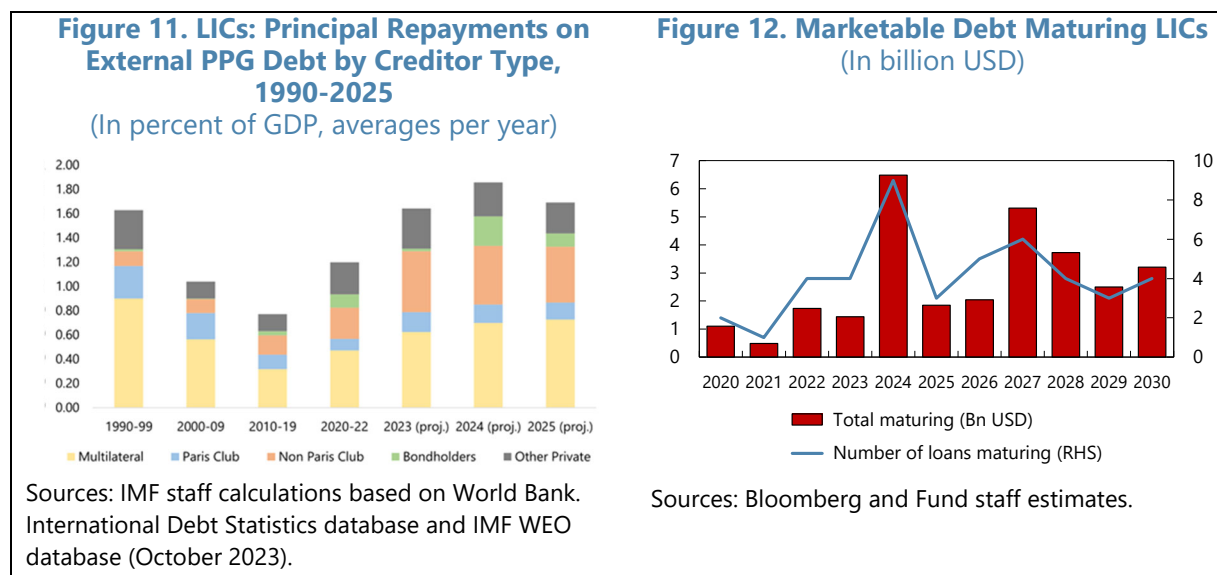


Sources: Fund staff estimates based on World Bank International Debt Statistics database and IMF WEO database.

Note: Debt service includes interest payments and principal repayments.

¹³ IMF 2023c discusses the funding squeeze experienced in Sub-Saharan Africa since Spring 2022.

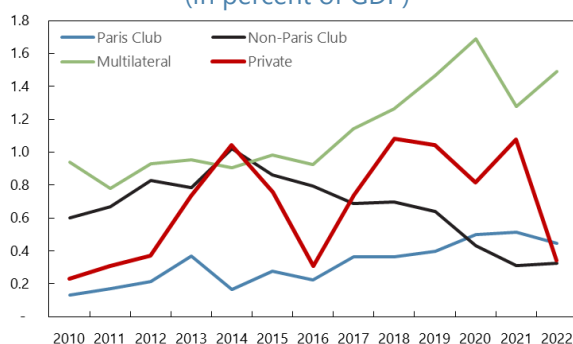
sustained increase in both the external debt service-to-exports and external debt service-to-revenue ratios. As reported in a recent IMF blog, the latter is generally about two and a half times higher than a decade earlier, with the median ratio at the end of 2023 standing at 14 percent compared with 6 percent ten years earlier.¹⁴ Going forward, sizeable amortization, including large bond repayments, will add to existing pressures (Figures 11, 12).



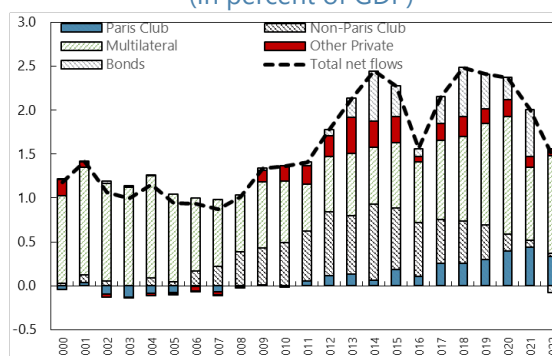
New financing from official bilateral and private creditors has nearly halved since 2019 as key creditors reassess their exposure (see also Box 3 on ODA). Flows from non-Paris Club creditors have declined significantly to 0.3 percent of GDP in 2022, half their 2019 level and well below the 2014 peak of one percent of GDP. Paris Club flows also recorded a small dip in 2022 to 0.4 percent of GDP, while private flows dropped by a third to 0.3 percent of GDP (Figure 13, left panel). Accounting for rising repayments (see bullet above), net flows from official bilateral and private creditors represented only 0.4 percent of LICs' GDP in 2022, a third less than in 2021. Overall, total net flows went down to only 1.5 percent of GDP, the lowest levels since 2016 and down from 2.0 percent in 2021 and 2.4 percent in 2019 (Figure 13, right panel). This would have been even lower if it were not for an increase in net flows from multilateral creditors to 1.1 percent of GDP in 2022 (from 0.8 percent in 2021), with more than half coming from IDA (see Box 7 for IMF flows).

¹⁴ Holland and Pazarbasioglu, "[How to Ease Rising External Debt-Service Pressures in Low-Income Countries](#)", IMF Blog, Jan 2024.

Figure 13. Low-Income Countries: Disbursements and Net Flows by Creditor Category
Disbursements to LICs by Creditor Category
 (In percent of GDP)



Net Flows to LICs by Creditor Category
 (In percent of GDP)



Sources: International Debt Statistics, Fund staff estimates.

- In recent years, LICs have also remained priced out of international bond markets due to tight global financial conditions and, in some cases, domestic challenges. While sovereign spreads for most LICs peaked in 2022, they remained prohibitively high in 2023 (Figure 14).¹⁵ It remains to be seen whether Cote d'Ivoire's successful January 2024 Eurobond issuance (US\$2.6 billion), followed by those of Benin (US\$0.75 billion) and Kenya (US\$1.5 billion). In February signal the beginning of a trend reversal and reopen a broader path for LICs to regain access to international finance. And while many countries still maintained access to syndicated loans and other forms of external private financing even in the presence of tight global financial conditions, the prospects and costs of such borrowing are difficult to assess.

Box 3. Evolution of Official Development Assistance

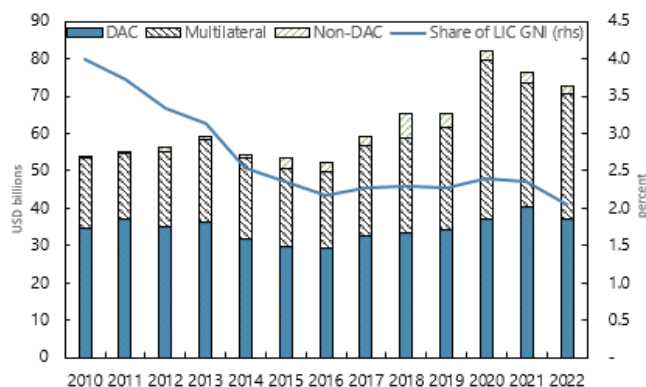
Net ODA to LICs from official donors fell recently. Total ODA from official donors to LICs declined for the second year running to US\$72.9 billion in 2022 from US\$76.3 billion in 2021. This represents a decline to 2.1 percent of LIC GNI from 2.4 percent the previous year (Box 3 Figure 1).¹ This fall occurred in the context of a surge in ODA being used to host refugees in donor countries and to support Ukraine, which pushed total bilateral ODA to an all-time high of US\$211 billion. In addition, country programmable aid, which excludes unpredictable flows and ODA spent outside of recipient countries, declined to 66 percent of bilateral ODA to LICs in 2021 compared to a 10 year average of 74 percent, indicating fewer resources over which LICs could have significant say. Although data are not yet available, the situation for LICs may have improved in 2023 as foreshadowed by higher grant financing assumptions in their fiscal revenue. Overall, and short of a major increase in overall ODA resources, the future trajectory of ODA going to LICs will likely remain strongly affected by the evolution of flows dedicated to hosting refugees in donor countries and of development and humanitarian needs emanating from conflicts in non-LIC countries.

¹⁵ Progress with addressing debt vulnerabilities was a key driver of spreads in several cases. For example, Zambia's spread plunged following positive developments with debt restructuring discussions, whereas the perceived higher likelihood of a default in Ethiopia triggered a surge in its spread (Ethiopia eventually defaulted in December 2023; the authorities have begun negotiations with bondholders).

Box 3. Evolution of Official Development Assistance (concluded)

Net ODA Received by LICs from all Official Donors²

(Current USD billions and percent)



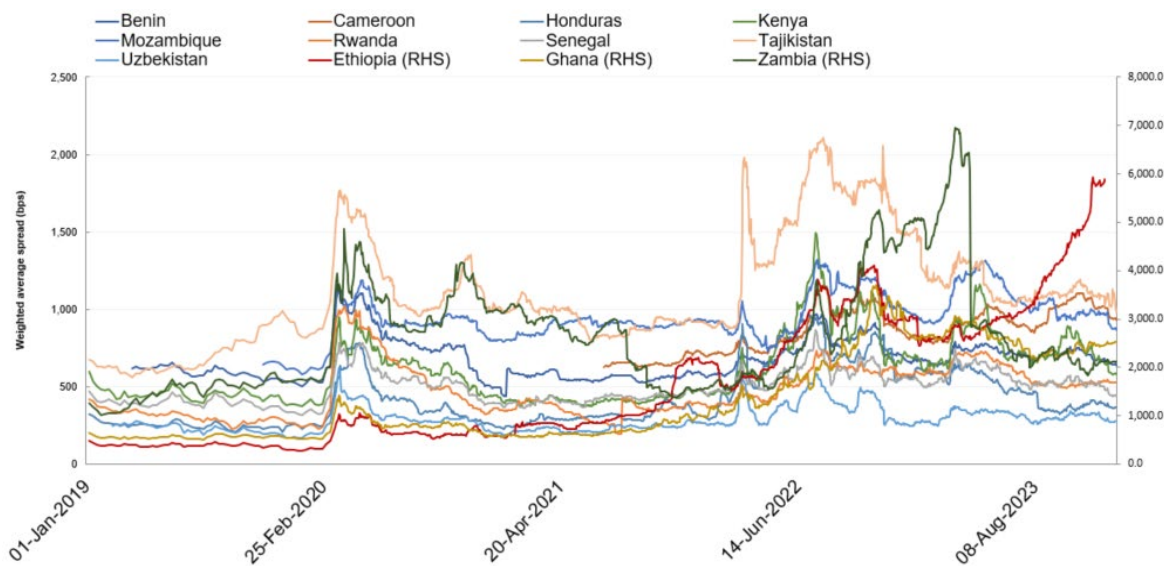
1/ Data in this paragraph are from OECD.stat accessed 22 January 2024. Four donor countries achieved the UN target of spending 0.7 percent of their GNI on ODA.

2/ DAC stands for members of the OECD Development Assistance Committee (DAC).

Sources: OECD ODA Statistics

Figure 14. Low-Income Countries: Average Sovereign Bond Spreads

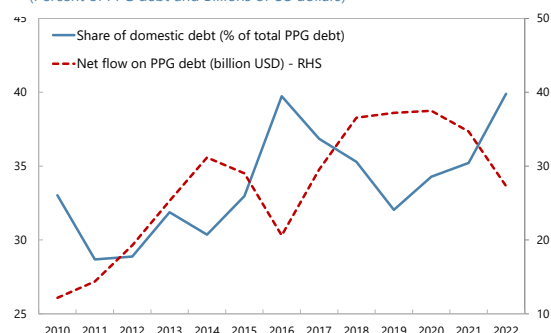
(Basis points)



Sources: Fund staff estimates.

- Finally, LICs have mobilized increasing amounts of domestic market financing, but scope to continue this rapid expansion may be limited without crowding out private credit. The share of domestic debt in total debt increased significantly to 40 percent in 2022 from 34 percent in 2020. This record level was only matched in 2016, when domestic debt also replaced declining external debt flows (text figure). However, further scope to increase domestic borrowing may be limited, especially for LICs without access to international markets (e.g. Malawi, Sierra Leone) and for those with shallow domestic debt markets, large rollover requirements, and high interest rates amid elevated inflation.

LICs: Domestic Debt and Financing Flows
(Percent of PPG debt and Billions of US dollars)



Sources: World Bank's IDS and IMF staff calculations

E. Elevated Risks Ahead, Mostly Tilted to the Downside

18. While risks to the global outlook have become more balanced, external risks to LICs' economies remain tilted to the downside amid relatively low macroeconomic buffers. Among the upside risks, a faster fall in inflation may allow central banks to ease monetary policy sooner-than-expected. And stronger reform momentum in China could bolster private demand and generate positive cross-border spillovers. Artificial intelligence could boost productivity and incomes over the medium term.¹⁶ While the materialization of these risks would bring benefits to LICs, they would likely develop their impact only slowly given longer lags for example in the transmission of international price trends to domestic price levels. On the downside, new commodity price spikes from geopolitical shocks¹⁷ and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions and thus higher financing costs for LICs. Moreover, deepening property sector woes in China could undermine export demand. Finally, given their prevalent non-alignment, LICs are particularly vulnerable to geopolitical fragmentation as trade has been slowing between political blocks to the benefit of trade within these.

19. In addition, LICs are particularly exposed to regional or domestic risks. First, LICs tend to be particularly vulnerable to climate shocks due to their dependence on agriculture, geographic context, limited buffers, and capacity constraints (Text Table 1). Second, political instability and conflict intensity have been on the rise over the past decade as captured by both aggregate statistics and prominent episodes of irregular changes in government (e.g., in Burkina Faso, Chad, Gabon, Guinea, Mali, Myanmar, Niger, and Sudan) and large-scale violence (e.g., in the Sahel region,

¹⁶ At the same time, LICs are also less ready to seize AI's advantages. This could exacerbate the digital divide and cross-country income disparity. For details, see Cazzaniga, et al. 2024.

¹⁷ For example, the latest [PortWatch](#) data show that countries in East and West Africa and South Asia rely most on Red Sea transit that is now disturbed by continued attacks in the Red Sea, which makes these particularly exposed to a sharp rise in shipping costs.

the Central African Republic, Ethiopia, Haiti, Myanmar, and Sudan).¹⁸ As a result, the number of internally displaced people in LICs more than doubled between 2016 and 2023 from 13 million to 32 million; and LICs host a further 8 million refugees (Figure 15).^{19, 20} And sixteen major elections in LICs during 2024 (a record) could spawn additional political and social tensions. Finally, the announcement in January 2024 that Burkina Faso, Mali and Niger intend to leave ECOWAS may negatively affect economic performance in the Sahel region.

Text Table 1. Climate Vulnerabilities by Country Income Groupings

	Climate- driven Hazard & Exposure 1/	Lack of coping capacity 2/	Social, political, & econ. vulnerabilities 3/	Composite climate vulnerability
LICs	3.7	6.1	5.3	4.8
Other EMDEs	3.9	4.1	3.4	3.6
AEs	2.5	1.8	2.3	2.0

Sources: INFORM Climate Risk with Fund staff estimates.

1/ Reflects the probability of physical exposure associated with specific climate-driven hazards.

2/ The ability of a country to cope with disasters in terms of formal, organized activities and the effort of the country's government as well as the existing infrastructure which contribute to the reduction of disaster risk.

3/ Economic, political and social characteristics of the community that can be destabilized in case of a hazard event.

Note: The INFORM Climate Change Risk Index is an adapted version of the INFORM Risk Index that incorporates climate and socioeconomic projections to analyze how risk will evolve as a result of climate change. In a scale from 0-10, higher values indicate higher risk. The composite indicator incorporates three dimensions: Hazard & Exposure, Vulnerability, and Lack of Coping Capacity. The composite indicator is calculated with a multiplicative equation that assigns equal weights to the three components.

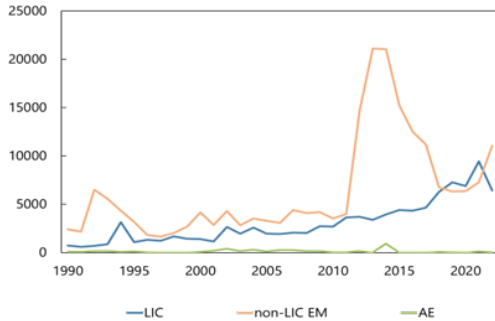
¹⁸ For example, the political stability index from the World Bank's *Worldwide Governance Indicators* reports a decline in perceived political stability over the 2010-22 timeframe for 40 percent of LICs (26 out of 69 countries). And the Uppsala University [Conflict Data Program](#) (UCDP) notes an uptick state- and non-state-based violence since 2014, and a substantial increase in the number of fatalities since 2021 suggesting heightened intensity. See also IMF 2023h. Such incidents undermine economic development through degradation of human capital, destruction of capital stock, weakening of investor confidence, and may engender significant reductions in external financing and, occasionally, sanctions. For a discussion, see Collier et al. (2003); Rother et al. (2016); and Leepipatpiboon, Castrovillari, and Mineyama (2023). Moreover, Abdel-Latif and El-Gamal (2024) show how popular distrust of government can lead to conflict in Africa.

¹⁹ Staff analysis based on data from the UN High Commission for Refugees. LICs host 27 percent of global refugees; LICs and MICs together host 76 percent of the total.

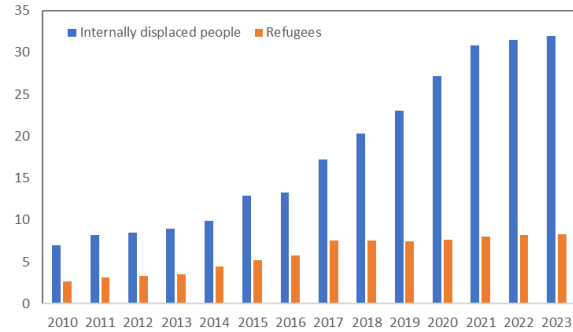
²⁰ Political instability has also seen a significant increase in security spending which in turn contributes to diminished fiscal space. See ["The Sahel, Central African Republic Face Complex Challenges to Sustainable Development"](#). IMF country focus, November 2023.

Figure 15. Climate, Political and Geo-Fragmentation Risks

Armed Conflicts in LICs
(Number of conflict events)



Number of Internally Displaced People and Refugees Hosted in LICs
(In millions)

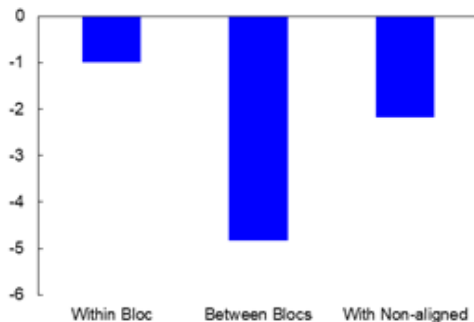


Sources: UCDP GED.

Note: The data is up to 2022. Armed conflicts include events for state based conflicts, non state conflicts, and one sided violence. See also Davies et al. 2023 and Sundberg and Melander, 2013.

Sources: Fund staff estimates based on data from the [UN High Commission for Refugees](#).

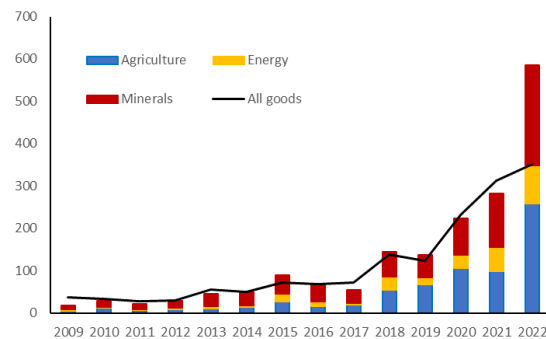
Change in Trade Growth Since the Start of the war in Ukraine
(In percentage point)



Sources: For details, see IMF 2023d; fDi Markets; Trade Data Monitor; and Fund staff estimates.

Note: For illustrative purposes, countries are grouped into a hypothetical Western bloc and a hypothetical Eastern bloc, with other countries considered nonaligned. Based on that, "Within bloc" means trade between countries in the same geopolitical bloc; "Between blocs" refers to trade between countries in different geopolitical blocs, and "With non-aligned" is trade with countries that are not assigned to either geopolitical bloc.

Number of Trade Interventions by Sector
(Indices)



Sources: WEO; Argus Media, Inc.; Bloomberg Finance L.P.; fDi Markets; Global Trade Alert Database; Refinitiv Eikon; UN Comtrade; and Fund staff estimates.

Note: Trade interventions in this figure encompass all countries, rather than only LICs.

20. Stress testing confirms LICs' strong vulnerability to shocks, with impact strength depending on a country's economic and institutional characteristics (see Annex II). As shown in Figure 16, negative oil price shocks are particularly harmful to LICs but shocks to food prices,

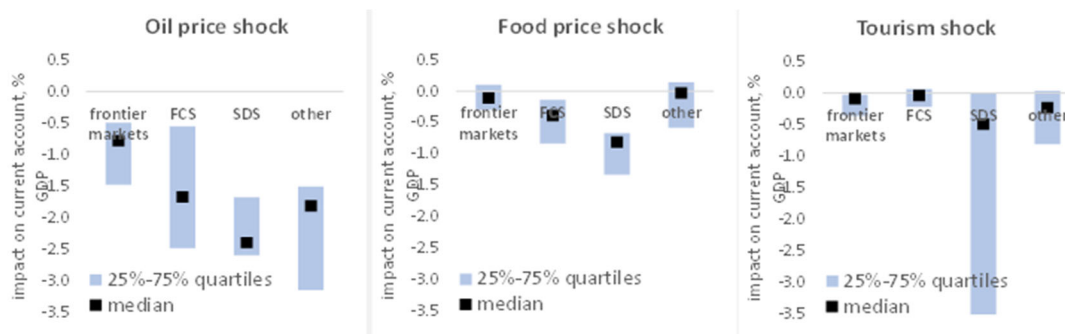
tourism and advanced country exchange rates also carry negative impacts (Panel A).²¹ More granular analysis illustrates the role of countries' specific economic and institutional characteristics in gauging their vulnerability (Panel B). SDS and many FCS often have concentrated export structures and are strongly dependent on imports; both factors reinforce their exposure to terms-of-trade shocks. In the case of FCS, inadequate FX reserves and weak policy frameworks make it particularly difficult to cope with such events. By contrast, frontier markets with their often more diversified economic structures and better institutions appear to be more resilient.

Figure 16. Low-Income Countries: Vulnerability to Shocks by Channel
(In percent of GDP)



Note: Commodity price shocks, and USD and EUR REER appreciation calibrated to one standard deviation, which is a plausible shock corresponding to 16% probability under normal distribution. With lower probability, shocks may be (and have been) larger. Tourism shock is assumed to have one third of the strength of the tourism compression during COVID-19.

Low-Income Countries: Vulnerability to Shocks by Country Type
LICs by institutional characteristics: CA vulnerability to selected shocks



Sources: Fund staff estimates based on WEO, IMF BOP, WB WDI, and UN COMTRADE data. The BoP impact for these shocks reflects assessed changes in the balance of goods and services, as discussed in Annex II.

Note: Commodity price shocks calibrated to 1 st.dev. (normal prob. 16%), tourism shock is 1/3 of COVID-19. No policy response or volume response to prices assumed.

²¹ For example, a one standard deviation increase in global oil prices—roughly corresponding to a 35-percent increase relative to their current level—would create additional aggregate external financing needs for LICs of about US\$21 billion (with the specific impact ranging between 0.9 and 2.5 percent GDP for most countries). By comparison, a similarly calibrated shock to global food prices (a 12 percent increase) would raise the external financing needs by US\$5 billion (ranging from 0.0 to 0.8 percent of GDP for most countries).

THREE LONG-TERM CHALLENGES: GROWTH, INCLUSIVENESS, RESILIENCE

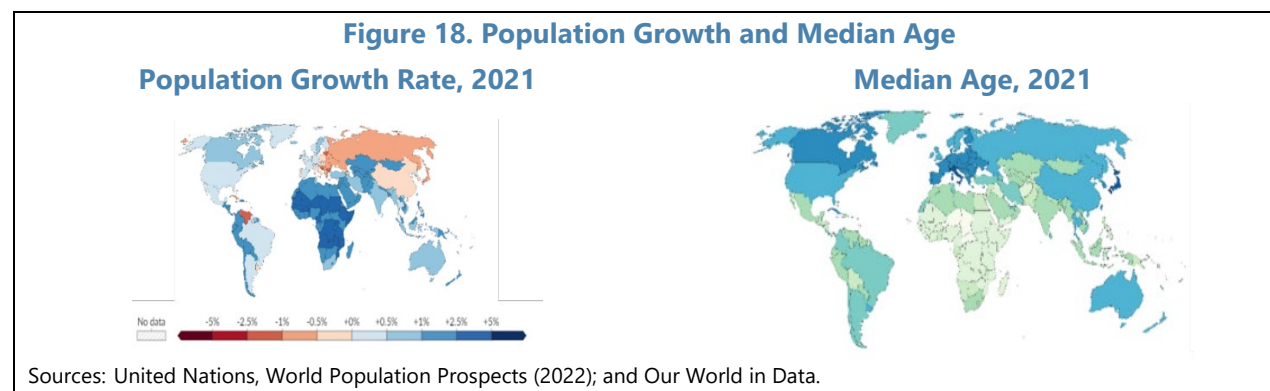
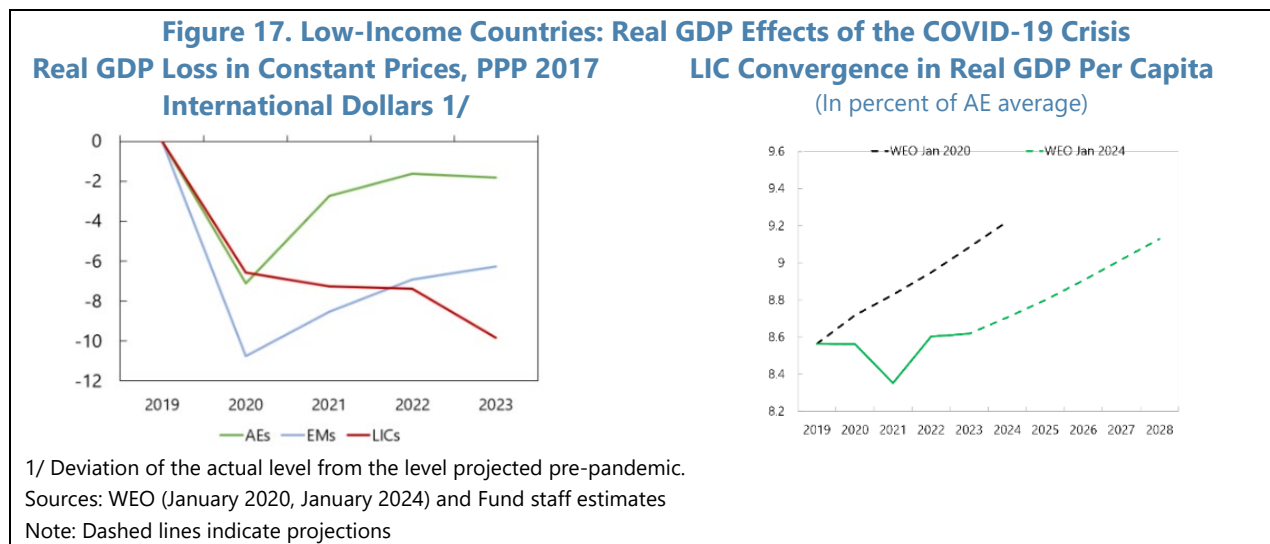
Notwithstanding the improved near-term outlook, and the imperative of maintaining macroeconomic stability, LICs have long been facing the three related structural challenges of insufficient growth, poverty and inequality, and strong susceptibility to shocks. Tackling these challenges through higher and more inclusive growth as well as building resilience will take time and establishes tradeoffs for policymakers in the context of often high debt vulnerabilities and limited fiscal space. Success will depend on consistency in the pursuit of these efforts over the long term, while retaining flexibility to adjust course as needed in light of new developments.

A. The Need for More Growth

21. LICs experienced more pronounced long-term scarring from the recent series of global shocks than more advanced countries. As of the end of 2023, LICs' combined real GDP remained 10 percent below the level implied by a simple extrapolation of its pre-pandemic trend (Figure 17), reflecting deep scarring from the COVID-19 pandemic and subsequent shocks.²² This large output loss exceeds that estimated for emerging and advanced economies (6 percent and 2 percent, respectively) by an important margin.

22. An important consequence is that income convergence of LICs toward advanced economies has seen a setback. At the end of 2023, LIC's average real GDP per capita represented less than one-tenth of the advanced economy average, broadly unchanged from 2019. Moreover, the convergence path projected over the medium term would move at a slower rate than that expected before the pandemic (Figure 17). And given the higher susceptibility of LICs to important risks amid large global uncertainty, there is a non-trivial likelihood that the income convergence will slow even further. This is a discomfiting outlook, especially as growing working-age populations should be in favor of LICs catching up to more developed countries (Figure 18).

²² See IMF 2021, Chapter 2.



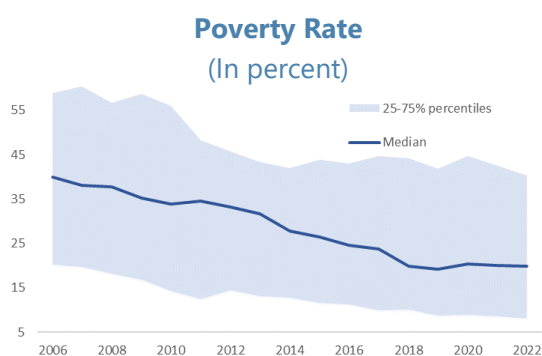
B. The Need for More Inclusiveness in Economic Development

23. Broader sharing of the growth dividend is another important dimension of successful development, in addition to strong and sustainable growth itself. Research shows that sharing economic gains broadly within societies facilitates sustained growth and overcoming fragility (see, e.g., Dabla-Norris et al., 2015).²³ Before the Covid pandemic, many LICs made progress toward critical objectives linked to inclusiveness such as poverty reduction, female labor force participation, and the reduction of informality in the economy (Figure 19). Many of these gains have been reversed during and after the pandemic, and the impact of the war in Ukraine on energy and food prices further fueled a cost-of-living crisis that remains a reality in many LICs. For example, studies suggest that the series of global shocks since 2020 erased at least three years of previous progress with poverty reduction;²⁴ and women employment, especially in the informal sector, was hit hard.

²³ For example, Berg and Ostry (2011) found that sustainable growth is associated with more equality in the distribution of incomes.

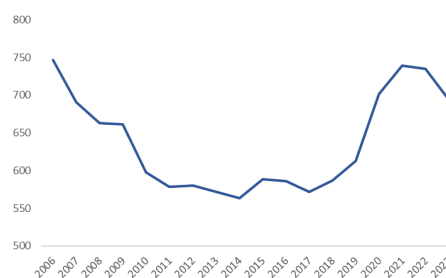
²⁴ World Bank, 2021, and UN DESA, 2023

Figure 19. Low-Income Countries: Selected Socio-Economic Indicators



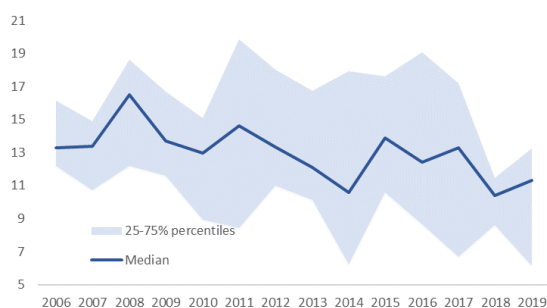
Sources: United Nations SDGs Database and World Bank.
 Note: Proportion of population below international poverty line (living below US\$2.15/day).

Global Undernourished Population (In millions)



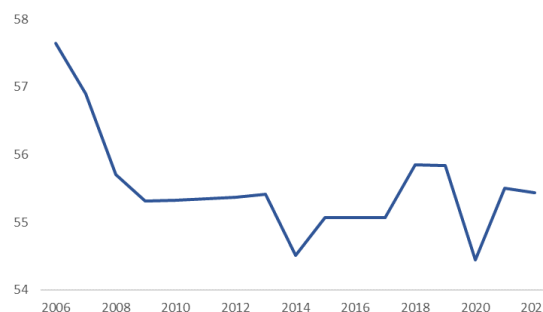
Sources: FAOSTAT and WFP HungerMap Live.
 Note: Undernourished people are defined by FAO as those whose habitual food consumption is insufficient to provide the dietary energy levels that are required to maintain a normal active and healthy life. The figure for 2023 is an estimate of people with insufficient food consumption from the WFP's HungerMap LIVE as of January 22, 2024.

Proportion of People Living Below 50 Percent of Median Income (In percent)



Sources: United Nations SDGs database and World Bank.

Female Labor Participation Rate (In percent, median)



Sources: World Bank and ILO.
 Note: The proportion of the female population ages 15 and older that is economically active and all female who supply labor for the production of goods and services during a specified period.

24. Reversing the recent negative trends in areas critical for inclusive growth, such as informality and food insecurity, will require strong effort. The limited data available suggest that the recent growth in informality cannot be reversed quickly, hindering revenue mobilization, social spending, and investment. And an estimated 238 million people in 48 countries faced acute food insecurity in 2023 (up ten percent from a year before), despite the easing of international food prices.²⁵ At the same time, funding levels for the World Food Programme (WFP) are under

²⁵ FSIN and GNAFC, 2023. Rice and sugar were notable exceptions from this trend, seeing their prices spike by double digits in 2023 due to production disruptions and, in the case of rice, trade restrictions and stockpiling in main producing countries amid concerns over the potential impact of El Niño (IMF, 2023a).

pressure;²⁶ and LICs with acute food insecurity also have low external and fiscal buffers (Box 4).²⁷ These are worrisome developments, as food insecurity tends to act as a fragility multiplier.

Box 4. The Global Food Shock: Recent Trends

Global food prices have come down, but acute food insecurity persists. As of September 2023, IMF staff estimates that 45 countries, most of which are LICs, remain strongly affected by the food shock, only slightly down from a year earlier. Notwithstanding recent declines in international prices for food staples and fertilizers, elevated food inflation in LICs persisted and exceeded 15 percent in about a quarter of them. Moreover, risks to food security remain high, given the expiration of the Black Sea Grain Initiative in July 2023, the ongoing El Niño weather pattern, and the likely incidence of other negative climate events. Despite FAO data showing improvements between 2021 and 2022 in central and western Asia, South America and North Africa, updated data as of August 2023 from the Food Security Information Network suggest that 238 million people in 48 countries are facing acute food insecurity, a 10 percent increase from a year earlier.

Households in many LICs continue to face a cost-of-living crisis and are not yet seeing the benefits of improved global conditions. The persistence of high food price inflation in LICs reflects logistical challenges (e.g., limited storage capacity), domestic market distortions, the offsetting impacts of currency depreciations and local weather shocks, as well as broader socio-economic fragilities and conflict.

Policy space has often been shrinking in the countries most affected by the food shock. In addition to a significant humanitarian cost, the global food shock—combined with higher energy prices and tighter global liquidity conditions—has taken a significant macroeconomic toll. In the most affected countries, median real GDP growth has weakened, headline inflation remains elevated, external imbalances have widened, and fiscal positions remain weak. These pressures have led to a depletion of FX reserves. And with debt levels already elevated and interest payments rising, capacity to respond to future shocks is limited.

Concerted efforts to mitigate the global food shock and prepare for new challenges remain crucial. The agenda includes (i) strengthening social safety nets to protect vulnerable households from the impact of the food shock, (ii) maintaining open trade to ensure a steady flow of food staples to vulnerable countries, (iii) continued financial support from the international community, and (iv) long-term efforts to address food insecurity, including by transforming food production and distribution.

25. Taking an even broader perspective, moving close to reaching the UN’s Sustainable Development Goals by 2030 would require an extraordinary mobilization of resources. Fully achieving the SDGs by 2030 now appears very much at risk, with realized progress relative to the desired trajectories delayed for 16 out of the 17 SDG.²⁸ The Fund’s Fiscal Affairs Department (FAD) derived an annual financing need of about US\$500 billion in 2030 to meet the SDGs across 49 LICs.²⁹

²⁶ Following a record revenue of US\$14.1 billion in 2022, the WFP expected to receive only US\$10 billion in 2023 and the same amount in 2024. However, as of October 2023, WFP planned to reach 177.4 million people in 2023 with projected operational requirements of US\$ 23.5 billion. As a result of the gaps, almost half of WFP country operations have already reduced, or plan to reduce, the size and scope of assistance. For details, see WFP 2023a and 2023b.

²⁷ For details, see IMF 2023a.

²⁸ According to WFP, almost 700 million people are in undernourished situation, way above the pre-crisis level. Under the current trend, extreme poverty would still affect about 7 percent of the global population by 2030 according to the UN. See UN’s 2023 SDG report for more details (UN DESA, 2023).

²⁹ Gaspar, et al., 2019, Benedek et al., 2021, and Carapella, et al., 2023.

In addition to the challenges of mobilizing such an amount on an annual basis, technical as well as macroeconomic capacity constraints would need to be addressed thoroughly to ensure sustainable implementation of a spending program of such scale.

C. The Need for More Resilience in a Shock-Prone World

26. Finally, strengthening resilience to cope with more frequent and deeper shocks will be essential. As discussed in ¶18-20, LICs are particularly vulnerable to a range of shocks. This reflects partially their relatively weak external and fiscal buffers that limit the capacity to swiftly respond with sufficient financial resources to shocks that develop a major economic impact. In addition, and partially as a reflection of limited financial means, many LICs are facing gaps in their infrastructure to prepare for and respond to large-scale disasters such as climate shocks, health crises, and hunger. Against this background, it is imperative for LICs to improve their resilience to shocks through strengthening external and fiscal buffers as well as targeted investments. This will be particularly challenging for the poorest countries facing the most pointed tradeoffs between these priorities and urgent investments to improve social outcomes and growth.

AN URGENT AGENDA FOR LICs AND THEIR PARTNERS

The challenges discussed above call for strong policy and reform efforts by LICs, capitalizing on the improved global outlook after the long series of adverse shocks since 2020. External partners will need to support these efforts through sustained and stepped-up engagement. For the Fund, strong support to its low-income members remains a priority.

A. Advancing the Domestic Policy and Reform Agenda

Key Objectives

27. To ensure macroeconomic stability and progress with growth, equality, and resilience, most LICs should focus on fiscal consolidation, further disinflation, and structural reforms.

Decisive fiscal adjustment while protecting social cohesion and growth-enhancing investments will remain critical to bring down the large debt stocks that accumulated over the past decade, keep financing needs at prudent levels in light of the continuing liquidity challenges, and alleviate domestic financial sector risks in countries where the sovereign-financial sector nexus is strong. Working in tandem with monetary tightening, fiscal consolidation can also support the disinflation process needed to mitigate the cost-of-living crisis that disproportionately affects the poorer segments of countries' populations; and help strengthen international reserves.³⁰ The focus on structural reforms derives from the need for higher growth as a means to improve standards of living in an inclusive way; and progress with strengthening resilience in anticipation of more

³⁰ On average, fiscal deficits account for about one-third of external deficits.

frequent and more potent shocks. Carefully tailoring the policy mix to country circumstances is vital (Box 5).

Policy and Reform Priorities

28. Fiscal consolidation and further disinflation will typically require policymakers to focus on the following areas:

- *Domestic revenue mobilization.* The slowdown in net flows of credit and ODA (see ¶15-17) places particular emphasis on equitable domestic revenue mobilization, as there are limits to expenditure-based fiscal adjustment. The potential is significant: with revenue-to-GDP ratios for LICs (and even more so for FCS) typically standing significantly below those for emerging markets and advanced economies, recent IMF research suggests that developing countries could increase their tax-to-GDP ratio by up to 9 percentage points through a combination of tax revenue reforms and institutional capacity building – sufficient to close the gap, although achieving progress of this magnitude would require time.³¹ Strengthening core taxes, for example through closing exemptions and loopholes, can boost revenue (e.g., the Maldives), while removing inefficient tax expenditure could generate significant budget savings (e.g., Kyrgyz Republic). Maintaining or improving progressivity in taxation would be important to achieve equity consistent with poverty reduction objectives. Medium-term revenue strategies have proven useful to guide comprehensive reforms, for example in Benin and Rwanda. Stronger institutions are particularly important for raising revenue in FCS, as is revenue diversification in fuel exporting LICs.³²
- *Re-prioritization of fiscal spending.* When resources are (severely) constrained as is the case for many LICs, it becomes particularly important that every dollar is spent as efficiently as possible. This calls for a re-orientation of spending towards health, education, well-targeted social safety nets (see Section 2), and growth-enhancing public investment; and further prioritization based on the quality of such spending. These efforts should be flanked by a careful review of savings potential in areas such as goods and services, public sector wages, and untargeted energy subsidies that often represent a major share of overall budget spending without necessarily compelling economic justification among urgent competing needs. For example, explicit energy subsidies in LICs were estimated at nearly US\$13 billion or more than 0.7 percent of GDP, with implicit subsidies much higher.³³ There have been encouraging examples of such efforts even in the current difficult economic context: for example, Togo and the Republic of Congo have used

³¹ Benitez et al, 2023. More than 20 countries registered improvements in their fiscal revenue of more than 5 percent of GDP, but it often took years or even decades to achieve this result.

³² Akitoby, et al. 2020.

³³ For 2021. See Fiscal Affairs Department [Fossil Fuel Subsidy Database](#).

fuel price adjustments in 2023 to reduce their subsidy bill; and Zambia is making progress on comprehensive subsidy reforms.³⁴

- *Public financial management to boost spending efficiency.* Priority areas for improvements typically include better cashflow management through single treasury accounts, better budget planning through the establishment of medium-term fiscal frameworks, and increased transparency and accountability through publication and debate of budget documents. In addition, more fully incorporating donor support into budget processes would enhance resource allocation and aid utilization. There is typically also scope to enhance public investment management, including for projects related to climate change; as well as the management of resource wealth in commodity-exporting countries. This agenda seems particularly urgent for many FCS with weak institutions and very limited fiscal resources, as well as for fuel exporters that often exhibit pro-cyclical policies.
- *Monetary policy to support disinflation and reserve adequacy.* As highlighted in the January 2024 WEO update, elevated uncertainty about the future course of inflation calls for a data-driven approach to setting monetary policy. That said, LICs that still experience high inflation will need to continue with policy tightening until inflation pressures subside. Those that already observed a fall in inflation towards its target range should carefully analyze the behavior of key inflation drivers (including wages and the path of the exchange rate) to avoid premature policy loosening. In many countries, tight monetary policy can also help strengthen international reserve cover—under both fixed and floating exchange rates. Given weak transmission channels for monetary policy, efforts should continue to further develop monetary policy operations (often towards inflation targeting frameworks for countries with flexible exchange rates), deepen domestic markets, reduce fiscal dominance, and ensure consistency of monetary and exchange rate policy frameworks.

Box 5. Low-Income Countries: Differentiated Policy Advice

The policy agenda discussed in this Section is broadly relevant for all LICs, but it is important to tailor policy advice to country circumstances. Looking at recent Fund advice from the Fund’s Consistent Policy Assessment (CPA, see Box Table), some trends emerge according to countries’ specific economic and institutional context. For example:

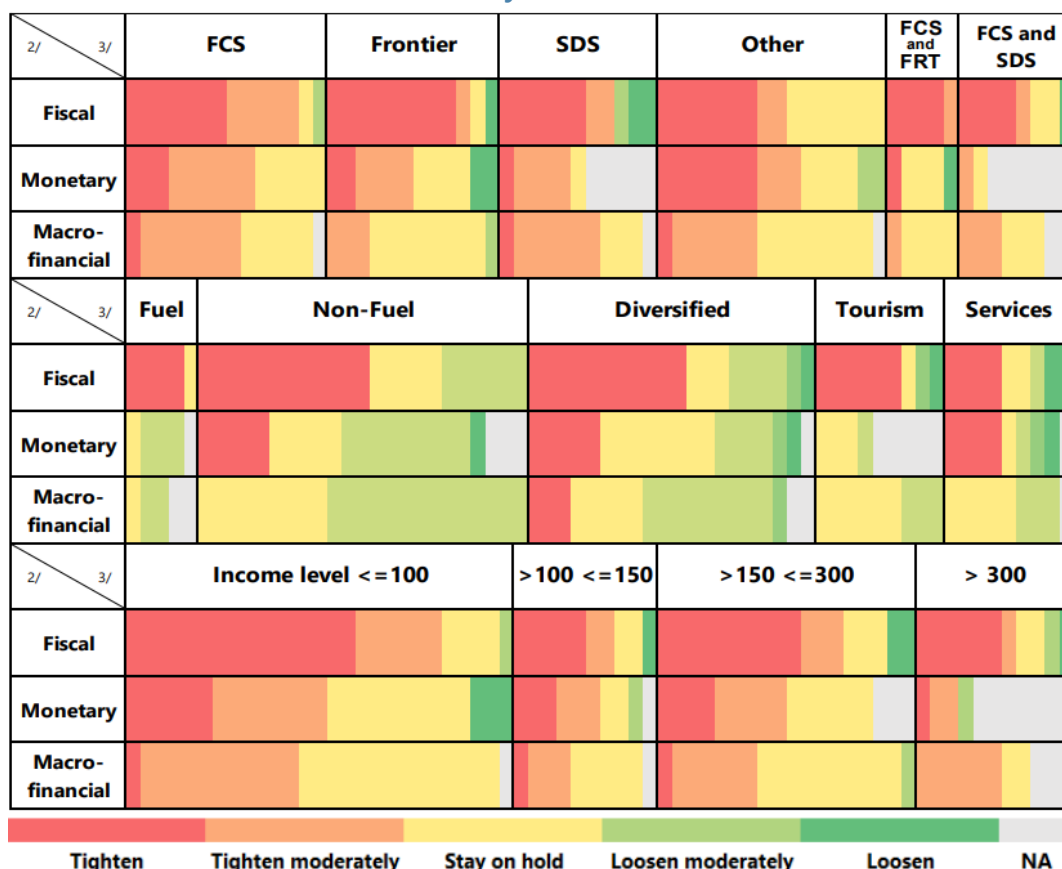
- **FCS.** Fiscal tightening has continued across many FCS and typically remains a key priority, as these countries are often facing severe financing constraints. Moreover, strengthening monetary policy frameworks is often important. Where applicable, all efforts should be made to avoid central bank financing of budget deficits. This is crucial to support macroeconomic stability, and especially disinflation, and an increase in often low central bank international reserves.

³⁴ Zambia removed explicit fuel subsidies by reverting to cost-pricing in December 2021 and reinstated VAT and excise duty on petroleum products in September 2022. Fuel and electricity subsidies are projected to have dropped to 0.2 percent in 2023 from 2.4 percent of GDP in 2021. Social spending targets under its ECF have been exceeded.

Box 5. Low-Income Countries: Differentiated Policy Advice (concluded)

- **Frontier markets.** While many frontier markets stand to benefit from further fiscal tightening, some countries that already undertook significant consolidation may consider some loosening. Following initial gains with disinflation, Fund advice on monetary policy focused on mitigating second-round pressures. Pockets of vulnerability in domestic financial sectors could be addressed by targeted macroprudential tightening.
- **SDS.** Many SDS (and especially tourism-dependent ones) need to reduce high debt levels, yet some have the flexibility to adopt a more lenient fiscal stance should strong revenue growth continue. This policy space could partially be used for urgent investments aimed at climate change adaptation.
- **Oil exporters.** LICs depending on oil exports are facing the prospect of declining revenues due to a reduction in global energy prices. As they often missed the opportunity to use the unexpected oil windfalls of the recent past for reconstituting their external and fiscal buffers, further fiscal adjustment remains front and center in recent Fund recommendations.
- **Non-fuel commodity exporters and diversified exporters.** Most of these countries are recommended to continue fiscal consolidation to further rebuild policy buffers, reduce debt vulnerabilities, and support disinflation. However, some economies with already lower debt levels and stronger fiscal positions may use some policy space to address urgent spending priorities.

2024 Policy Advice to LICs 1/



1/ Policy advice based on internal assessments by IMF country teams as part of the Consistent Policy Assessment (CPA) exercise conducted in Fall 2023. Sample excludes Afghanistan, Eritrea, and Sudan.

2/ IMF Country team's recommended policy action.

3/ Country groupings based on Annex 1 and Text Table 1. FRT stands for Frontier Economies.

29. In addition, LICs could proceed with structural reforms in support of macroeconomic stability, inclusive growth, and resilience:

- *Improvements in transparency, governance and the fight against corruption.* Weaknesses in transparency and governance, as well as sometimes high incidences of corruption, can discourage the deepening of economic activity and the efficient allocation of resources.³⁵ They can also undermine trust in economic policy and thus affect its impact on investor and consumer confidence, which can be critical for many LICs especially in the context of multi-year, deep adjustment efforts that are designed to engender a positive supply response. The strengthening of central bank independence and fiscal governance,³⁶ a business-friendly regulatory environment, effective anti-corruption institutions (including asset declaration systems), and procurement rules are typical areas for potential improvements. While broad political will is needed to ensure sustained progress, significant achievements are possible through capacity development, as governance bottlenecks are often related to poor institutional frameworks and technical limitations.
- *Domestic financial market deepening.* Developing domestic financial markets can help LICs lower their dependence on external financing, reduce currency risk, and promote financial development and thus growth and inclusion.³⁷ While considerable heterogeneity across LICs' financial systems implies that there is no one-size-fits-all approach to further reforms, data shows that significant progress is still needed for all countries, including frontier markets: it will be important to strike a balance between measures to foster market development, carefully calibrated public policy interventions,³⁸ and effective macro-prudential oversight to avoid creating new risks such as an excessive sovereign-bank nexus.
- *Other supply-side reforms.* Structural reforms can improve supply-side conditions and complement the macroeconomic policy mix in unlocking growth potential. Reform priorities are sensitive to a country's specific context, but recent experience highlights that liberalization of monopoly markets, for example in the energy sector; reform of labor market institutions; enhanced public infrastructure; and improvements in education, health, and vocational training can all play an important role through their impact on capital, labor, and total factor productivity. Moreover, to mitigate the impact of a potential increase in trade fragmentation, LICs should maintain open trade policies and consider deeper regional integration and

³⁵ For example, corruption negatively affects revenue mobilization: revenue collection among low-income countries that score high in terms of control of corruption is 4 percent of GDP higher than revenue collection in LICs that score low (see IMF, 2019c).

³⁶ See IMF, 2018.

³⁷ Chuku, et al. 2023.

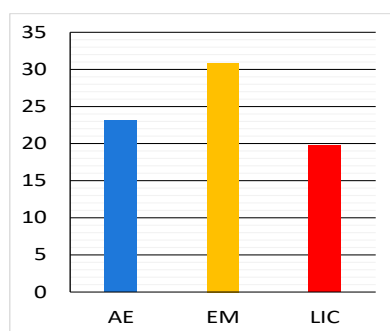
³⁸ While the decrease in the share of external (FX denominated) debt in total general government debt is broad based since 2000, it slowed down considerably when the effect of external debt relief initiatives faded. In weighted average terms, it decreased from 85 percent in 2000 to 65 percent in 2010, and to 60 percent in 2022. Targeted and balanced initiatives to encourage competition, develop information and market infrastructure, address collateral issues, and limit financial repression can help overcome specific impediments to increasing depth, breadth, and reach of financial systems.

cooperation, including AfCFTA and RCEP. Finally, there is renewed interest in the potential role of industrial policy in achieving more economic diversification and higher value-added activities within sectors (Box 6).³⁹ It is too early to draw firm conclusions, but results seem to be more encouraging in the presence of adequate governance frameworks and for approaches that target broader sectors instead of individual firms.

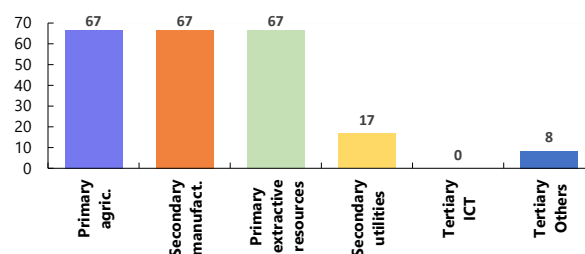
Box 6. Low-Income Countries: the Role of Industrial Policy

The IMF Consistency Policy Assessment - a semi-annual IMF staff internal survey on policy forecast and advice - shows that, although industrial policy is more prevalent in emerging markets and advanced economies, as much as 20 percent of LICs are employing industrial policies. In most cases, industrial policy pursues traditional objectives, such as boosting growth, exports or employment, economic diversification and promoting import substitution, rather than emerging priorities such as climate change mitigation. The most common policy instruments include the creation of special economic zones, provision of subsidies, and tax incentives (Box 6, Figure 3). Industrial policies tend to target primary and secondary sectors.

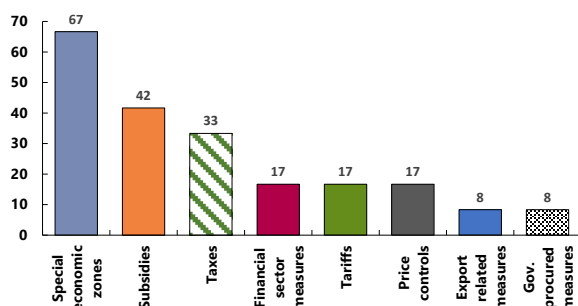
Share of Countries Deploying Macrocritical Industrial Policy
(In percent)



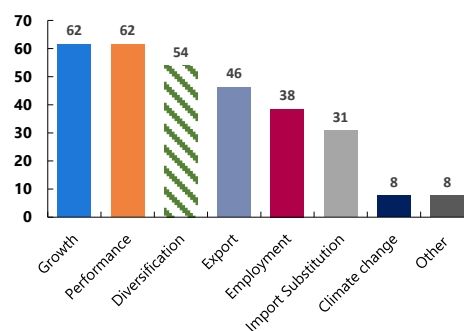
Objectives of Industrial Policies
(Share of total LICs employing industrial policies)



Industrial policy in LICs: Instruments Used
(In percent)



Industrial Policy in LICs: Targeted Sectors
(In percent)



Sources: Consistency Policy Assessment Fall 2023 and Fund staff estimates.

³⁹ See IMF 2022a. The use of industrial policy may be justified in the presence of well-identified externalities, coordination failures or the under-provision of public inputs. To be effective, industrial policy measures should be well-targeted, time-bound, cost-effective, transparent, and deliver on their objectives, while preserving domestic macroeconomic stability, fiscal and external sustainability. Given the high risk of resource misallocation, industrial policy would have to be well-designed to mitigate incentives for rent seeking and corruption. Policymakers should avoid implementing industrial policy measures that breach their international commitments and harm trading partners. For further discussion, see IMF 2024d, forthcoming.

- *Digitalization.* Digital transformation can raise incomes in LICs and improve governance, transparency and accountability.⁴⁰ For example, technology based on mobile telephony can make financial services, including government transfers, more accessible to underserved populations in rural areas and help reduce poverty.⁴¹ On the other hand, the costs for upgrading the necessary infrastructure can be significant; and it is important to carefully consider how inclusiveness can be ensured in the implementation of digitalization agendas. Where applicable, crypto-related regulatory frameworks will need to be upgraded to mitigate risks.
- *Building resilience, especially to climate-related shocks.* IMF research shows that investing in areas that are critical for development also helps improve resilience to climate-related disasters, requiring close collaboration with international partners, including the World Bank.⁴² More generally, better human capital, improved infrastructure as well as fast and effective decision-making protocols improve a country's capacity to mitigate and adapt to disasters.⁴³

Implementation Challenges

30. While the policy and reform agenda for LICs is well established, challenges often occur in its implementation. Experience suggests that ownership of the agenda by country authorities is a critical and necessary determinant of success, which can prove particularly difficult to maintain in election years with heightened interest group pressure. Even so, ownership itself it is not sufficient:

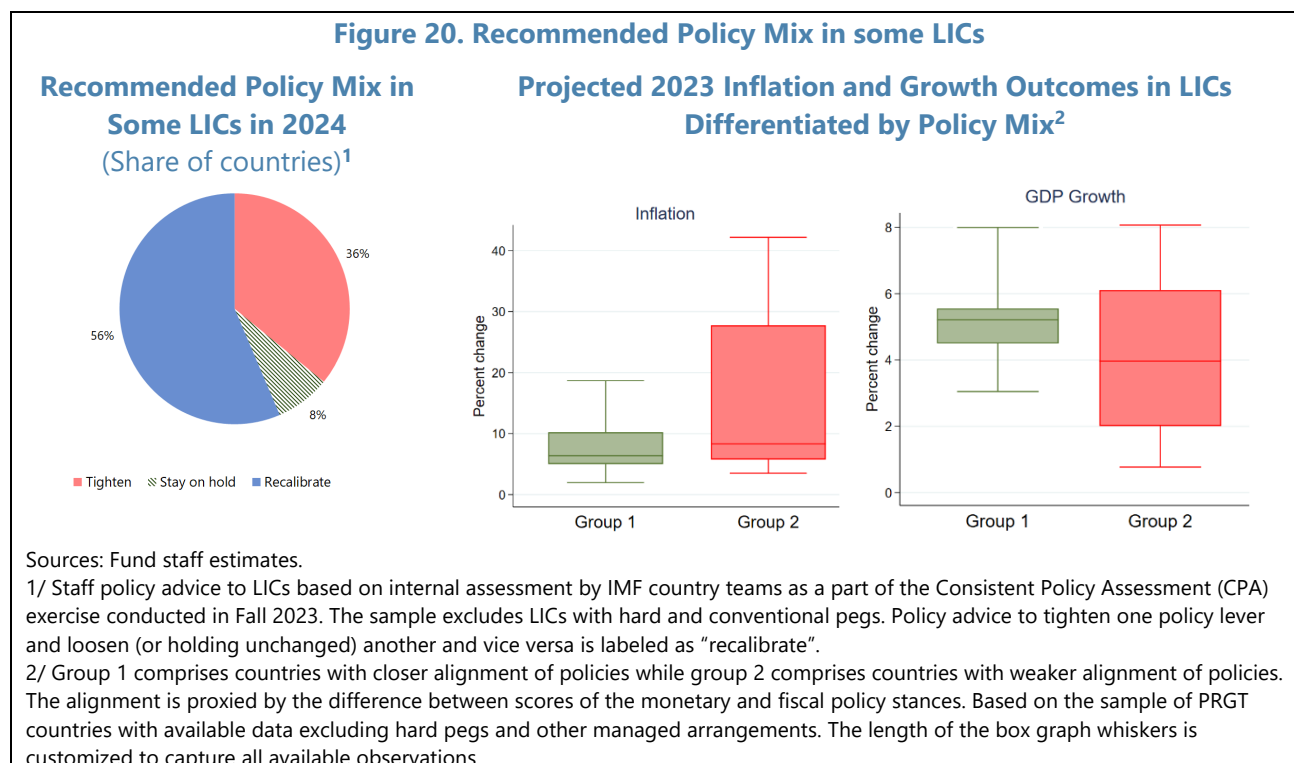
- *Policy consistency.* A well-calibrated macroeconomic policy mix, with each individual policy lever set on a sustainable course, helps to distribute the burden of macroeconomic management more evenly especially between monetary and fiscal policy. It thus works towards strengthening overall policy credibility and effectiveness. Looking at the evidence emanating from the Fund's Consistent Policy Assessment suggests scope for further improvements (Figure 20): for example, about one third of LICs should further tighten monetary and fiscal policies, while more than half of them would have scope for recalibrating their policy mix between monetary and fiscal levers.

⁴⁰ See IMF, OECD, UN, WB, and WTO (2023).

⁴¹ Kumar, Amaglobeli and Moszoro, 2023. The examples of mobile money usage are also in Chapter 2 and Bazarbash, et al. 2020.

⁴² See IMF 2020a.

⁴³ See IMF 2019a

Figure 20. Recommended Policy Mix in some LICs


- Sequencing of reforms amid capacity constraints.** Adequate sequencing is another challenge in reform implementation. This is true especially in LICs where technical and macroeconomic capacity constraints can become binding, especially when pursuing too many initiatives at the same time. In practice, the optimal sequencing, flanked by adequate capacity development assistance, will be a function of a country’s level of development, institutional quality, and technical and administrative capacity. An IMF study shows that a set of first-generation reforms comprising measures in the areas of governance, anti-corruption, external sector, and business regulation can help to substantially increase output, especially in countries with large initial structural gaps.⁴⁴ These reforms would often focus on (re-) building basic economic institutions, gradually unwinding inefficient and opaque allocation mechanisms and price controls, and the delivery of basic public services. Second-generation reforms could shift the focus towards fiscal institutions, the labor market, and the financial sector. In addition, to foster higher and more inclusive growth, emphasis can be placed on facilitating competition and on strengthening the business climate. Finally, for LICs moving toward middle-income status, more attention could be given to ensuring the stability of increasingly sophisticated financial systems, managing integration with global capital markets,⁴⁵ and measures in support of diversification, the green transition, and gender equality.

⁴⁴ Budina et al. 2023.

⁴⁵ In this context, it is important to carefully consider the timing and scope of capital account liberalization that needs to be well planned, timed, and sequenced to ensure that its benefits outweigh the costs. The integrated approach envisions proceeding through successive and often overlapping, phases. The phases comprise: first, the liberalization
(continued)

- *Building broad buy-in.* It has often proven hard to assemble and maintain broad coalitions in support of ambitious policy and reform efforts, as those typically imply short-term (and often concentrated) economic pain in exchange for longer-term (and often more widely dispersed) gain. To avoid backlash against reforms especially in their critical early phases, it is important to communicate well to key stakeholders and the general public on reform objectives and expected benefits both from the angle of broad strategy and specific measures. Moreover, it will be important to have mechanisms in place to compensate vulnerable groups for excessive losses, for example by well-targeted safety nets in the event of a withdrawal of energy subsidies.

B. Maintaining Strong External Support

31. Decisive policy and reform implementation are critical to support macroeconomic stability and development, but LICs also continue to depend on strong external support. This support is not only about financing—for example, strong growth in LICs will require predictable market access for their exports as well as for sourcing their import needs, including energy and food staples. In addition, strengthening effective and efficient government operations will be facilitated by well-targeted policy advice and capacity building assistance, in traditional areas such as macroeconomic policy frameworks and sectoral policies; but also in new areas such as initiatives to mitigate the impact of climate change.⁴⁶ That said, ensuring adequate external financing for LICs to help cover their external and fiscal financing needs will be particularly important in the current environment of tight liquidity conditions. Such support will be critical for reducing the economic, political, and social pain associated with urgent and deep macroeconomic adjustment efforts—and hence for increasing their likelihood of success.

32. Mobilizing adequate financing for LICs is a daunting challenge given the orders of magnitude involved. It is difficult to estimate with precision the financing needs that LICs will have over the next years. But some elements of analysis can provide a sense of the orders of magnitude involved:

- *Baseline needs.* A first method involves a bottom-up approach of aggregating the gross needs for each country that are underlying the medium-term projections in the IMF's WEO database.⁴⁷ These estimates are consistent with the economic outlook under the baseline scenario (from which this report derives the projections for the main macroeconomic aggregates discussed in ¶11-14 and thus reflect available information on countries' budget plans and financing

of FDI inflows, which are more stable than other flows and more closely correlated with growth; second, the liberalization of FDI outflows and long-term portfolio flows; and, finally, the liberalization of short-term portfolio flows. The phases require a range of progressively deeper and broader supporting reforms to legal, accounting, financial, and corporate frameworks.

⁴⁶ For example, the World Bank's Sustainable Development Finance Policy helps LICs address domestic revenue mobilization (DRM) and debt transparency challenges; and the new WBG Crisis Preparedness and Response Toolkit would further enhance the support for LICs on climate action.

⁴⁷ Operationally, gross financing needs reflect the sum of current account positions and external amortization from the WEO projections. These financing needs ("Gross Financing Needs", GFN) are by definition "already met" through capital and financial account transactions, official support, and IMF-supported programs.

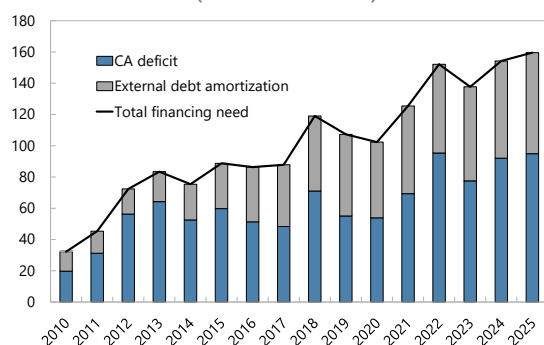
assumptions. Importantly, the projections take into account debt amortization schedules for each country. When all is said and done, these financing needs are expected to amount to some US\$820 billion for the period 2024-28 (Figure 21).

- *Macroeconomic stabilization.* The baseline needs do not consider any normative judgment on the desirable path of LIC economies going forward; they merely reflect the needs associated with the most likely trajectory. A first modification to this approach involves adding the external financing needs that would be required to bring the international reserve cover for all LICs to a minimum level considered as “safe”, which in operational terms means meeting at least the threshold of 3 months of import cover. Another US\$30 billion over the 2024-28 window would be needed to meet this objective, which is strongly associated with the imperative of crisis-proofing LIC economies for a more shock-prone world.⁴⁸
- *More developmental ambition.* The hardest dimension to analyze involves the needs associated with a more ambitious effort to spur economic development, including due to the difficulty of setting clear anchors for such calculations. This report suggests two methodologies, while emphasizing that there is no consensus on these and parameter uncertainty is high. The following numbers should thus be interpreted as indicative ranges of needs rather than as exercises of any precision. A first approach, already used in the 2022 LIC report, speaks to the issue of LICs’ (currently paused) income convergence with advanced countries. Specifically, it asks how much additional financing would be needed over 2024-28 to ensure again, as was the case in the years prior to the pandemic, that per capita income across LICs grows at a higher rate than that in more advanced economies to gradually close the income gap.⁴⁹ The answer is a sum of about US\$450 billion over five years, up from an estimate of US\$267 billion in the last report mainly due to further divergence in growth and population dynamics and higher-than-expected growth in nominal GDP (due to inflation) that acts as a base for the calculations. A second approach, pioneered in this report and discussed in more detail in the online supplement, shifts perspective towards the Sustainable Development Goals (SDGs). Based on an endogenous growth model, it asks how much additional financing would be required to make significant progress towards the SDGs while taking into account realistic constraints on LICs’ absorptive capacity in amping up their respective spending. This calculation yields an additional need of some US\$500 billion over the period 2024-28, calibrated on reaching the SDGs by 2040.

⁴⁸ As discussed in Paragraph 20, terms-of-trade shocks can have a major impact on LICs. Shocks of the magnitudes assumed in the respective stress tests could increase financing needs of up to US\$20 billion across LICs. More sizeable shocks would have a larger impact. For example, the 2022 LIC report estimated the economic toll of the COVID-19 pandemic at US\$150 billion.

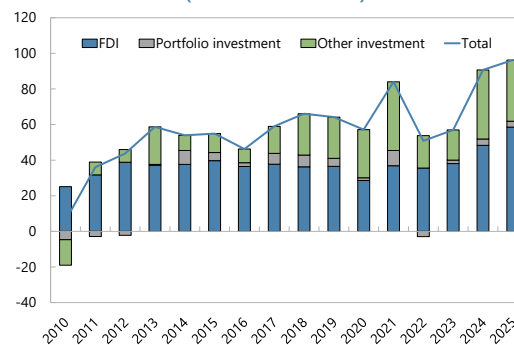
⁴⁹ This is proxied by increasing the spending to GDP ratio to get closer to the EM average over a period of 5 years (as methodology defined in LIC report 2021).

Figure 21. Low-Income Countries: Gross External Financing Needs and Net Financial Inflows
LICs Gross External Financing Needs
 (In USD billion)



Sources: WEO and Fund staff estimates.

LICs Net Financial Inflows
 (In USD billion)



Sources: WEO and Fund staff estimates.

33. Even meeting only a part of LICs' plausible additional financing needs of some US\$500 billion through external flows would require a major effort by many actors. For a starter, these needs that represent up to 26 percent of LICs' 2023 GDP would come on top of the US\$800 billion in gross inflows already assumed in the baseline over 2024-28.⁵⁰ And the needs meet a challenging global context in which creditors and donors have been struggling with many competing demands. Against this backdrop, there are several urgent priorities:

- *Maximizing domestic resource mobilization within LICs.* As already highlighted earlier in this section, sustained development gains will depend on stronger efforts to mobilize domestic revenue in LICs as well as domestic financial market development. More proactive redirection of expenditures towards priority areas would also help. The potential of such initiatives looks promising: for example, boosting LICs' revenue-to-GDP ratio by 5 points of GDP, while ambitious, could yield at least half of the additional needs (see [the online supplement](#)).
- *Stepped-up engagement by external official creditors, especially through highly concessional and grant financing.* Both multilateral and official bilateral creditors will maintain a key role in providing financing to LICs and supporting domestic policy and reform efforts conducive to attracting private capital flows. After providing exceptional support in response to the pandemic,⁵¹ the World Bank and the IMF will review their concessional financing envelopes, and associated programmatic priorities such as a stronger focus on domestic revenue mobilization, in the year ahead consistent with their respective mandates—the former on the occasion of the IDA 21 replenishment, the latter in the upcoming PRGT review. Regional Development Banks could explore further scope to leverage their balance sheets and maximize their capacity to support LICs with highly concessional and grant financing. Official bilateral donors and creditors,

⁵⁰ While these figures are large, it may be useful to look at them also in broader perspective. For example, the US\$820 billion estimated as baseline needs for 2024-28 are broadly equivalent to the 2023 GDP for Switzerland.

⁵¹ See World Bank Development Committee 2023. IDA, the main source of concessional financing for LICs, increased commitments to US\$36 billion per year since the pandemic by bringing projects forward in time. The next IDA Replenishment (IDA 21) is expected to be completed by end 2024.

including traditional providers of ODA confronted with competing demands, and non-Paris Club creditors whose new financing has significantly declined in recent years, could explore how to strengthen financial engagement with LICs. Given particularly high needs in the poorest LICs, their already constrained debt positions, and stronger capacity of wealthier LICs to navigate current challenges, focusing scarce concessional and grant resources on the poorest countries would appear desirable.

- *Crowding in private finance to LICs.* The numbers convey a clear message: the resources that can be provided by the official sector, domestically or externally, will not be sufficient by a large margin to cover the financing needs of LICs: private finance will have to play a strong role in facilitating development. While the international community should deepen further its work on risk-sharing instruments that can help crowding-in private finance to LICs, it will also be important for LICs to progress with efforts to strengthen the fundamentals that investors look at, including transparency and governance standards. Given the higher costs associated with private finance, LICs with market access should ensure that private debt is incurred at a pace consistent with absorptive capacity and debt sustainability.
- *Improving international coordination on debt resolution.* A more diverse creditor composition puts a premium on effective coordination to help countries experiencing debt distress. The G-20 Common Framework for Debt Treatment (CF) has bridged an important gap between Paris Club and Non-Paris Club official creditors, but implementation has been challenging and would benefit from further improvements in speed and efficiency.⁵² Coordination between creditors outside the CF, as well as between official and private creditors, has also been difficult. That said, several important milestones were reached during 2023. Somalia reached the HIPC Completion Point, which unlocked US\$4.5 billion in debt relief.⁵³ Moreover, debt treatments under the CF advanced for Ghana and Zambia (in addition to Chad that completed its CF debt restructuring in December 2022) and allowed Fund-supported programs to proceed. Important first steps were also taken for Ethiopia (debt service suspension during the negotiation). Lastly, Malawi advanced its bilateral debt restructuring outside the CF, while a few other LICs (e.g., Djibouti, Lao PDR, Zimbabwe) indicated their intention to restructure their debt. All this suggests an important learning curve among creditors, supported by efforts to establish protocols on best practices with debt restructurings, including through the work of the new Global Sovereign Debt Roundtable. It will be important to carry the positive momentum into the future.

⁵² There has been some improvement observed in recent cases that used the G-20 Common Framework. For example, it took 11 months for Chad in 2021 to move from the staff-level agreement for an IMF-supported program to the actual approval of the program by the IMF Executive Board, thanks to financing assurances provided by official bilateral creditors, and another 12 months to achieve agreement in principle on the detailed debt restructuring with official bilateral creditors paving the way for the first program review. It took respectively 9 months and 10 months for Zambia in 2022-23, and 5 months and 8 months for Ghana that is the most recent case. These timelines are still longer than the respective 2-3 months and 5-6 months observed in the past.

⁵³ IMF Press Release No. 23/458 ["IMF and World Bank Announce US\\$4.5 billion in Debt Relief for Somalia,"](#) December 13, 2023.

C. The IMF's Strong Commitment to Supporting LICs

34. Since the time of the 2022 LIC report, the Fund has further strengthened its support to LICs. A key focus has been on ensuring well-tailored support that responds to LICs' specific characteristics and challenges, including high susceptibility to climate-related shocks and food insecurity. The IMF has also stepped up its engagement with FCS, including through the implementation of a comprehensive FCS Strategy approved in 2022. The Strategy provides an operating framework and a set of priorities that will allow the Fund to better support FCS to achieve macroeconomic stability, strengthen resilience, and promote inclusive growth to exit fragility.⁵⁴

35. The Fund's policy advice has focused on helping LICs navigate through the challenges emanating from the Covid pandemic, the war in Ukraine, and global monetary tightening. This has typically involved advice on the calibration of macroeconomic tightening to reduce debt-related vulnerabilities and address high inflation. In this context, the Fund emphasized the need for consistent policy mixes as well as to organize adjustment in a growth-friendly and socially cohesive way with a strong emphasis on strengthening social safety nets (see Section 2). In addition, the Fund has underscored the importance of maintaining open trade especially for food staples to mitigate food insecurity; and has expanded its knowledge base in new areas such as the economic impact of climate change, gender, inequality, and industrial policy to be able to continuously advise its membership with well-tailored recommendations grounded in cross-country experience.

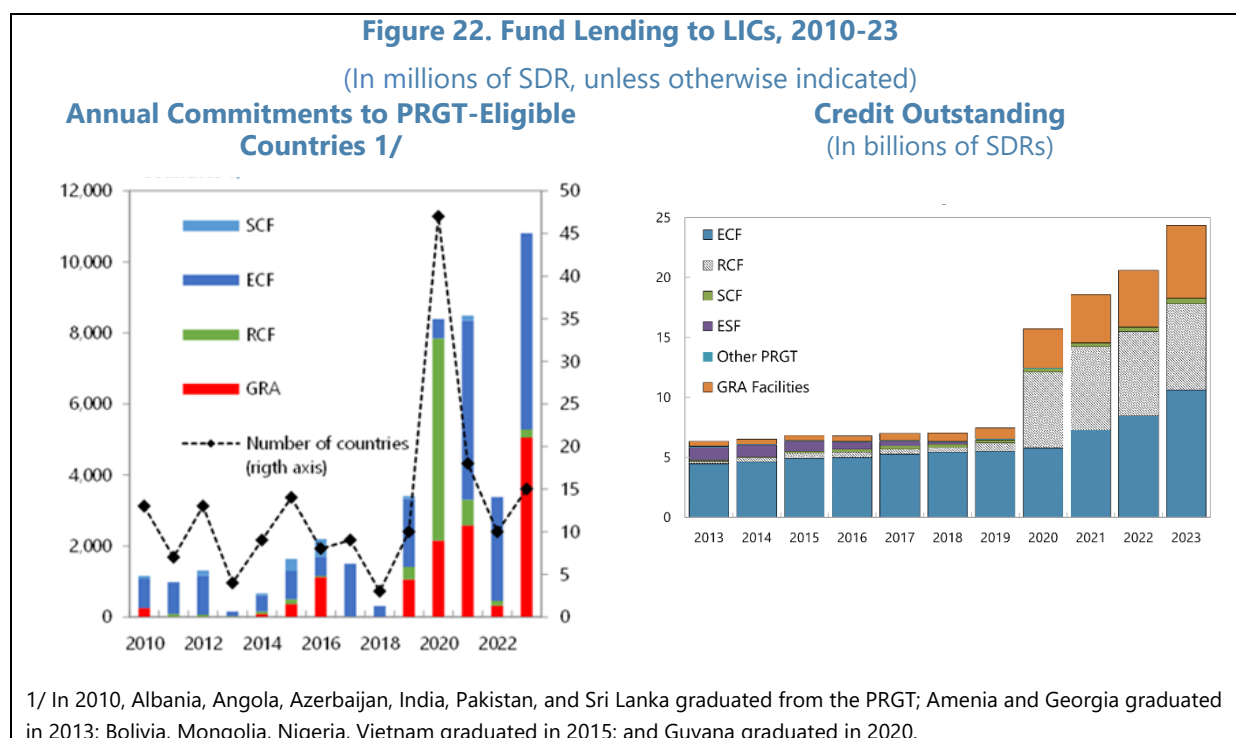
36. Capacity Development (CD) continues to provide highly valued and flexible technical assistance and training in LICs closely integrated with surveillance and programs. Donor support from existing and new partners has been crucial for CD, allowing CD spending for LICs to increase by over 40 percent between FY22 and FY23. Engagement has grown especially with FCS, reflecting the importance of CD in the Country Engagement Strategies (CES) that have been prepared in line with the Fund's new FCS strategy. Technical assistance has been focusing especially on the core areas of macroeconomic management such as statistics, fiscal, monetary and financial sector management, macroeconomic frameworks, and debt management. Demonstrating flexibility, agility, and responsiveness, Fund's CD has grown on governance and climate adaptation and mitigation.⁵⁵ Key to the success of the Fund's CD engagement are its Regional Capacity Development Centers, whose local presence especially in LICs has been instrumental in securing much needed traction and impact.

37. The Fund has also evolved and increased its financial support. Against a backdrop of multiple shocks since 2020, the IMF quickly adapted its toolkit to better serve its LIC members (see Box 7). Total Fund credit outstanding to LICs increased to SDR 24.4 billion at the end of 2023 (see

⁵⁴ See [Fragile and Conflict-Affected States \(imf.org\)](https://www.imf.org) for information on the implementation of the IMF's 2022 Strategy for FCS.

⁵⁵ Training activities have complemented the delivery of TA, including on macroeconomic programming, tax policy, revenue administration, and debt management.

Figure 22), compared with SDR 7.4 billion at the end of 2019.⁵⁶ After a peak in emergency financing in 2020, most commitments since involved upper-credit tranche programs in the form of ECF or blended ECF/EFF arrangements. Their multi-year orientation and ex post conditionality are best suited to help LICs make significant progress toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. In addition, a few countries drew on the temporary food shock window under the RCF/RFI in 2022 and 2023. While all LICs benefit from concessional lending under the Fund's PRGT, LICs with relatively high per capita income face a cap in access to these limited resources and blend PRGT resources with non-concessional GRA resources.⁵⁷ That said, only SDR 6.1 billion out of the total credit of SDR 24.4 billion outstanding to LICs at the end of 2023 involved non-concessional financing (Figure 22, right panel). The Fund expects lending activities to continue strongly into 2024.



⁵⁶ LICs also benefitted from support through other vehicles: all received an SDR allocation in 2021 with funds going to LICs totaling about SDR 15 billion, most of the poorest LICs received debt service relief through the CCRT that totaled about SDR 0.7 billion in October 2020-April 2022, and some have been recipients of funds committed from the RST (SDR 2 billion).

⁵⁷ For a more detailed account of underlying rules, see [LIC handbook](#).

Box 7. IMF's Recent Policy Changes Affecting Low-Income Countries

- **Resilience and Sustainability Facility.**¹ As of the end of 2023, the Fund's new facility to support countries cope with macro-critical risks associated with climate change and pandemic preparedness has been used by 9 LICs for total access of SDR 2.5 billion. The financing under the RSF, which facilitates the climate transition and entails close coordination with the World Bank and other IFIs, provides coherent policy advice and helps catalyze additional official and private finance.
- **Temporary increase of annual and cumulative access limits under both the GRA and PRGT.**² The Fund approved a temporary increase in GRA and PRGT access limits raising the annual access limits to 200 percent of quota and the cumulative access limits to 600 percent of quota, respectively. This allows countries more space to draw on Fund financial support below the levels of exceptional access that require meeting additional safeguards.
- **Food shock window under the RCF/RFI.** As part of the Fund's response to the global food shock, the Executive Board approved a temporary Food Shock Window (FSW) in September 2022.³ Six countries have used this window to cope with urgent BOP pressures associated with the spike in prices for food and fertilizers provoked by the war in Ukraine. Three of these (Burkina Faso, Malawi, and Ukraine) have since transitioned to Fund support under a multi-year UCT-quality program. The window will expire at the end of March 2024, with measures already in place to ensure the Fund can continue to support countries affected by the food shock, including where UCT-quality programs are not feasible. In practice, the extension of the higher cumulative access limits for the RCF (see next point) ensures that, at the time of expiration of the FSW, all LICs that were eligible to the FSW will either be under a UCT-quality program or have space for additional emergency financing under the RCF (typically 50 percent of quota or more) to help mitigate the impact of the food shock or other potential future shocks, should a UCT-quality program not be feasible.
- **Extension of higher cumulative access limits for the RCF/RFI.**⁴ To ensure that the Fund had the capacity to support countries qualifying for emergency financing in case of renewed emergency situations, and taking into account that Covid-era emergency financing would only be repaid starting in 2025, the Fund extended temporarily higher cumulative access limits for the RCF/RFI.
- **Expansion and refinement of non-disbursing Fund Instruments.**⁵ The approval of the Program Monitoring with Board involvement (PMB) has so far helped two LICs to build track record with involvement from the Board, and the Policy Coordination Instrument (PCI) has been refined and streamlined.

1/ For details, see [The Resilience and Sustainability Facility \(RSF\)](#).

2/ IMF 2023i, IMF 2023n, and IMF 2024c. The temporarily higher limits will be maintained until end-2024.

3/ IMF 2023j.

4/ IMF 2023k. The temporarily higher cumulative access limits under the RFI will be maintained until end-June 2024. The temporarily higher cumulative access limits under the RCF will be maintained until the completion of the 2024/25 comprehensive review of the Fund's concessional facilities and financing.

5/ IMF 2023m and IMF 2024b.

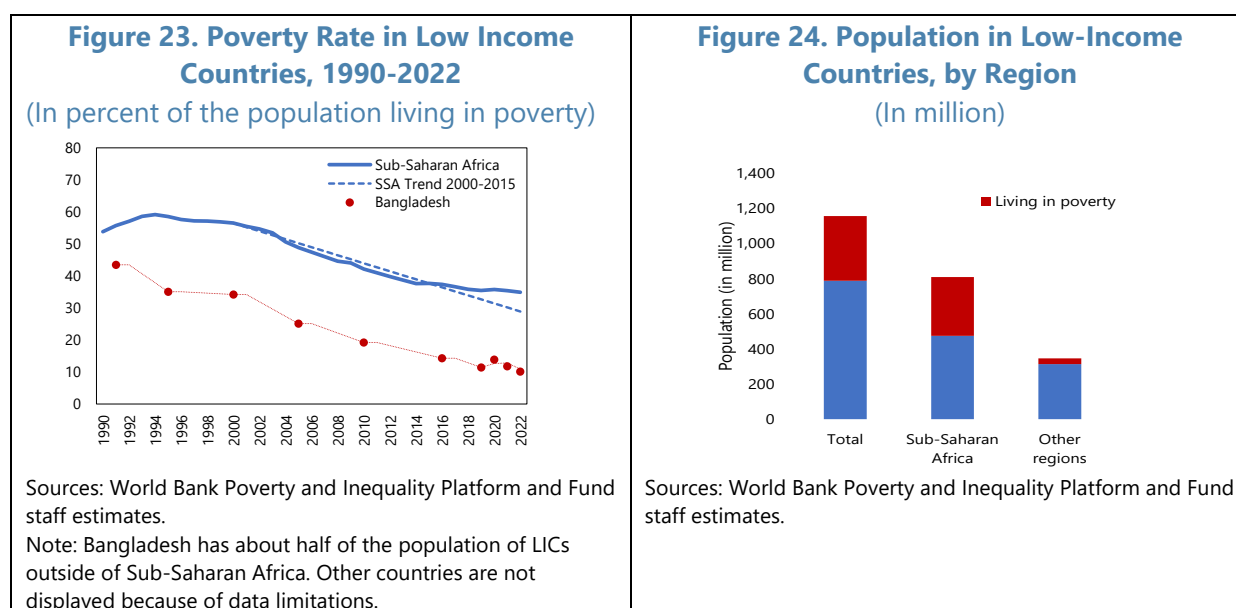
38. A major milestone ahead will be the completion of the review of PRGT facilities and financing. This review will provide an opportunity for the IMF to have a comprehensive look at its concessional financing operations for LICs. The review will aim at ensuring the Fund's ability to provide adequate concessional financing support to LICs in accordance with the Fund's mandate of providing temporary BOP support, while ensuring the self-sustained nature of the PRGT over the

long term and catalyzing additional financing from other sources. Key considerations will include the role of the Fund's concessional and non-concessional financial support to LICs in the context of increasing financing needs in a more shock-prone world, ways to mobilize sufficient financing to buttress the long-term self-sustainability of the PRGT, and how the Fund may better reflect the heterogeneity across LICs in its operations by targeting its limited concessional financing to those of its members that need it the most (Box 7). Finally, the review will reflect on how the Fund, the World Bank, and other donors and creditors can best work together to support LICs, all in line with their respective mandates.

STRENGTHENING SOCIAL SAFETY NETS IN LOW INCOME COUNTRIES

A. Background

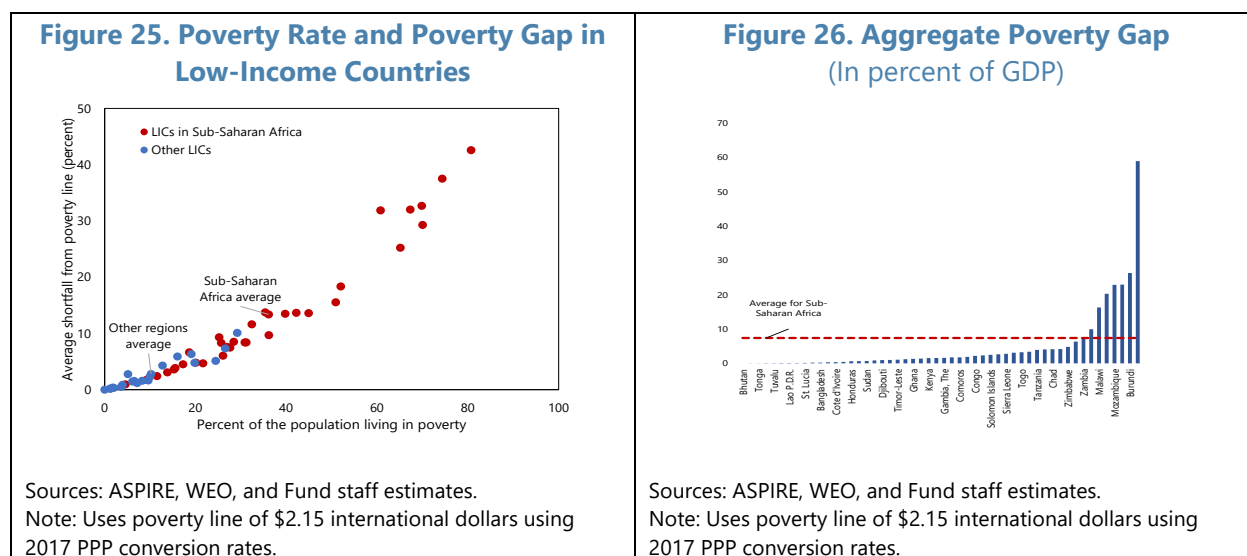
39. Despite significant progress over the past decades, poverty remains prevalent in low-income countries. The share of the population living in poverty in Sub-Saharan Africa declined by over 1 percentage point per year in 2000–2019 (Figure 23). As noted in Section 1, the pandemic buckled this trend in 2020, and recent shocks to food and energy prices have hit vulnerable households hard. As the region continues to recover, the decline in poverty has resumed, albeit at a slower pace. Today, the poverty rate in Sub-Saharan Africa remains at about 40 percent (over 330 million people) (Figure 24), five percentage points higher (40 million people) than projected under pre-pandemic trends.⁵⁸ About 90 percent of the poor in low-income countries (LICs) are in Sub-Saharan Africa. In LICs outside of this region, time trends are similar, but poverty rates are lower, reaching 13 percent in 2022.



40. Poverty rates and poverty gaps vary widely across LICs. In Sub-Saharan Africa, poverty outcomes range from countries with poverty rates under 20 percent and poverty gaps under 10 percent (Cabo Verde, Comoros, The Gambia, Guinea, São Tomé, and Senegal) to countries with poverty rates above 60 percent and poverty gaps above 30 percent (Democratic Republic of Congo,

⁵⁸ To allow for comparability across countries, this section uses the definition of poverty based on the \$2.15 a day threshold in 2017 PPP conversion rates, broadly mirroring the value set by national poverty benchmarks in the poorest nations. This threshold is commonly referred to as the extreme poverty line.

Madagascar, Mozambique, South Sudan, and Zambia) (Figure 25)⁵⁹ The aggregate poverty gap—a rough estimate of the minimum resources needed to eradicate poverty—is about 10 percent of GDP in Sub-Saharan Africa LICs or about \$50 billion per year (Figure 26).⁶⁰



41. In low-income countries, Social Safety Nets (SSNs) are an important tool to alleviate poverty. Facing prospects for relatively weak growth and tight financial conditions (Section 1), strengthening SSNs to effectively support vulnerable households remains a priority. Furthermore, fragility and conflict can exacerbate poverty by weakening institutions and impairing the capacity to strengthen SSNs (Cooper 2018). Where fiscal adjustments are needed, expanding SSNs and increasing the effectiveness of existing programs is particularly critical to alleviate poverty, and mitigate the impact of economic reforms on vulnerable households. Stronger SSNs can also prove valuable in building public support for often contentious reforms, for example to boost domestic revenue mobilization or reduce energy subsidies (Dutzler and others 2021).

42. SSNs programs can support human and physical capital accumulation and help build resilience in LICs. SSN transfers have little adverse effects on employment (Banerjee and others 2017). SSNs can increase the resilience of vulnerable households by improving their capacity to prepare for, cope with, and adapt to negative shocks (Grosh and others 2022; Beegle and others 2018; Andrews and others 2018). SSNs are associated with increasing household consumption (Bastagli and others 2016) and food security (Asfaw and Davis 2018), including through spill overs to non-beneficiaries (Taylor, Thome, and Filipowski 2014). Furthermore, the literature finds positive effects on asset accumulation, including on household savings (Kenya, Sierra Leone, Tanzania), small livestock ownership (Niger), durables (Ethiopia, Kenya, and Lesotho), and land ownership (Zambia);

⁵⁹ Poverty gap is the monetary difference between the consumption (or income) of the poor and the poverty line. In practice, eradicating extreme poverty is far more complex than the overall poverty gap indicates because determining who falls into poverty and to what extent is especially difficult (Brown and others 2017).

⁶⁰ This is an illustrative lower bound of spending needs to eliminate poverty scenario assuming perfect targeting. Accounting for leakages of benefits to the nonpoor would raise the spending needs.

SSN also boost investments in human capital through greater expenditures on nutrition and education among children (Alderman and Yemtsov 2013). The impact on learning and health outcomes is mixed (Beegle and others 2018). Social assistance and labor market programs can also help in closing economic gender gaps (Box 8).

Box 8. Gender Aspects of Social Safety Nets

SSN can have notable gender-specific effects, such as increasing women's bargaining power and decision-making in the household, better educational outcomes for both boys and girls, and advancements in maternal and child health (Barrington and others 2022; Garcia and Saavedra 2017; Hagen-Zanker 2017; Independent Evaluation Group 2014; Peterman and others 2019). For example, direct cash transfers to women can lead to increased household expenditure on children's needs in some contexts (education, health, nutrition), reflecting women's empowerment and their distinct spending preferences compared to men. Labor market programs and SSNs can close economic gender gaps by increasing women's employability and access to paid jobs for women. Women are generally overrepresented in the unemployed, and so active labor market policies (ALMPs) tend to have a greater impact on them. Training programs can improve labor force outcomes for women more than for men, particularly in countries with greater employment gender gaps and larger informal employment for women (Bergemann and J. van den Berg, 2006).

43. Recent shocks have exposed gaps in existing SSNs, but also spurred innovative measures to support vulnerable households. In many countries SSNs were limited in scope to protect the most vulnerable. Furthermore, in responding to COVID-19, LICs faced challenges related to limited access to finance, weak administrative capacity, and lack of basic infrastructure. On average less than 10 percent of the population in LICs received emergency transfers (Gentilini 2022). At the same time, several countries relied on novel mechanisms leveraging digitals to scale up SSNs, including Mozambique, Nigeria, and Togo.

44. The section is structured as follows. ¶45–50 reviews the landscape of SSNs in LICs, including adequacy and efficiency considerations, as well as experiences from recent responses to shocks. ¶51–58 discusses options to strengthen SSNs, considering lessons from case studies for Ghana, Mozambique, Uganda, Tanzania, and Zambia which assess potential horizontal or vertical expansions to their main cash transfer programs.

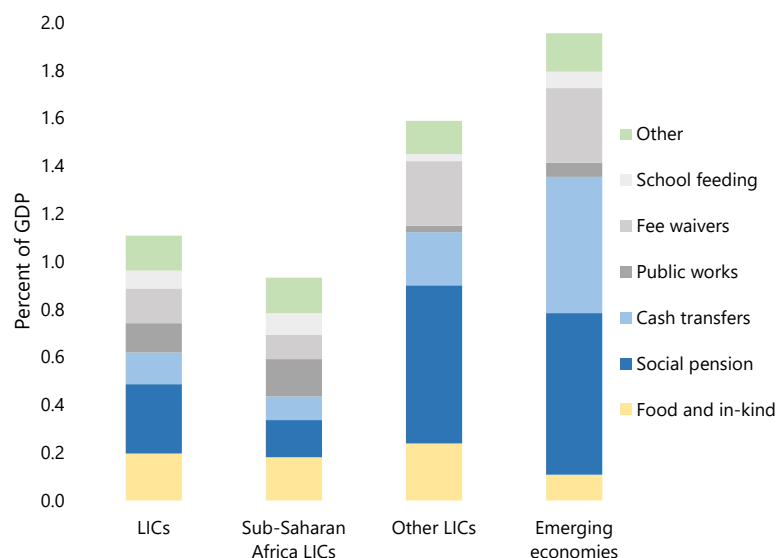
LANDSCAPE OF SOCIAL SAFETY NETS IN LOW-INCOME COUNTRIES

45. SSNs comprise noncontributory transfer programs designed primarily to protect households from poverty and destitution. In many cases, these programs also aim at promoting the human and physical capital accumulation, which can help households build resilience to shocks and avoid future poverty (Coady and others 2022). To achieve these objectives, LICs spend about 1 percent of GDP per year in a wide variety of noncontributory programs, with only about a quarter of spending devoted to cash transfers.

- *SSN Spending.* On average, LICs spend about 1 percent of GDP in SSNs, equivalent to about half of the SSN spending observed in emerging economies (Figure 27). Of the 56 LICs with SSNs spending data, only ten countries spend over 2 percent of GDP in SSNs (Burundi, Cabo Verde, Central African Republic, Dominica, Kyrgyz Republic, Lesotho, Mauritania, Nepal, Nicaragua, and Timor-Leste), and eleven spend less than 0.20 percent of GDP (Cameroon, Rep. of Congo, Cote d'Ivoire, Guinea-Bissau, Lao P.D.R., Myanmar, Papua New Guinea, Samoa, São Tomé, Tanzania, and Togo).
- *Targeting.* In practice, SSN programs typically targeted benefits through various mechanisms, often combining different criteria (Coady and others 2022). Key methods to select beneficiaries include geographic targeting (benefits based on geographic areas); categorical targeting (based on observable characteristics like age or gender); community targeting (relies on local knowledge to identify those in need); and means or proxy-means testing which determine eligibility based on income or socioeconomic factors. Ultimately, the selection of targeting methods reflects program's goals, as well as the social, political, and country-specific context, with no method universally superior to others (Grosh and others 2022).
- *Composition of SSN spending.* Food and in-kind transfers are often the largest SSN program in LICs in terms of spending, comprising about a quarter of SSNs spending in Sub-Saharan Africa, although they play only a minor role outside of the Sub-Saharan African region. Cash transfers, including conditional and unconditional transfers and social pensions, are also about a quarter of LICs' SSN spending—lower than the two thirds of SSNs devoted to cash transfers in emerging economies. The rest of SSN spending in LICs is distributed across public work programs, fee waivers (including health and education fee waivers, utility allowances, and housing subsidies), and school feeding programs.⁶¹

⁶¹ Social safety net spending does not include subsidies (fuel and food) through price. The food and in-kind category refers to food distribution programs in schools, not food subsidies.

Figure 27. Social Safety Nets: Expenditure and Main Programs, 2019 or latest available year
(Percent of GDP)



Sources: ASPIRE, WEO, and Fund staff estimates.

46. Commensurate to the limited spending envelope, SSN in LICs have relatively low coverage and benefits. Two key choices in the design of SSNs—and how these are operationalized—can have important consequences for the impact of SSNs spending on poverty alleviation: the target population and the level of benefits. The share of the population covered by SSNs programs remains low in LICs, particularly in Sub-Saharan Africa where under 20 percent of the population receives SSN benefits (Text Table 2). Moreover, a large share of SSNs spending in Sub-Saharan Africa goes to the better off.

- Low coverage of the poor in Sub-Saharan Africa. On average, only about a quarter of households in the first quintile of the consumption distribution receive some form of support from SSNs in Sub-Saharan Africa, a share noticeably below that in LICs in other regions or in emerging economies. Only a handful of countries are able to reach over half of households in the poorest quintile (Bangladesh, Burkina Faso, Nepal, Malawi, Honduras, Lesotho, and Zimbabwe) (Figure 28).
- Low benefit adequacy in LICs in regions other than Sub-Saharan Africa. On average, benefit adequacy (average benefits in percent of pre-transfers consumption for SSNs recipients) in Sub-Saharan Africa seems on par with emerging economies, but it is much lower in LICs outside of the Sub-Saharan Africa region. A few countries manage to provide average benefits over 10 percent of average consumption, including Cote d'Ivoire, DRC, Uzbekistan, and Zimbabwe.

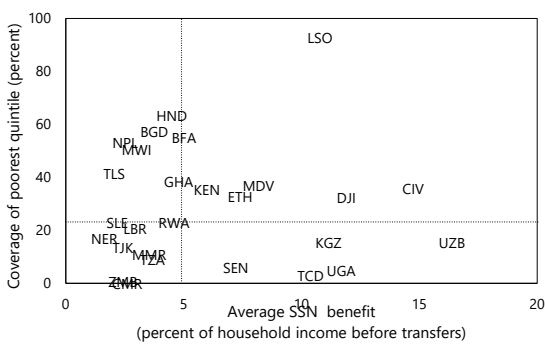
Text Table 2. Social Safety Nets in LICs: Coverage, Benefit Adequacy, and Incidence

	Low income economies in Sub-Saharan Africa			
	Coverage	Adequacy	Benefits	Beneficiaries
All	17	11	100	100
Poorest quintile	23	37	33	25
Richest quintile	11	5	26	17
Low income economies in other regions				
	Coverage	Adequacy	Benefits	Beneficiaries
All	27	6	100	100
Poorest quintile	39	14	41	31
Richest quintile	17	3	14	12
Emerging economies				
	Coverage	Adequacy	Benefits	Beneficiaries
All	44	10	100	100
Poorest quintile	63	25	40	33
Richest quintile	24	4	10	10

Sources: ASPIRE, WEO, and Fund staff estimates.

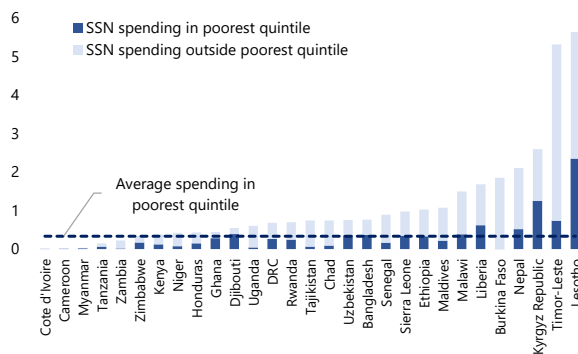
47. A sizeable share of SSN spending goes to the better off in Sub-Saharan Africa. On average, only about one-third of SSN (about 0.3 percent of GDP on average) is channeled to the poorest quintile and a large share of the beneficiaries are in the top quintile of the distribution (Figure 29). Only in a handful of countries (Honduras and Lesotho) SSNs cover over 60 percent of households in the poorest quintile.⁶²

Figure 28. Coverage and Benefit Adequacy



Sources: ASPIRE and Fund staff estimates.

Figure 29. Spending in Social Safety Nets (percent of GDP)



Sources: ASPIRE and Fund staff estimates.

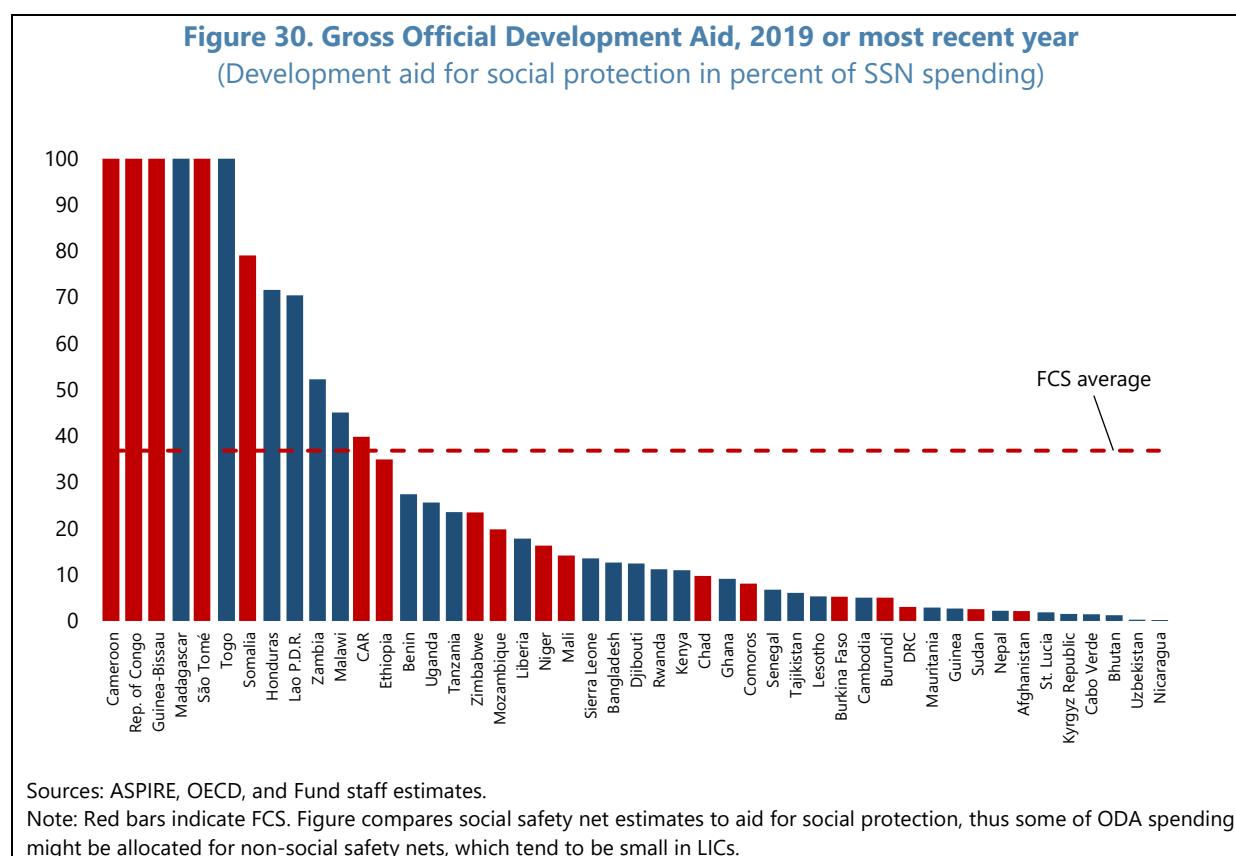
48. In LICs, effective SSNs require substantial investments in the capacity to design and implement programs. This includes the development of robust systems for identifying and registering eligible beneficiaries (i.e., ID systems, social registries, household surveys), as well as efficient benefit delivery mechanisms (i.e., bank accounts, mobile money, e-wallets, digital vouchers, one-time passports, and smart cards). While such investments initially divert funds from direct transfers, they are crucial for ensuring coverage of the intended recipients and minimizing leakages.

⁶² The social assistance indicators come from the latest available version of the World Bank’s ASPIRE data.

Nevertheless, administrative costs can be sizeable in LICs, on average about 15 percent of spending in LICs (Beegle and others 2018; Ortiz and others 2017) and can vary from 5-10 percent in cash transfer programs to 22 percent for in-kind benefits (Grosh and others 2022). In countries with limited policy space, it is crucial to assess the benefits derived from investments in administrative capacities, such as enhanced targeting accuracy and the introduction of additional social benefits that extend beyond the scope of poverty reduction (Coady and others 2022).

49. The role of development partners in financing SSNs remains critical in many countries.

A significant portion of LICs SSNs is financed by development assistance provided by both bilateral and multilateral organizations. FCS particularly depend on this external support, including Cameroon, Republic of Congo, Guinea-Bissau and Sao Tome relying entirely on it (Figure 30). Besides offering financial support, development partners play a crucial role in enhancing capacity, strengthening delivery institutions, and promoting more transparency. However, the presence of multiple partners can lead to fragmentation (Beegle and others 2018).



50. Recent shocks have challenged SSNs in LICs but also led to new ways to help families in need. For instance, during COVID-19, many LICs struggled with limited financing, weak management systems, and poor infrastructure. While SSNs expanded—average benefits were 80 percent higher than pre-pandemic transfers—they reached less than 10 percent of the population (Annex III). Many LICs relied on innovative digital measures to simplify the design of programs and expand support to households, including to those in the informal sector, and overcome some of the

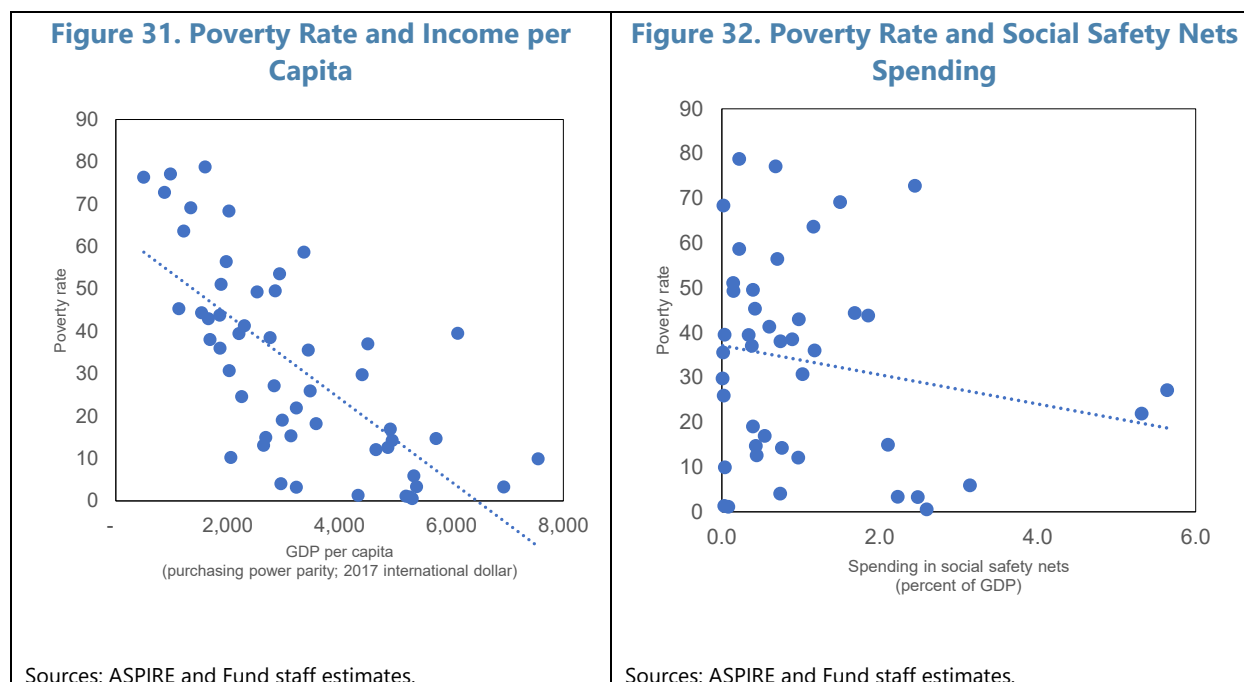
traditional limitations in capacity. Countries that leveraged digital systems for identification, registration, and payments include Benin, Democratic Republic of Congo, Ethiopia, Haiti, Malawi, Mozambique, Rwanda, Sierra Leone, and Togo (Bird and Hanedar 2023).

- In Democratic Republic of Congo, the integration of digital technologies enhanced the efficiency of humanitarian aid distribution through the STEP-KIN program. This initiative leveraged data-driven approaches, including geographic targeting and mobile phone ownership information, to establish the identity and eligibility of vulnerable households. The use of mobile money transfers facilitated swift and secure disbursements. Within three months, STEP-KIN successfully identified, registered, and paid benefits to over 100,000 vulnerable individuals. The program expanded its reach to assist 250,000 direct beneficiaries, indirectly impacting around 1.3 million individuals in Kinshasa (Mukherjee and others 2023; Bird and Hanedar 2023).
- Togo implemented the Novissi emergency cash transfer program, targeting informal workers who were severely affected by lockdown restrictions. The program leveraged existing socio-economic data and introduced a new platform for benefit application, engaging various stakeholders for support. Novissi's effectiveness was largely due to its mobile-based platform, which expedited the identification of beneficiaries and facilitated the distribution of aid within roughly five days of its announcement (Hammad and other 2021). The program rapidly expanded its coverage due to enhanced beneficiary identification and cross-verification processes, initially reaching approximately 550,000 individuals, accounting for 12 percent of the country's population.

OPTIONS TO STRENGTHEN SOCIAL SAFETY NETS

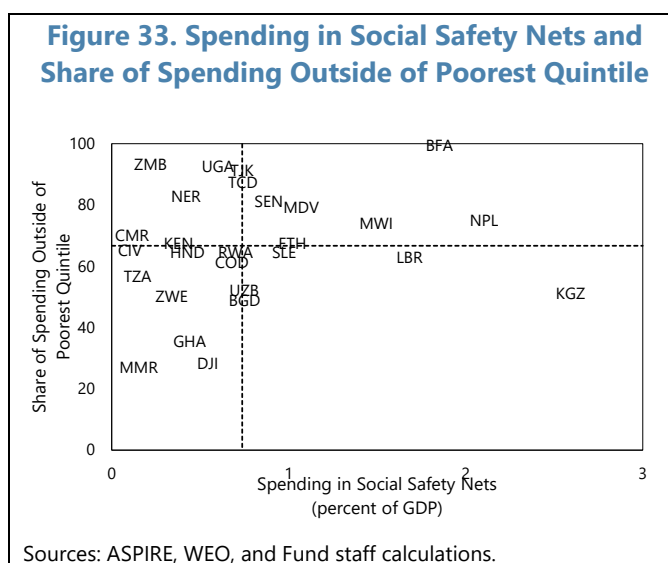
51. Both economic growth and SSN spending can play critical roles in reducing poverty.

Broad-based economic growth has been long recognized as a crucial source of poverty reduction (Ferreira and Ravallion 2008; Pritchett and Lewis 2022), and in a cross-section of LICs countries with higher GDP per capita tend to experience lower poverty rates (Figure 31). The empirical evidence on the magnitude of the effect is mixed (Adams, 2004), as the impact of income on poverty depends in part on the evolution of inequality which can be shaped by fiscal policy, including the strength of SSNs (Zouhar and others 2021). The association between social safety net spending and poverty rates is only slightly negative, with a range of poverty outcomes for countries with similar levels of low spending (Figure 32). In OLS regressions pooling the data available for LICs, both GDP per capita and social safety net spending generally have an impact on poverty rates—a \$1,000 increase in of per capita GDP has about the same impact of an increase in SSN spending of about 0.8 percentage points of GDP, and both associations are affected by the degree of inequality (Annex IV). The results suggest that both growth and SSNs are crucial on addressing the magnitude of the challenge in alleviating poverty in LICs.



52. There is ample room for efficiency gains in SSNs spending in most LICs. This is particularly pressing in countries where over 80 percent of SSNs spending is received by households outside of the poorest quintile of income (Burkina Faso, Chad, Niger, Senegal, Tajikistan, Uganda, and Zambia) (Figure 33). Even small improvements in channeling benefits to the poor could have sizeable effects. All else equal, reducing the share of SSN benefits that go to top quintile households in Sub-Saharan Africa from 25 to 10 percent and redirecting these resources to the bottom quintile would increase coverage of the bottom quintile from 24 to 40 percent without increasing the total level of SSNs spending.

53. Increasing social safety net expenditure might be appropriate in some countries. Where SSN spending is relatively low yet well-directed to vulnerable households (Djibouti, Ghana, Myanmar), raising SSN spending can be considered. Considering an expansion of coverage among the most vulnerable (“horizontal expansion”) seem appropriate. In addition, in Ghana and Myanmar, there might be scope to boost benefits (“vertical expansion”). Where benefits are poorly targeted, increasing efficiency remains a priority.



54. Country-specific considerations related to the design of SSNs are crucial to inform reform options. The online supplement includes case studies for Ghana, Mozambique, Uganda, Tanzania, and Zambia, to assess existing SSNs and examine the impact of selected measures to expand coverage or boost benefits under existing cash transfer programs, while broadly following the current targeting practices under a spending envelope of 0.5 percent of GDP (Text Table 3). Overall, the case studies highlight the importance of country-specific design issues when considering reforms. In Ghana, Tanzania, and Zambia, current targeting is effective at channeling spending to vulnerable households. In these countries, there is scope to extend current programs by raising benefits and expanding coverage to further alleviate poverty. In Mozambique poor targeting weakens the potential of cash transfers to alleviate poverty considering their relatively high fiscal cost. In Uganda, social pensions for individuals 80 and older have an impact on reducing poverty. Expanding this scheme would be less effective at reducing poverty, as most of the spending would continue to go to better off households unless parameters other than age are considered in beneficiary selection.

Text Table 3. Case Studies

	Current			Simulations					
	Spending, selected cash transfer programs (percent of GDP)	Poverty rate reduction	Poverty reduction per percent of GDP in spending	Increasing benefits			Expanding coverage		
Spending (percent of GDP)				Poverty rate reduction	Poverty reduction per percent of GDP in spending	Spending (percent of GDP)	Poverty rate reduction	Poverty reduction per percent of GDP in spending	
Ghana	0.1	0.2	4.0	0.5	2.9	5.8	0.5	4.1	8.2
Mozambique	0.4	0.5	1.2	0.5	0.6	1.2	0.5	0.6	1.2
Uganda	0.1	0.6	4.8	0.5	1.7	3.3	0.5	1.7	3.4
Tanzania	0.1	0.6	4.4	0.5	3.2	6.3	0.5	1.4	2.7
Zambia	0.4	2.1	4.7	0.5	2.4	4.9	0.5	3.5	7.0

Sources: ASPIRE, SOUTHMOD, WEO, and Fund staff estimates.
Notes: Includes selected cash transfer programs, see the online supplement.

- In Ghana, the flagship cash transfer program (*the Livelihood Empowerment Against Poverty*, LEAP) is relatively well targeted following proxy means testing (about 60 percent of spending is directed to households in the bottom quintile of income), but there is room for program expansion in terms of both coverage and generosity. Raising LEAP spending to 0.5 percent of GDP would have a large impact on poverty, particularly by focusing on expanding coverage, and nearly double the impact of a one percentage point of GDP in SSN spending on poverty reduction.
- Mozambique spends about 0.4 percent of GDP in the *Basic Social Subsidy Programme* (BSSP), a cash transfer to low-income households identified by categorical targeting (including age, chronic illness, or disability; orphans). Only 24 percent of BSSP spending goes to households in the bottom quintile and the program has a relatively low bang for the buck in terms of poverty reduction. Raising BSSP spending to 0.5 percent of GDP while maintaining the existing targeting principles would have only a marginal impact on poverty whether through benefit increases or coverage expansion.
- In Tanzania, the *Productive Social Safety Net* (PSSN) targets low-income households with cash transfers that depend on household characteristics. The PSSN seems well targeted (directing over 80 percent of its benefits to households within the lowest two income quintiles) but has a limited impact in poverty due to its relatively small spending envelope. Raising PSSN spending can have a substantial impact on poverty reduction, particularly by focusing on increasing benefits to the population already receiving benefits.
- In Uganda, the main cash transfer program is the *Senior Citizens Grant* (SCG) targets the population age 80 and older. SCG costs about 0.1 percent of GDP, of which only about 24 percent goes to households in the poorest quintile. Raising SCG spending to 0.5 percent of GDP would lower the poverty rate by an additional 1 percentage point, either by increasing benefits for current beneficiaries or by expanding benefits to the population 65 and older. Yet, in both reform scenarios the poverty reduction by percentage point in spending declines, likely indicating the limits of poverty reductions from targeting benefits solely by age.
- Zambia's cash transfer program targets vulnerable households using proxy means testing, categorical targeting (elderly, disabilities, number of children), and community input to identify potential beneficiaries. Boosting spending from 0.4 to 0.5 percent of GDP by raising benefits to current beneficiaries would result in an additional 0.3 percentage point drop in the poverty rate. Alternatively, broadening coverage by easing eligibility reduce poverty rate by 1.5 percentage points.

55. The extent of poverty, administrative capacity, and fiscal space are also critical prioritizing measures to strengthen SSNs. Administrative capacity is an important factor when considering how to identify and channel benefits to the most vulnerable. Relying on household characteristics such as proxy means testing can help prevent leakages to well off households, but this can also lead to errors of exclusion thereby limiting coverage for vulnerable households (Brown and others 2018). In countries with lower capacity and high informality, relying on less complex

methods to identify beneficiaries, such as categorical (old age, early childhood), community or geographical might be appropriate (Coady and others 2022). Where capacity allows, broadening the scope beyond existing programs could be considered.

56. In most LICs, it is also crucial to ensure systems are able to respond quickly to a variety of shocks. Poorer households are usually more exposed and vulnerable to the impacts of shocks. These households are often less prepared to deal with crises (Bowen and others 2020; Hallegatte and others 2016). Recent shocks to food and energy prices have highlighted the role of social safety nets in increasing resilience of vulnerable households. For example, in Chad, Equatorial Guinea, and Honduras social safety nets are being used to mitigate the impact of food insecurity (IMF 2022c, IMF 2023e, IMF 2023q). Furthermore, in fragile and conflict situations, social safety net design must remain flexible to volatile situations on the ground—for example, coping with high levels of insecurity in rolling out cash transfers might influence the decision to use cash or in-kind transfers (Grun and others 2020).

- Continuing to expand existing social safety nets to vulnerable households. A primary step to build resilience is enhancing the coverage of existing social safety nets for the most vulnerable (Grosh and others 2022; Beegle and others 2018; Andrews and others 2018). When faced with shocks, simple tweaks to the existing SSN programs (relaxing targeting, raising benefits, and increasing the timeliness of payments) can leverage the existing infrastructure to protect vulnerable households from shocks.
- Increasing the adaptability of social safety nets to shocks. Social safety nets can help households prepare for, cope with, and adapt to shocks (Bowen and others 2020). The key is to enhance measures to identify vulnerable households, including those mostly exposed to shocks, promptly verify their need for support following a shock, and quickly pay them benefits (Box 9). Key considerations of emergency cash transfer programs include establishing triggers for program activation, identifying beneficiaries, setting benefit levels and frequency and determining the sunset of benefits (Calcutt and others 2021). Critical to the response is advance planning, including for the potential costs and availability of finance, for which donors can play a major role in LICs.

Box 9. Building SSN Resilience to Climate Events: Mauritania

Mauritania has implemented two cash transfer programs to mitigate the impacts of climate shocks. The *Elmaouna Program* is tailored to provide immediate relief during periods of heightened vulnerability, such as droughts and rapid-onset disasters like floods. The *Tekavoul Choc* is designed to respond to shocks by expanding vertically (offering temporary increases in transfers) and horizontally (increasing the number of beneficiaries). It targets areas not covered by the Elmaouna program. This dual approach allows the program to adapt to varying levels of need, either by augmenting support for existing beneficiaries or by extending aid to additional households. In 2022, these programs collectively reached approximately 69,000 households, responding to the highest level of food insecurity ever recorded in Mauritania. To increase the scope and impact of these programs, in the context of an IMF arrangement under the Resilience and Sustainability Facility, the authorities intend to institutionalize the *Tekavoul* program, expand the coverage of the *Tekavoul Choc* to vulnerable households affected by drought, and ensure adequate funding.

Leveraging data. To support these programs, the government has refined the *social registry* by incorporating an additional 50,000 households expected to be food insecure, and including key indicators related to livelihoods and vulnerability.

Strengthening institutions. The Mauritanian government has established a unified framework to manage the complete cycle of dealing with food insecurity and nutrition shocks. This framework encompasses prevention, preparation, coordination, implementation, monitoring, and capitalization of the national response plan.

Financing. The establishment of a contingent fund is a strategic move to secure and streamline domestic and external funding sources.

Replicability. Institutional capacity and fiscal space, among other factors, might constrain the potential for adoption in other countries.

Sources: IMF (2023r) and Ndoye, Nashin, and Pondi (2023).

57. Digitalization can help strengthen the data and information systems that are central to the effectiveness of adaptive social safety nets. Detailed and up-to-date data on potential beneficiaries, including socio-economic status, geographical location, and vulnerability factors, is crucial. To this end, strengthening social registries is a priority in many LICs—in the context of IMF-supported programs, strengthening social registries has been used increasingly as a Structural Benchmark (including in Benin, Burkina Faso, Republic of Congo, Gambia, Madagascar, Mauritania, Rwanda, Senegal, and Uganda).

58. The design of social safety nets systems reflects ultimately a complex interplay of technical and political elements. Politics plays a key role in the scope, design, and commitment to social safety net programs (Bossuoy and Coudouel 2018). Societal redistributive preferences and fairness considerations can be influenced by various factors, including the level of income, societal norms, and the amount of information available to the public (Pritchett 2005). Political support for social safety nets can depend on how benefits are targeted, support for redistribution, and the complexity of policies (Box 10). Communication to the public and dialogue with key stakeholders is critical for enhancing the acceptance of social safety nets.

Box 10. Political Economy Considerations for Social Safety Nets

The design of social safety net programs (including its intended coverage and extent of benefits) is a political process. Designs must be technically sound as well as administratively and politically feasible. For example, political considerations can lead to compromises in technical efficiency, such as the introduction of conditionalities to address perceptions of excessive benefit dependency or deservedness (Seekings 2015). This explains why shock such as COVID-19 could help quickly change political attitudes towards social safety nets.

Perceptions of fairness are central for garnering support for social safety net programs and thus their effectiveness. For example, proxy means-testing methods might be more effective in identifying households with lower per capita consumption as well as in being perceived as more legitimate compared to community-based targeting which can be subject to potential manipulation (Premand and Schnitzer 2021). In some cases, political considerations might lead to patronage thereby eliminating the ability of programs to alleviate poverty (Kundo 2017).

The political impact of SSN can be significant. Over time, programs can establish long-term political commitments that are difficult to reverse, thereby reducing fiscal flexibility. Social safety nets can feature in election campaigns, with evidence suggesting that they can affect voting behavior and electoral outcomes. Effective communication with the public and engaging in meaningful dialogue with important stakeholders are essential for increasing the acceptance and support of social safety net programs. For example, in Ghana, a recent survey suggests that only about 45 percent of respondents know how to enroll in the LEAP program, the flagship social safety net program (Abdulai and others 2021).

Sources: Bossuroy and Coudouel 2018; Pritchett 2005.

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Annex I. PRGT Eligible Country Groups

All Countries (69)	By Export	By Structure	
Afghanistan			
Bangladesh	Fuel (5)	FCS (30)	Other Institutional Structure (16)
Benin	Chad	Afghanistan	Bangladesh
Bhutan	Congo, Republic of	Burkina Faso	Cambodia
Burkina Faso	South Sudan	Burundi	Gambia, The
Burundi	Timor-Leste, Dem. Rep. of	Cameroon	Guinea
Cabo Verde	Yemen	Central African Republic	Kyrgyz Republic
Cambodia		Chad	Lao P.D.R.
Cameroon	Non-fuel (25)	Comoros	Lesotho
Central African Republic	Afghanistan	Congo, Republic of	Liberia
Chad	Benin	Democratic Republic of the Congo	Madagascar
Comoros	Burkina Faso	Eritrea	Malawi
Congo, Republic of	Burundi	Ethiopia	Mauritania
Cote d'Ivoire	Central African Republic	Guinea-Bissau	Moldova
Democratic Republic of the Congo	Congo, Democratic Republic of the	Haiti	Nepal
Djibouti	Eritrea	Kiribati	Nicaragua
Dominica	Ghana	Mali	Sierra Leone
Eritrea	Guinea	Marshall Islands	Uganda
Ethiopia	Guinea-Bissau	Micronesia, Fed. States of	
Gambia, The	Kiribati	Mozambique	
Ghana	Liberia	Myanmar	
Grenada	Malawi	Niger	
Guinea	Mali	Papua New Guinea	
Guinea-Bissau	Marshall Islands	São Tomé and Príncipe	
Haiti	Mauritania	Solomon Islands	
Honduras	Papua New Guinea	Somalia	
Kenya	Sierra Leone	South Sudan	
Kiribati	Solomon Islands	Sudan	
Kyrgyz Republic	Somalia	Timor-Leste, Dem. Rep. of	
Lao P.D.R.	Sudan	Tuvalu	
Lesotho	Tajikistan	Yemen	
Liberia	Tuvalu	Zimbabwe	
Madagascar	Zambia		
Malawi	Zimbabwe	Frontier (17)	
Maldives		Benin	
Mali	Diversified (21)	Cameroon	
Marshall Islands	Bangladesh	Congo, Republic of	
Mauritania	Bhutan	Côte d'Ivoire	
Micronesia, Fed. States of	Cambodia	Ethiopia	
Moldova	Cameroon	Ghana	
Mozambique	Cote d'Ivoire	Honduras	
Myanmar	Haiti	Kenya	
Nepal	Honduras	Mozambique	
Nicaragua	Kenya	Papua New Guinea	
Niger	Lao P.D.R.	Rwanda	
Papua New Guinea	Lesotho	Senegal	
Rwanda	Madagascar	Tajikistan	
Samoa	Micronesia, Fed. States of	Tanzania	
São Tomé and Príncipe	Moldova	Togo	
Senegal	Mozambique	Uzbekistan	
Sierra Leone	Myanmar	Zambia	
Solomon Islands	Nicaragua		
Somalia	Senegal	Small States (19)	
South Sudan	Tanzania	Bhutan	
St. Lucia	Togo	Cabo Verde	
St. Vincent and the Grenadines	Uganda	Comoros	
Sudan	Uzbekistan	Djibouti	
Tajikistan		Dominica	
Tanzania	Tourism (9)	Grenada	
Timor-Leste, Dem. Rep. of	Cabo Verde	Kiribati	
Togo	Dominica	Maldives	
Tonga	Grenada	Marshall Islands	
Tuvalu	Maldives	Micronesia, Fed. States of	

Uganda	Samoa	Samoa	
Uzbekistan	São Tomé and Príncipe	São Tomé and Príncipe	
Vanuatu	St. Lucia	Solomon Islands	
Yemen	St. Vincent and the Grenadines	St. Lucia	
Zambia	Vanuatu	St. Vincent and the Grenadines	
Zimbabwe		Timor-Leste, Dem. Rep. of	
	Other Export Structure (9)	Tonga	
	Comoros	Tuvalu	
	Djibouti	Vanuatu	
	Ethiopia		
	Gambia, The		
	Kyrgyz Republic		
	Nepal		
	Niger		
	Rwanda		
	Tonga		
By Income (GNI per capita, Atlas method, compared with the FY24 IDA Threshold of \$1315)			
<= 100 (30)	> 100=<150 (10)	> 150<=300 (18)	>300 (11)
Afghanistan	Benin	Bangladesh	Cabo Verde
Burkina Faso	Cambodia	Bhutan	Dominica
Burundi	Cameroon	Conqo, Republic of	Grenada
Central African Republic	Comoros	Cote d'Ivoire	Maldives
Chad	Haiti	Djibouti	Marshall Islands
Democratic Republic of the Congo	Kyrgyz Republic	Ghana	Micronesia, Fed. States of
Eritrea	Nepal	Honduras	Moldova
Ethiopia	Senegal	Kenya	St. Lucia
Gambia, The	Timor-Leste, Dem. Rep. of	Kiribati	St. Vincent and the Grenadines
Guinea	Zimbabwe	Lao P.D.R.	Tonga
Guinea-Bissau		Mauritania	Tuvalu
Lesotho		Nicaragua	
Liberia		Papua New Guinea	
Madagascar		Samoa	
Malawi		São Tomé and Príncipe	
Mali		Solomon Islands	
Mozambique		Uzbekistan	
Myanmar		Vanuatu	
Niger			
Rwanda			
Sierra Leone			
Somalia			
South Sudan			
Sudan			
Tajikistan			
Tanzania			
Togo			
Uganda			
Yemen			
Zambia			

Annex II. Assessing LICs' Vulnerability to Shocks—Assumptions

1. Since the Global Financial Crisis, LICs have been affected by a series of external shocks.

These affected the balance of payments mostly through their negative impact on the balance of goods and services (G&S) and on net investment flows. Historically, large declines in the G&S trade—driven by import prices (due to fluctuations in oil and food prices), nominal and real exchange rate developments—as well as tourism receipts appear to be the most important.

2. To arrive at a quantitative estimate of LICs' vulnerability, a key issue involves calibrating plausible shocks.

For this exercise, we calibrated shocks on commodity prices and advanced country real exchange rates to match one standard deviation around their means based on observed trends over the 2014-2023 interval.

Under the assumption of a normal distribution, these shocks would carry a probability of about 16 percent and correspond to, for example, a 35 and 12 percent increase in oil and food prices

respectively. The shock to tourism was calibrated to represent one third of the fall in tourism experienced during the COVID-19 pandemic, i.e., a 22 percent decline in travel exports and a 16 percent decline in imports.

Calibration of Shocks

	Oil price	Food price	USD REER apprec.	Tourism & travel export	Tourism & travel import
Calibrated size	35%	12%	5%	-22%	-16%
<i>Statistics for 2014-2013:</i>					
Mean	4%	2%	2%		
Stand. dev. (prob. 15.9%)	35%	12%	5%		
Years exceeding stand.dev.	2 out of 10	2 out of 10	2 out of 10		
<i>Max shock since 1990</i>	63%	27%	11%	-65%	-47%
<i>Note: probability of stand. dev. is based on normal cumulative distribution</i>					

Sources: Fund staff estimates.

3. Several simplifying assumptions were used to model the impact of shocks on LICs' external financing needs.

First, the commodities' share in exports and imports were kept fixed, assuming volumes to be inelastic. Pass-through rates from USD and EUR real exchange rate appreciation to countries' REER were estimated (these were found to differ across exchange rate regimes, see text chart) and combined with plausible elasticities of exports and imports with respect to the REER (drawing on the Fund's External Sector Assessment Methodology) to calculate the ultimate impact on current accounts. For tourism shocks, the impact on revenues was assumed to be identical across all countries, separating exports and imports.

Annex III. Social Safety Net Responses to COVID-19 in Low Income Countries¹

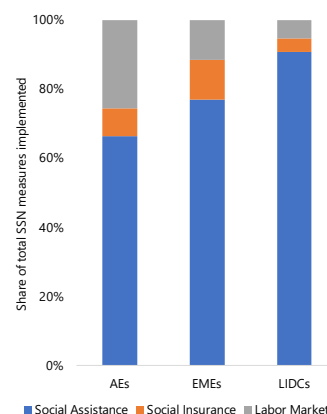
1. The COVID-19 pandemic has reversed the decline in global extreme poverty, leading to an increase of around 80 million people living in poverty in 2021 compared to pre-pandemic projections (Lakner and others 2022). Fiscal support across countries has played an important role in mitigating the rise in poverty, and governments' response to the pandemic prompted a range of innovative social protection practices which have contributed, in many cases, to structural changes in countries' social safety nets (IMF 2022).

2. Social safety nets played a crucial role to support households. Global average spending on social protection amounted to 2 percent of GDP, of which ¾ corresponded to social safety nets (Gentilini 2022). In low-income countries, over 90 percent of measures implemented corresponded to social assistance programs, with cash transfers deployed (or strengthened) in nearly all countries. Support through public works programs and in-kind benefits were widely used by low-income countries.

3. In low-income countries, existing programs were used to speed up delivery of support. About one quarter of horizontal expansions relied on pre-established programs in LICs (Gentilini 2022). While coverage scale-up took up to six months, expansions relying on preexisting programs were able to deliver benefits faster than new programs. However, preexisting delivery systems were often unable to reach people at the middle of the income distribution.

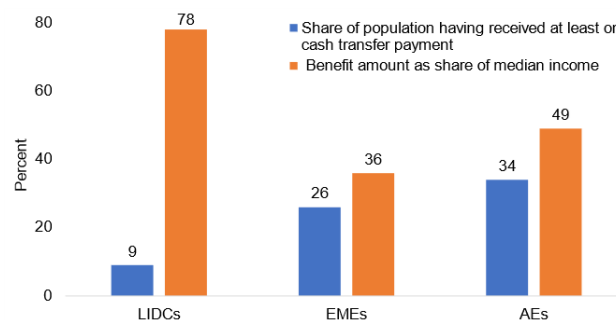
4. Emergency support benefits were boosted but coverage remained limited. Average benefits were 80 percent higher than pre-pandemic cash transfers and amounted to around half of households' median income but reached less than 10 percent of the population. In low-income countries, cash transfers were effective in mitigating food insecurity, but most individuals reported that transfers did not fully cover income losses, likely reflecting the short duration of benefits (Dasgupta and Robinson 2022).

Composition of SSN Responses to COVID-19 by Income Group



Sources: Gentilini and others (2021) and Fund staff estimates.

Coverage and Benefit Level of Emergency Cash Transfers



Sources: Gentilini and others (2021) and Fund staff estimates.

¹ Prepared by Carolina Bloch.

4. Many countries relied on innovative workarounds to simplify the design of programs and expand support to households. Some governments relaxed ID requirements and authentication processes for more timely delivery of emergency benefits, others simplified program eligibility criteria or dropped conditionalities, and, of course, a great number relied on digital payments systems. Many countries relied on innovative solutions to strengthen social safety nets offering lessons for responding to future shocks (Box). For example, in Nigeria, the government collaborated with mobile network operators to identify vulnerable informal workers in urban areas through airtime purchase patterns. Other countries, including Bolivia, used data analytics to do a “targeting from the top” and exclude wealthier households from the programs’ pool of potential beneficiaries. Many of these practical innovations have been absorbed into existing delivery systems.

Box 1. Social Safety Nets during COVID-19: Togo and Mozambique Experiences

Togo 's Novissi program relied on a blend of digital technologies and paved the way to strengthen the social safety net (Nishtar 2021, World Bank 2021; Gentilini 2022). At the outset of the pandemic, Togo’s cash transfers systems were limited to a database with only about 90,000 households in rural areas (under 5 percent of the population). Established in April 2020, the Novissi emergency cash transfer targeted informal workers, leveraging artificial intelligence, mobile phone, and satellite data to identify beneficiaries typically excluded from national registries. Open registration through online portals, social security databases, and existing beneficiary records were used to identify recipients. Notably, Novissi’s rapid delivery relied on a mobile based platform, enabling swift beneficiary identification and assistance delivery within approximately five days of the program’s announcement. After a year, Novissi created over 170,000 new mobile money accounts, and delivered payments to around 10 percent of the population. Despite facing challenges related to fraud and scalability, Novissi’s success in rapid delivery and innovative targeting has laid a foundation for strengthening Togo’s social assistance programs.

Mozambique's efforts to implement shock-responsive social protection measures during the COVID-19 pandemic provide practical lessons. The Direct Social Support Program – Post Emergency (PASD-PE) was a central component of the country’s response to the pandemic. It involved both vertical and horizontal expansions, providing additional cash transfers to existing programs’ beneficiaries and introducing bimonthly cash transfers to over 1.1 million poor households in various areas. Timeliness of assistance delivery, however, has been a key issue for efficacy of responses to shocks—following Cyclones Idai and Kenneth in 2019, benefit disbursements intended for affected households not initiated until September 2020. Similarly, in the wake of the COVID-19, disbursements only commenced in December 2020. Key lessons from these challenges include the need for better coordination among sectors involved and the establishment of early warning systems to enhance anticipatory actions. Furthermore, it is critical to ensure flexibility to define shocks: for instance, the PASD-PE manual focused on climate-related hazards, but not on public health emergencies. Communication with eligible beneficiaries is also key, as many were not aware of key program aspects such as the amount, frequency, and delivery of payments.

Annex IV. Poverty, Growth, and Social Safety Nets

This Annex examines the impact of income per capita and social safety nets on poverty rates, with a focus on LICs. For the analysis, data for poverty headcounts and Gini coefficients are from the Poverty and Inequality Platform (World Bank 2022), GDP per capita (in PPP 2017) is from the WEO dataset, and social safety net spending is from the IMF Government Finance Statistics (economic classification of expenses), corresponding to social assistance expense. The resulting panel sample includes data from 1990 to 2022 for 110 countries, of which 47 are LICs. Descriptive statistics are displayed in Table 1.

Table 1. Descriptive Statistics

	All countries		Low-income countries	
	Mean	Count	Mean	Count
Poverty rate (head count at \$2.15 per day, PPP 2017)	8.79	1,885	26.6	271
GDP per capita (PPP 2017)	22,956	1,885	4,085	270
Social safety net spending	1.69	720	0.62	170
Gini coefficient	37.3	1,882	38.84	271

Sources: ASPIRE, WEO, and Fund staff estimates.

1. In OLS regressions pooling the data, both GDP per capita and social safety net spending generally have an impact on poverty rates (Table 2). For the full sample of LICs, the basic OLS regression analysis suggests that a \$1,000 increase in GDP per capita is associated with a decline in poverty rate of 3.2 percentage points, and a one percentage point increase in the share of GDP in social safety net spending is associated with a decline in poverty rates of 4.1 percentage points (specification II). In other words, every \$1,000 of per capita GDP growth has the same impact of an increase in SSN spending of about 0.8 percentage points of GDP. Consistent with the literature, the impact of growth and spending depends on the level of inequality—every percentage point increase in Gini is associated with an increase in poverty of about 1 percent, controlling for income per capita and social safety net spending. Last, when the sample is restricted to LICs in Sub-Saharan Africa, both the impact of GDP per capita growth and SSNs spending is magnified, potentially reflecting low base levels for these variables.

2. These results must be interpreted with caution, as time series data availability remains limited for LICs, particularly for poverty rates and social safety net spending. As a robustness check, specifications VI and VII use fixed effects controlling for country specific characteristics. In these specifications, the impact of GDP per capita is not statistically significant, and SSN spending is only significant for the sample of LICs in SSA.

Table 2. Poverty Rates, GDP per Capita, and Social Safety Nets Spending

	Specification					
	I	II	III	V	VI	VII
GDP per capita (\$1,000)	-4.2 ***	-3.2 ***	-3.2 ***	-9.3 ***	0.7	-7.5
SSN spending (percent of GDP)		-4.1 *	-1.6	-6.6 **	-2.7	-6.0 ***
Gini coefficient			0.7 ***	1.3 ***	0.2 ***	0.3
Year controls	Yes	Yes	Yes	Yes	Yes	Yes
R2	0.37	0.35	0.39	0.60	0.04	0.54
Sample	LICs	LICs	LICs	LICs in SSA	LICs	LICs in SSA
Observations	270	130	130	73	130	73
Model	OLS	OLS	OLS	OLS	Fixed effects	Fixed effect

Sources: ASPIRE, WEO, and Fund staff estimates.

Note: Coefficients for OLS regression using robust errors, dependent variable is poverty rate. Includes one observation per country, with the latest estimate of the poverty rate, GDP per capita in \$1,000, and SSN spending in percent of GDP, and the Gini coefficient as key explanatory variables.



February 29, 2024

MACROECONOMIC DEVELOPMENTS AND PROSPECTS FOR LOW-INCOME COUNTRIES—2024—ONLINE ANNEXES

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NEW METHODOLOGY FOR ESTIMATING FINANCING NEEDS

This annex explains a new methodology to estimate low-income countries' (LICs) additional financing needs, taking into account the development agenda as informed by the United Nation's Sustainable Development Goals (SDGs) beyond needs linked to foster macroeconomic stability.

1. Estimating the financing needs of low-income countries over the medium term is difficult, as there is no generally accepted methodology. At the Fund, consistent with its mandate, the emphasis in such analysis has been traditionally placed on the needs emanating from restoring/maintaining macroeconomic stability. This has typically been approximated by the financing required to cover external Gross Financing Needs, which could vary by country, under current or program policies.¹ At the current juncture, these needs reside in the US\$817 billion range for the period 2024-28 (Table 2). In addition to these baseline needs, and taking a broader perspective, recent analysis has included needs to (i) further increase international reserve buffers to a common level judged as “adequate”; (ii) cope with the COVID-19 pandemic; and (iii) regain a path of growth convergence with more advanced economies (2022 LIC report).² These additional financing needs were estimated at US\$437 billion in the 2022 LIC report for the period 2022-26. Given financing needs specifically related to COVID-19 have effectively disappeared for most countries, updated estimates using the same methodology would yield US\$439 billion (Table 2 Total additional Needs Approach A). Even this broader approach, however, may significantly underestimate the actual needs in LICs. For example, in [Gaspar, et al., 2019](#), and [Carapella, et al., 2023](#), the Fund's Fiscal Affairs Department (FAD) derived an annual need of about US\$500 billion in 2030 to meet the SDGs across 49 low-income countries by 2030.

2. This annex presents a new approach that incorporates elements of SDG costing to place a larger focus on development needs to estimate additional financing needs for LICs. Specifically, the proposed approach draws on the recent work in FAD on SDG costing (see [Gaspar et al. 2019](#); [Benedek et al. 2021](#)) focusing on needs in education, health, roads, electricity, and water and sanitation, using nominal costs as exogenous inputs in the context of a dynamic macroeconomic framework (Box 1).

3. To increase the realism of the estimates, our approach includes a fiscal multiplier effect on growth and thus allows growth to be endogenously determined.³ This is a critical

¹ Operationally, a rough estimate has been provided by various Fund publication as the sum of current account deficits and external amortization from the WEO medium-term projections. Importantly, the financing needs so defined (“Gross Financing Needs”, GFN) are by definition “already met” by a combination of capital and financial account transactions, official support, and active IMF programs.

² See also 2021 LIC Report.

³ The FAD model presents a Cobb-Douglas production function where TFP is set as a residual so that growth matches pre-determined growth assumptions by country teams. We considered the initial expenditure multiplier and persistence approach suggested in [FAD's fiscal multiplier template](#). Given that the multipliers in the template were

(continued)

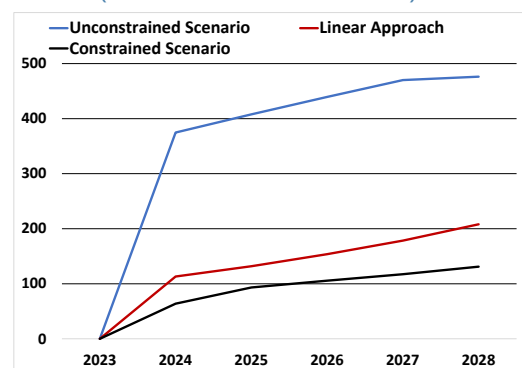
innovation as the higher growth generated by increased spending lifts fiscal revenues over time and thus reduces external financing needs compared to a static exercise.⁴ To preserve realism, we also cap the increase in the annual growth rate to 5.1 percent (one standard deviation above the [average] real growth rate for LICs over the period 1999-2019).

4. To avoid unrealistic estimates both from an absorptive capacity and a financing perspective, the approach imposes feasibility constraints on the scaling-up of spending.

This is necessary as the unconstrained needs of reaching the SDGs over a relatively short time span are staggering (see Text Figure). For example, reaching the SDGs fully by 2030 would entail scaling up investment, education and health spending by some 19 percent of GDP for the median LIC. We thus moved the target date for achieving the SDGs further into the future (to 2040 for illustrative purpose) to gain more time for achieving those. However, even assuming a linear path of spending increases to achieve the levels consistent with that target would entail continuous spending growth at a pace never seen in LIC history (Table 1, rows 1 and 2). To derive a more realistic spending path, we imposed absorptive capacity constraints on the maximum possible annual and 5-year growth of spending, with the ceilings depending on the initial level of total public expenditure across countries (Box 2; Table 1, row 3).^{5, 6}

Estimates of Additional Spending for SDGs Under Alternative Approaches

(In millions of U.S. dollars)



Sources: Fund staff estimates

Table 1. Low-Income Countries: Estimation of Additional Financing Needs to Meet the SDGs, Alternative Specifications of the Model

(In billions of U.S. dollars, based on Oct 2023 WEO)

	2024	2025	2026	2027	2028	Total
Additional spending needs towards progress in achieving SDGs						
1. Unconstrained model (with endogenous growth)	375	408	439	470	476	2,168
2. Linear path of spending	113	132	154	178	208	785
3. Constrained (exp. and growth caps)	66	96	109	121	135	527
4. Remaining financing need gap) (2-3)	48	36	45	57	73	258

Sources: Fund staff estimates.

not specific to LICs, which would likely have lower multipliers due to efficiency considerations and the size of the informal sector (Colombo, et al, 2022 Fiscal Multipliers and Informality), we assumed 50 percent of those values (resulting in: 0.2, 0.25, 0.2, 0.15, 0.1, and 0.05, for years 1 to 6, respectively). An alternative scenario assuming 75 percent of the whole-sample values would also be offered. The scaling up of spending, associated with the multiplier effects above, would endogenously increase growth beyond the starting WEO projections for each country.

⁴ If we would only made this revision to the tool, and would not consider any absorptive capacity constraints, the estimated financing needs are US\$2.2 trillion for 2024-28 (Table 2 row 1).

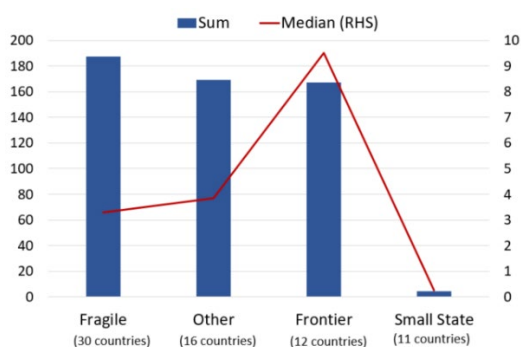
⁵ We have assumed a cap equal to the 80th percentile change in total expenditure for the relevant sample of LICs from the period 1999-2019. This timeframe set to avoid distortions that could be introduced by including atypical patterns resulting from the COVID pandemic. The threshold is computed for each of the quartiles of the distribution of LIC, based on the initial level of total public expenditure over 1999-2019 (see Annex II, Box 2).

⁶ This, however, would imply that even by 2040, there would be a gap between what the public sector can finance and the actual spending that should be executed to achieve the SDGs. This gap could be filled by the private sector (see paragraph 8).

5. Our best estimates suggest US\$527 billion in additional financing needs for the public sector over the period 2024-28 to progress towards the SDGs.⁷ Table 1 (row 4) reports the annual breakdown, while annexes III and IV show country-specific results. The required median annual additional expenditure for all LICs is 4.3 percent of GDP. In terms of shares of GDP, the level of variation across the sample of LICs is relatively low.

However, as one would expect, there is a high degree of concentration in terms of the share of total needs in nominal US dollars when the LIC sample of countries is broken down by institutional category (i.e., Frontier markets, FCS, Small-States, and others not included in the previous categories).⁸ With the total needs for frontier markets adding to US\$167 billion for the period 2024-28 (or 32 percent of the total LIC additional needs), with a median of \$9.5 billion. Needs for FCS total US\$187 billion, for the same period, but with a much lower median of \$3.3 billion with Ethiopia accounting for about a third of the amount (US\$58 billion), whereas the median needs of small states is around US\$300 million for the same period.⁹ Needs for the group of other LICs add to \$169 billion, with a median need of US\$3.8 billion, with Bangladesh accounting for around 60 percent of the total,

Additional Spending Towards SDG by Country's Institutional Category
(In billions of U.S. dollars)



Sources: Fund staff estimates.

6. Total additional financing needs are higher. Total financing needs for LICs resulting from the sum of SDG-related spending and the need to rebuild external reserve buffers would be US\$557 billion over the period 2024-28 (Table 2, Total Additional Needs Approach B).¹⁰ This is a 120 billion increase compared to the US\$437 billion estimated in 2022. The increase in financing needs would still be sizeable even if the same methodology developed in the 2022 report is applied to today's data.^{11,12}

⁷ Given that the FAD database covers only 47 countries out of a total of 69 LICs, our estimate relies on an extrapolation by applying the median estimate of additional SDG needs in percent of GDP for the sample of LIC countries covered, to the missing countries' nominal GDP levels.

⁸ For this exercise some of the institutional categorizations reported in Annex I, were modified to define non-overlapping groups of countries.

⁹ It should be noted that small states have particularly large needs for climate change adaptation, which are not captured yet as part of the SDG costing exercise, hence their needs are likely significantly underestimated.

¹⁰ The reference to total financing needs is useful to compare results with previous exercises, but it relies on the strong underlying assumption that all public spending increases external financing needs 1:1. However, the import propensity of SDG-related spending may vary, but it is likely below 1, especially for health and education.

¹¹ It is important to note that there are arguably significant overlaps between investments needed for convergence and SDG-related spending.

¹² Materialization of macroeconomic shocks would exacerbate financing requirements for LICs, beyond the estimates described in the previously described baseline scenarios. LICs are particularly susceptible to external shocks, owing among others, to their typically less diversified economic structures and weaker macroeconomic buffers. Annex II

(continued)

Table 2. Low-Income Countries: Estimation of Additional Financing Needs to Meet the SDGs
(In billions of U.S. dollars, based on Oct 2023 WEO)

	Memo: 2022 LIC Report Total (2023-27)	2024	2025	2026	2027	2028	Total
Gross Financing Needs (WEO CA deficit + Ext. Amortization)	766	154	160	163	167	173	817
Additional spending needs:							
(1). Reserves accumulation	20	6	5	6	6	7	30
(2). COVID Spending	150
(3). Investment spending	267	32	69	91	109	108	409
(4). Progress towards achieving SDGs		66	96	109	121	135	527
Total Additional Needs Approach A. (1+3)		38	75	96	115	115	439
Total Additional Needs Approach B. (1+4)		71	102	114	127	143	557
Total Additional Spending 2022 LIC report (1+2+3)	437						

Sources: Fund staff estimates.

7. A mix of domestic revenue mobilization (DRM) and debt financing will be needed to cover the projected needs. DRM measures could help cover as much as US\$292 billion of the projected financing needs, but significant domestic and external public financing would need to complement those efforts.¹³ As Table 3 shows, revenue efforts should start immediately. Other financing could come from reprioritizing spending towards SDGs. The Fund's concessional lending under the PRGT would only cover a small part of these needs, consistent with its mandate as a BoP lender.

Table 3. Possible Sources of Financing
(In billions of U.S. dollars)

	2024	2025	2026	2027	2028	Total
Financing LIC buffers and development needs						
Total Additional Needs	71	102	114	127	143	557
Revenue mobilization	45	51	58	65	73	292
Other	26	51	57	63	70	266

Sources: Fund staff estimates.

8. Given the limited capacity of the public sector in LICs, a major role in the financing of progress towards the SDGs would also fall on the private sector. This result is consistent with the efforts of LIC governments, supported by their external partners, to improve the environment for doing business and strengthening the role of the private sector as a key engine of growth in LICs.

presents an assessment of scenarios involving negative terms-of-trade shocks such as a one-standard deviation increase in global oil prices and food prices. Such shocks could potentially anywhere from US\$ 5 to 20 billion. Assessing the potential impact of more extreme shocks, akin to the once-in-a-decade pandemic, is methodologically challenging but it would increase the financing needs from standard shocks by several folds. As reported in Table 2, the previous LIC Report provided an estimate of the financing toll of the COVID-19 pandemic at US\$ 150 billion.¹³ In our exercise, we assume revenue efforts of about 5.0 percentage point increase in the Tax to GDP ratio for the median LIC over 5 years, with the country-specific increase being calibrated depending on the gap between current tax-revenue ratio projected in the medium term and the tax potential estimated by a [Benitez et al. 2023](#). This implies a size and pace of adjustment higher than observed in the historical period examined (1999-2019, at around 3.1 percentage points of GDP), but substantially lower than the potential revenue increase from reforms that the FAD study finds to be feasible through tax system and capacity building reforms (9.0 percentage points of GDP).

Specifically, the private sector would need to close a residual gap of some US\$258 billion over 2024-28 (Annex II Table 1, row 4).¹⁴

Box 1. FAD's SDG Costing Exercise and Financing Tool

The goal of the SDG costing (Gaspar et al. 2019) exercise is to estimate the additional annual spending required for meaningful progress on the SDGs in four key areas. The resulting estimates denote additional annual spending in 2030, relative to a baseline of current spending to GDP in these sectors. The estimates are available for a sample of 155 countries: 49 low-income developing countries, 72 emerging market economies, and 34 advanced economies.

This study finds that delivering the SDG agenda for Low Income and Developing countries will require an annual spending flow for education and health expenditure in year 2030 of US\$0.2 trillion; and an additional "annualized stock" of infrastructure in roads, electricity and water and sanitation estimated at US\$0.3 trillion by year 2030. The total amount for both education and health and infrastructure in year 2030 is US\$ 0.5 trillion.

For physical capital, additional spending is expressed in percentage points of 2030 GDP, and corresponds to the annualized spending (assumed to be a fixed level in percent of GDP) required to close infrastructure gaps between 2019 and 2030. Note that 2030 GDP, is expressed in constant 2020 dollars. After 2030, education and health spending would recur, whereas infrastructure spending would be expected to decline to cover depreciation of the capital stock built through 2030. To translate this exercise into required financing needs over any given time period, properly *discounted values of infrastructure spending should be added to annual health and education spending flows.*

The FAD tool framework and calculation macro routines were structured to calculate a path of expenditure consistent with the results of the FAD costing exercise. ^{1/}The FAD financing tool assumes that both the required recurrent spending level for education and health, and an appropriately discounted annualized fixed level of infrastructure spending (both in percent of GDP), are already reached in the first year of projections, before continuing to gradually increase in nominal terms in line with nominal GDP growth. While the tool offers a variety of customizations options, the application of this approach on its default set up resulted in an unrealistic increase in nominal and real spending in the initial year of projections.

^{1/} The FAD costing exercise expresses SDG financing needs as a recurrent education and health spending, and an annualized amount (fixed in percent of GDP) for infrastructure spending, both in percent of 2030 GDP in 2020 constant dollars (see Annex I).

¹⁴ An alternative way to think of this is that the US\$274 residual gap can be "caught up with" by the public sector over a longer timeframe. Our model allows for this, as caps in spending increases would become less binding beyond 2028.

Box 2. Defining Expenditure Ceilings for the Annual SDG-Related Public Expenditure

The estimates derived from the SDG costing tool do not consider any limits in terms of absorptive or institutional capacity that would limit the execution of public sector in the sample countries. Imposing country-by-country constraints is beyond the scope of this exercise; we propose instead two common, alternative annual public expenditure limits based on: (i) the maximum annual increase that a public sector in a LIC country could execute; and (ii) the maximum cumulative increase that could be sustained over a five-year period.

Boosting expenditures in countries with a smaller public sector (as measured by the total amount of public expenditures to GDP) poses greater implementation challenges. First because the proportional increase would be greater relative to its current size (likely generating undesired macroeconomic consequences), and second, because smaller-sized public sectors would likely have weaker capacity to manage and execute larger amounts of public expenditure. Because of this, we first compute quartiles based on the level of total expenditure to GDP on LICs in year 2019 (pre-pandemic). Then we compute the 80th percentiles of the annual increase (change) in public expenditure within each of the previously defined quartiles over the period 1999-2019 using WEO data. An examination of the results shows that the 80th percentile of the one-year change in public expenditure (only counting years in which change is positive) in countries in the first quartile is 3.0 percent of GDP, while the analogous statistic for countries in the fourth quartile is 8.2 percent of GDP (the presence of SIDS makes spending growth more volatile in the fourth quarter; Annex II). Likewise, the maximum cumulative increase of total public expenditure over a 5-year period is significantly larger for countries in the fourth quartile.

Based on this, we use the one-year cap as the binding constraint for the first year, while subsequently, for years 2-4, spending grows to the five-year maximum. Because the caps result on a lower level of public expenditure than required to reach the target stock infrastructure SDGs, the resulting gap would need to be added to the gap of the subsequent five-year period. At year 6, we allow public spending to grow again by the annual cap, and increase to a new 5-year cap (incremental to the previous cap) from year 7. The process is repeated every 5 years, until public spending reaches a level required in the unconstrained estimations (with no expenditure caps) and all the additional gaps have been closed.

Change in Total Public Expenditure, 80th percentile (within Quartile) (Percent Change)

Quartile	One year	Five years
1	3.0	3.3
2	3.1	4.7
3	3.8	5.6
4	8.2	9.0

CASE STUDIES: STRENGTHENING SOCIAL SAFETY NETS IN LOW INCOME COUNTRIES¹

This Annex includes four case studies analyzing the functioning of social safety nets in low-income countries using household survey data. The analysis focuses on Ghana, Mozambique, Tanzania, Uganda, and Zambia. Each case study describes selected social safety net programs, including an assessment of coverage, adequacy, and incidence, and examines possible reform scenarios for the main cash transfer program, by increasing coverage and adequacy, aiming at strengthening the impact of social safety nets on poverty alleviation. For some countries, some social assistance programs are not included in the analysis (i.e., Ghana), reflecting limitations from the household survey. The analysis employs the tax-benefit microsimulation model SOUTHMOD, developed by UNU-WIDER in collaboration with partners, considering existing policy rules and using representative survey microdata. The analysis is complemented by data from the World Bank ASPIRE database and reports from the Committed to Equity (CEQ) project.

A. Ghana

Description of Main Social Safety Net Benefits

1. Ghana spending in SSN programs covered in this Annex amount to 0.3 percent as of 2022.² The livelihood empowerment against poverty (LEAP) program, the school feeding program, and the free senior high school (SHS) initiative are the primary social safety programs in Ghana. The largest allocation was for the school feeding program at 0.18 percent of GDP, followed by the SHS at 0.06 percent of GDP, and the LEAP, despite being the government's flagship cash transfer program, received a mere 0.05 percent of GDP. For Ghana, these estimates do not include the allocation for the National Health Insurance Authority.³

2. Ghana's primary unconditional cash transfer program is the Livelihood Empowerment Against Poverty (LEAP) program. Transfers are targeted to the poorest households, and eligibility is assessed through proxy means tests (PMT) aimed at identifying the bottom 20 percent of the poor. Alongside the PMT criteria, beneficiaries must fall into one of the following categories: individuals aged 65 and above, individuals with disabilities, expectant mothers, or individuals responsible for orphaned and vulnerable children. The benefit amount varies based on the number of eligible individuals within the recipient household. As of 2022, the monthly transfers ranged from

¹ Prepared by Julieth Pico and Alberto Tumino.

² For Ghana, SOUTHMOD employs survey data from the Ghana Living Standard Survey 2017 (GLSS-7). Furthermore, the results presented in the note are based on the 2022 tax-benefit, for that the monetary variables reported in the survey, e.g., earnings and expenditure items, are updated to 2022 values using CPI index. Socio-demographic variables such as labor market status or family composition are not updated, i.e., the values reported in the survey are kept. LEAP eligibility in SOUTHMOD is scaled up to reach 344 thousand households, in line with official statistics.

³

For 2024, it is projected that Ghana would spend about 0.5 percent of GDP in highly targeted social spending, including (Ghana School Feeding Program, NHIS transfers, LEAP, and Capitation Grant). (IMF 2024).

GH¢ 64 (US\$ 5.73) to GH¢ 106 (US\$ 9.49). The average annual benefit amounted to GH¢ 845 (4.6 percent of GDP per-capita). In total, the program benefitted 2.06 million individuals in 344 thousand households.

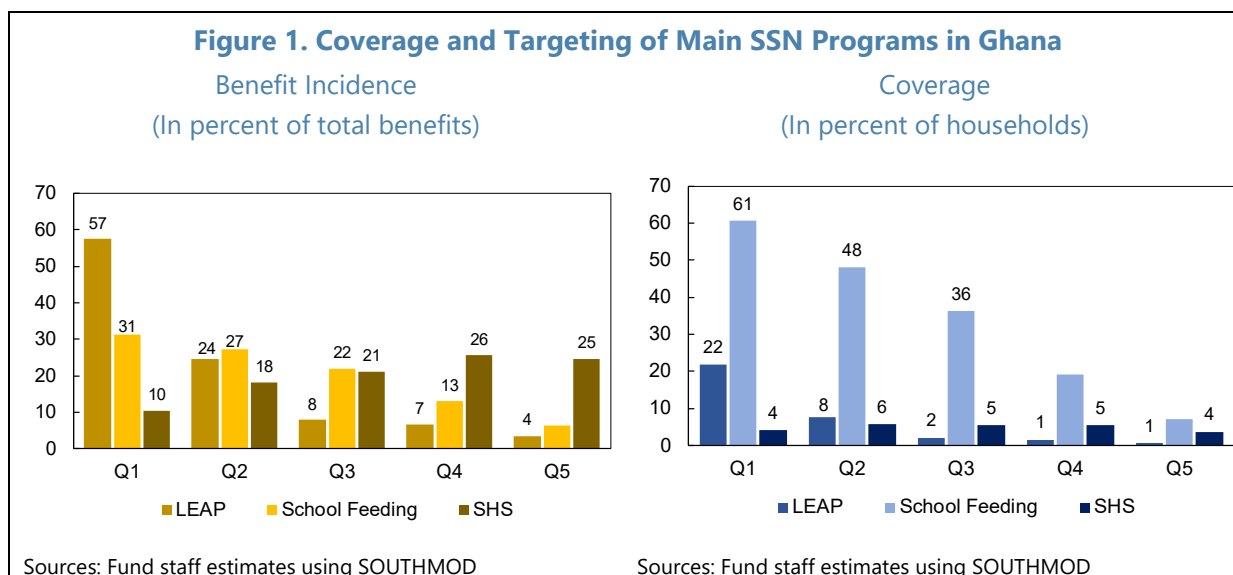
3. The Ghana School Feeding Program aims to increase school enrolment, attendance, and retention by providing meals that can account up to 30 percent of the daily calories' intake. The program has showcased its effectiveness in addressing hunger and malnutrition while also encouraging local food production. The program targets pupils in public schools at the pre-secondary school level (i.e., students aged between 2 and 12 years old). Since its inception in 2005, the school feeding program has seen a substantial increase in its reach. The number of children receiving school meals has expanded significantly from 1,900 to 3.8 million in 2023. The program extends its benefits to 43 percent of children within the targeted age group. In line, with this expansion, there has been a notable increase in the program's expenditure, mirroring the growth in coverage and the annual cost per pupil. As of 2022, the estimated annual cost per pupil stood at GH¢ 313 (1.7 percent of GDP per-capita) and the benefits reaches 3.6 million pupils.

4. The Free Senior High School program was instituted in the 2017–18 academic year to support students attending public senior high schools. The benefit is not means tested and its amount differs between resident students (GH¢ 1,002.47) and non-resident students (GH¢ 648.47). In the 2022-23 academic year, all students enrolled in Public Senior High Schools received the benefit. This encompassed approximately 400 thousand students, reaching one-third of the 1.1 current students. The average annual benefit per student amounted to GH¢ 985 (5.4 percent of GDP per-capita).

Assessment of Social Safety Nets

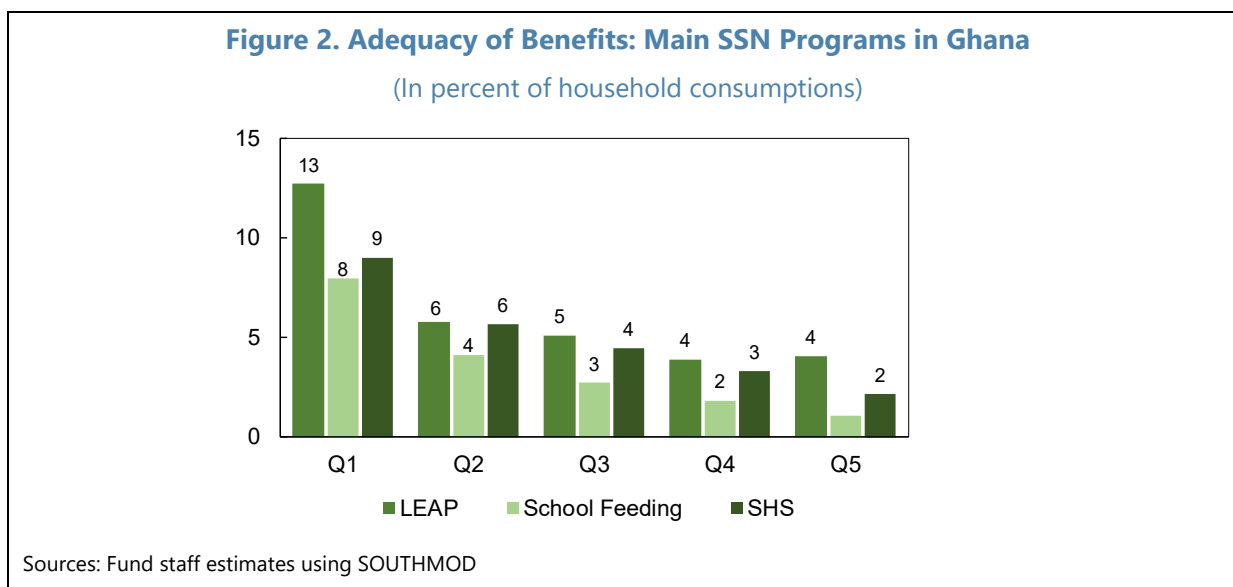
5. LEAP targets the poor more than the other SSN programs. About 58 percent of total LEAP expenditures reach household in the poorest quintile. This is significantly higher than the corresponding figure for the School Feeding program (31.3 percent) and SHS (10.4 percent). A decreasing share of LEAP reaches households in richer quintile groups, until reaching 3.5 percent for households in Q5. A similar trend although less progressive, is observed for the School Feeding program. On the contrary, only 10.4 percent of the total spending in SHS reaches households in the lowest quintile group, against 24.6 percent reaching household in Q5 (Figure 1).

6. Coverage rates vary substantially across programs. LEAP and SHS has the same coverage among the program analyzed. In total, about 4.7 percent of households receive LEAP in 2022, similarly 4.8 percent of the households benefit from SHS, and 27.9 percent benefit from the school feeding program. Both LEAP and the School feeding program show a progressive coverage pattern, with higher coverage at the bottom of the welfare distribution than at its top. About 21.7 percent of households in the poorest welfare quintile receive LEAP, against 0.5 percent of households in the richest quintile. Figures for the School Feeding program amount to 60.6 percent and 7.1 percent respectively. The coverage of the SHS shows a flat distribution, with 4 percent of household in Q1 receiving the support, similarly 4 percent of the households at the top of the distribution benefit from the program.



7. All SSN benefits show highest adequacy at the bottom of the income distribution

(Figure 2). LEAP represents about 7.7 percent of the consumption of households receiving it. The same figure amounts to 3.1 percent and 3.5 percent for the School Feeding program and the SHS respectively. For all benefits the adequacy declines with household resources. Specifically, LEAP’s adequacy declines from 12.7 percent in Q1 to 4.1 percent in Q5, the School Feeding program share of equivalized income declines from 7.9 to 1.1 percent; the adequacy of the SHS declines from 9 to 2.2 percent.



8. The school feeding program has the largest poverty reduction properties, followed by SHS and LEAP.

Out of a baseline poverty rate of 24.6 percent, the school feeding shows poverty reduction properties of 1 percentage point, i.e., poverty would have been one percentage points higher in the absence of the program. The SHS reduces poverty by 0.4 percentage points, while

LEAP by 0.2 percentage points. The school feeding program reduces the poverty gap by 0.81, followed by LEAP (0.31) and SHS (0.18).

Table 1. Poverty Reduction of Main SSN Programs

(In percent)

Baseline Poverty Rate	Poverty Reduction		
	LEAP	School feeding	SHS
24.60	0.20	0.98	0.20
Baseline Poverty Gap	Poverty Gap Reduction		
	LEAP	School feeding	SHS
8.85	0.31	0.81	0.09

Sources: Fund staff estimates using SOUTHMOD

Reform Scenarios for LEAP

9. We evaluated two scenarios to enhance the SSN impact on poverty reduction: (i) increasing benefits while keeping the coverage and (ii) expanding coverage while keeping benefit amounts constant, aiming for a LEAP program budget of 0.5 percent of GDP. Table 2 shows the outcomes in poverty reduction, coverage, adequacy, and the percentage of the total benefits going to the households in Q1. In the benefit increase scenario, achieving 0.5 percent of GDP expenditure would mean decoupling the current transfers, representing up to 60 percent of beneficiary households' consumption in Q1, well above the 20 percent international benchmark. This is expected to reduce poverty by 2.9 percentage points. Conversely, relaxing eligibility criteria to increase coverage could lower poverty by 4.1 percentage points. However, it would also decrease the benefit share for the poorest from 57.5 percent to 35.6 percent, indicating higher leakage. Improvement in targeting will allow the government to achieve similar poverty reduction with less than half the proposed budget.

Table 2. Characteristics and Poverty Reduction Reform Scenarios

	Actual	Benefit increase	Coverage expansion
Panel A: Poverty reduction effects			
Poverty Rate reduction (p.p)	0.20	2.88	4.09
Poverty Gap reduction (p.p)	0.31	2.07	2.19
Panel B: Scheme characteristics			
Coverage Q1	21.71	21.71	100
% benefit received by Q1	57.48	57.48	35.56
Benefit Adequacy	12.65	60.57	14.74

Sources: Fund staff estimates using SOUTHMOD

B. Mozambique

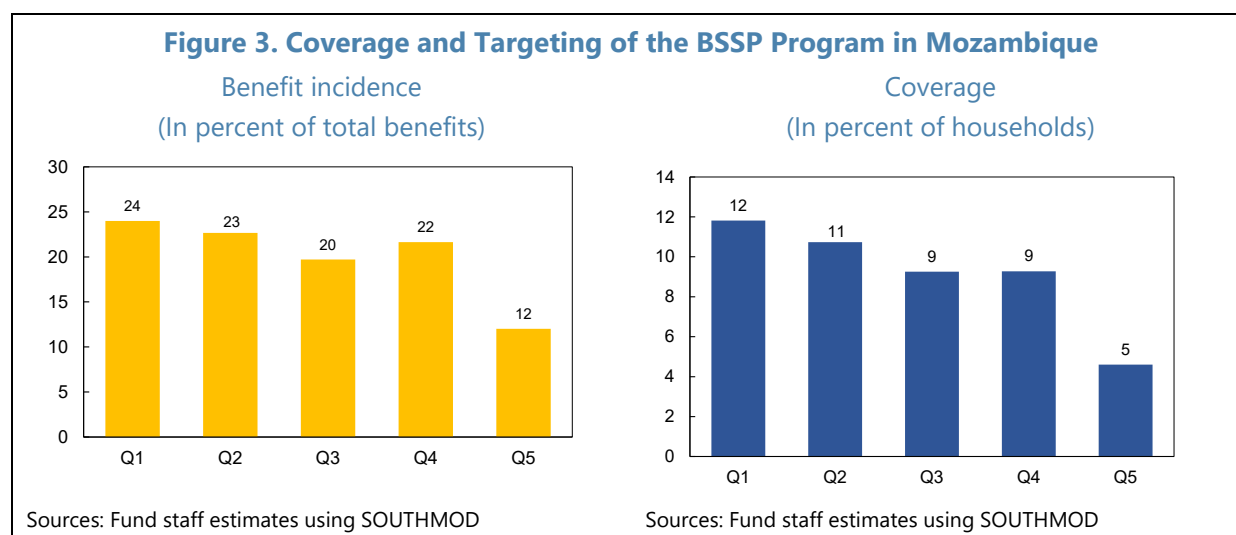
Description of the Main Social Safety Net Benefits

10. Mozambique's primary social transfer is the Basic Social Subsidy Programme (BSSP).

The BSSP is a cash transfer to low-income households belonging to one of the following categories: a) having a member who is permanently unable to work due to age, chronic illness, or disability; b) containing malnourished children or orphan children living in poverty; c) households headed by an orphan aged 14 to 18. The assessment of benefit eligibility includes means tests at both the individual and household levels. The BSSP is implemented in all districts, but geographical gaps in coverage exists. As of 2022, the monthly transfer depends on household composition, ranging from MZN 540 (USD 8.46, equivalent to 1.56 percent of per capita GDP) to MZN 1000 per household (USD 15.66, 2.89 percent of per capita GDP). The benefit reaches 492 thousand households, about 8.7 percent of the household population. Annual spending on the benefit amounts to 0.4 percent of GDP.⁴

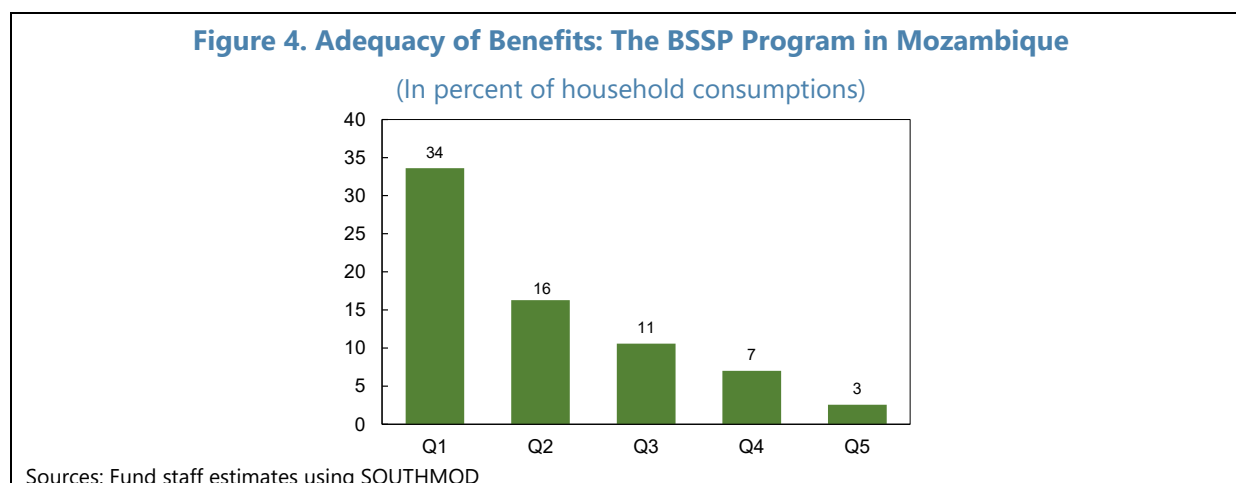
Assessment of Social Safety Nets

11. **The BSSP has limited efficiency in targeting and coverage.** The targeting and coverage indicators of BSSP are relatively uniform across welfare quintiles, with the exception of the richest. Quintile groups from Q1 to Q4 receive between 20 and 24 percent of the total benefit each; coverage ranges from 12 percent of household in Q1 to 9 percent in Q4. The poor targeting observed could originate from the fact that both means tests are based on incomes from employment and pensions, while welfare quintiles are based on consumption.



⁴ Other social programs exist beyond the scope of this study, including the Programa do Apoio Social Directo (time limited in kind support to vulnerable households), the Programa dos Serviços Sociais de Acção Social (social welfare services activities to communities), the Acção Social Escolar and the Acção Social da Saúde (access to education and health care to the vulnerable population), and the Programa Acção Social Produtiva (public works).

12. The BSSP adequacy decreases steeply with household resources. Adequacy ranges from 34 percent of household consumption in Q1 to 3 percent in Q5. The BSSP account on average for 8.54 percent of household consumption at the country level.



13. The poverty reduction properties of the BSSP are modest. With a baseline poverty rate of 47.49 percent, the BSSP contributes to a reduction of 0.5 percentage points (Table 3). The program reduces the poverty gap by 0.58. It should be noted that both poverty rate and poverty gap are well above the value observed in other countries analyzed in these case studies.

Table 3. Poverty Reduction of the BSSP Program
(In percent)

Baseline Poverty Rate	Poverty Reduction
	BSSP
47.49	0.49
Baseline Poverty Gap	Poverty Gap Reduction
	SCG
21.91	0.58

Sources: Fund staff estimates using SOUTHMOD

Reform Scenarios for BSSP

14. Consistent with other case studies, we evaluate two reform scenarios. First, we increase the BSSP generosity by 25 percent, with unchanged coverage; second, we expand coverage to those fulfilling eligibility conditions but not receiving the benefit in 2022, maintaining benefit levels constant. In both scenarios, we target a BSSP budget of 0.5 percent of GDP (i.e., extra 0.1 percent compared to baseline). Table 8 shows that increasing benefit generosity, improves marginally the poverty reduction properties of the scheme. Under this scenario, the transfer would account for 40 percent of Q1 beneficiary households' consumption, potentially reducing poverty by 0.58 percentage points. Expanding coverage would have similar poverty reduction properties. Different

from other case studies, the poverty reduction properties remain limited even in the reform scenarios. A mix of factors contribute to this finding. First, considering the high level of poverty rate and poverty gap in the baseline, the BSSP is not generous enough to lift from poverty households from the bottom of the income distribution. Only households already close to the poverty threshold exit poverty. Second, the total benefit already amounts to 0.4 percent of GDP in the baseline, so there is limited fiscal space for benefit increase.

Table 4. Characteristics and Poverty Reduction Reform Scenarios

	Actual	Benefit increase	Coverage expansion
Panel A: Poverty reduction effects			
Poverty Rate reduction (p.p)	0.49	0.58	0.59
Poverty Gap reduction (p.p)	0.58	0.70	0.72
Panel B: Scheme characteristics			
Coverage Q1	11.82	11.82	14.99
% benefit received by Q1	23.98	23.98	24.29
Benefit Adequacy	33.6	40.02	33.8

Sources: Fund staff estimates using SOUTHMOD

C. Tanzania

Description of the Main SSN Benefits

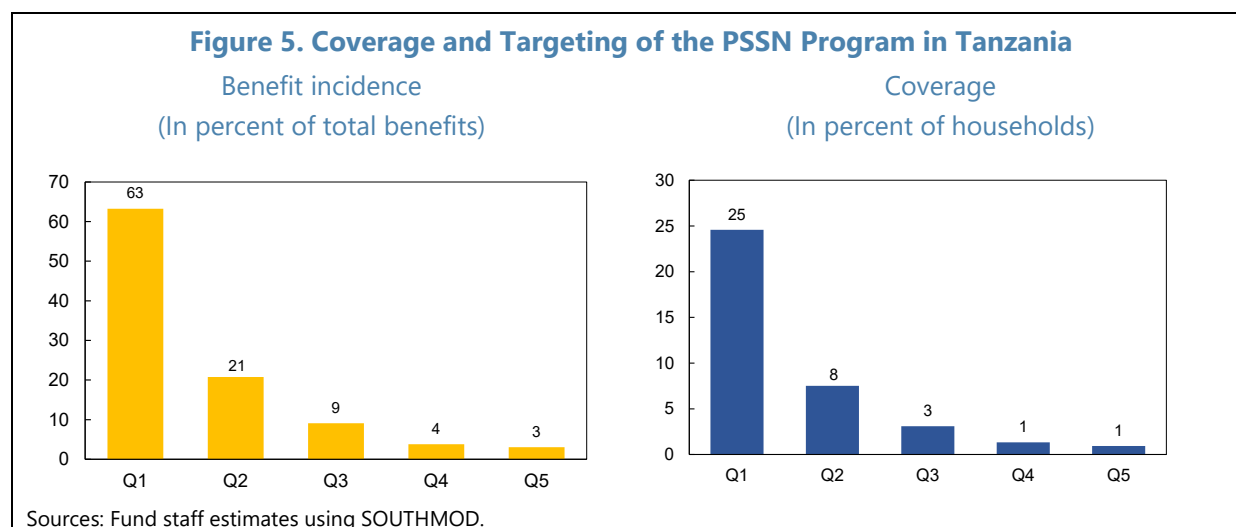
15. The Productive Social Safety Net (PSSN) program is the main social program in Tanzania. The PSSN consists of a basic cash transfer paid to low-income households and a top-up cash transfer related to household composition (number of children of various age groups, number of people with disability). Eligibility is based on PMT and community inputs. As of 2022, about 685 thousand households (6 percent of the household population) benefit from PSSN, with total spending amounting to 0.14 percent of GDP. The basic cash transfer amounts to 12 thousand TZS per month for households with at least one adult (0.4 percent of per-capita GDP) and an additional 5 thousand TZS per month for households with at least one child (0.18 percent of GDP). The top-up amounts depend on the household composition, with the average benefit amounting to 30.6 thousand TZS per month (1.1 percent of per capita GDP).

16. This case study focuses solely on the PSSN and does not analyze other SSN components. The SSN encompasses various other initiatives, such as the public work component within the PSSN, the National Agriculture Input Voucher Scheme (NAIVS), and the Bed Net Program, which distributes anti-mosquito nets. However, these components are not included in the scope of this case study analysis.

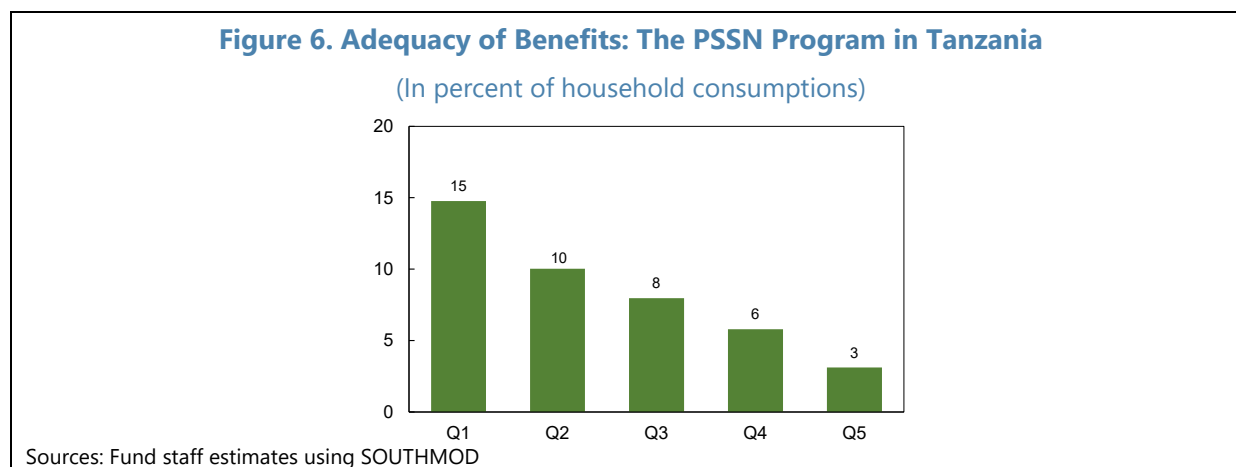
Assessment of Social Safety Nets

17. The PSSN demonstrates high efficiency in beneficiary selection, effectively directing 83 percent of its benefits to households within the lowest two income quintiles (Figure 5). This

precision in targeting ensures that most of the program's resources are allocated to its intended recipients, effectively minimizing leakage to non-poor households. However, coverage remains a critical area for enhancement. Currently, the PSSN extends to merely 25 percent of households in the lowest quintile and only 8 percent in the second quintile. As household consumption levels rise, the coverage of the PSSN diminishes, extending to just 1 percent of households in the fourth and fifth quintiles. This robust targeting mechanism is primarily attributed to the program's dual strategy, which blends means-tested targeting with community-based selection, effectively identifying and enrolling predominantly impoverished families, aligning closely with the program's core objectives of poverty alleviation and social protection.



18. The PSSN exhibits its highest benefit adequacy at the bottom of the consumption distribution (Figure 6) yet remains modest compared to international best practices. For households receiving PSSN benefits, these account for approximately 11 percent of their consumption. The benefit adequacy declines with household consumption and represents a significant proportion of the consumption for households in Q1. Specifically, PSSN adequacy decreases from 14.8 percent in Q1 to a mere 3.1 percent in Q5, highlighting its targeted support to the most vulnerable households.



19. The poverty-reducing properties of the PSSN are modest. Despite the good work of the program in selecting poor households, the program fails to lift a significant portion of households out of poverty. This limited impact is attributable to the relatively modest benefits, as well as low coverage. With a baseline poverty rate of 25.62 percent, the PSSN contributes to a marginal reduction of 0.62 percentage points (Table 5). Furthermore, the program reduces the poverty gap by 0.56. It should be noted that both the poverty rate and the poverty gap are in line with the values observed in other countries analyzed in these case studies.

Table 5. Poverty Reduction of the PSSP Program

(In percent)

<i>Baseline Poverty Rate</i>	<u>Poverty Reduction</u>
25.62	0.62
<i>Baseline Poverty Gap</i>	<u>Poverty Gap Reduction</u>
	PSSN
6.27	0.56

Sources: Fund staff estimates using SOUTHMOD

20. When looking at the tax-benefit system, we found that, on average, all households are net contributors in Tanzania. The tax system in Tanzania imposes a progressively heavier burden with increasing household consumption. Even those in the first quintile, the lowest income group, are net contributors to the system, contributing 4.1 percent of their consumption. For the poorest 20 percent, benefits constitute 3.9 percent of household consumption and 0.03 percent for the top quintile. Direct taxes represent 12.2 percent of consumption for the highest quintile, compared to 3.2 percent for the lowest. The burden of indirect taxes also increases with consumption, rising from 4.7 percent in the lowest quintile to 7.7 percent in the highest.

Reform Scenarios for BSSP

21. In line with the other case studies, we evaluate two reform scenarios for the PSSN: enhancing benefit generosity and expanding coverage, both targeting a budget of 0.5 percent of GDP. The first scenario involves a 173 percent increase in PSSN generosity without altering coverage, while the second entails extending coverage to all eligible households not currently receiving benefits in 2022, keeping benefit levels constant. Enhancing benefit generosity significantly reduces the poverty rate (Table 6). In this scenario, the transfer would represent 37.5 percent of consumption for households in the first quintile (Q1), potentially reducing poverty by 3.16 percentage points – a fivefold compared to the current impact of the program. The poverty gap will be reduced by 1.37 percentage points.

22. Expanding PSSN coverage, while less impactful in poverty reduction, significantly increases coverage and reduces the poverty gap. Expanding coverage under the PSSN would lead to a slightly lesser effect on poverty reduction compared to increasing benefits, but it would significantly enhance the program's coverage. This expansion would result in the program covering

84.3 percent of households in Q1, given the efficiency of the current targeting mechanism. Due to this extensive coverage among poor households, the poverty gap would be notably reduced by 1.92 from a baseline of 6.27. The reason for the lower poverty reduction effect, relative to the benefit increase scenario, is attributed to the fact that while increased coverage brings more households closer to the poverty line, the amount transferred is insufficient to fully lift them out of poverty.

Table 6. Characteristics and Poverty Reduction Reform Scenarios

	Actual	Benefit increase	Coverage expansion
Panel A: Poverty reduction effects			
Poverty Rate reduction (p.p)	0.62	3.16	2.89
Poverty Gap reduction (p.p)	0.56	1.37	1.92
Panel B: Scheme characteristics			
Coverage Q1	24.57	24.57	84.28
% benefit received by Q1	63.25	63.25	62.98
Benefit Adequacy	14.76	37.53	14.27

Sources: Fund staff estimates using SOUTHMOD

D. Uganda

Description of the Main Social Safety Net Benefits

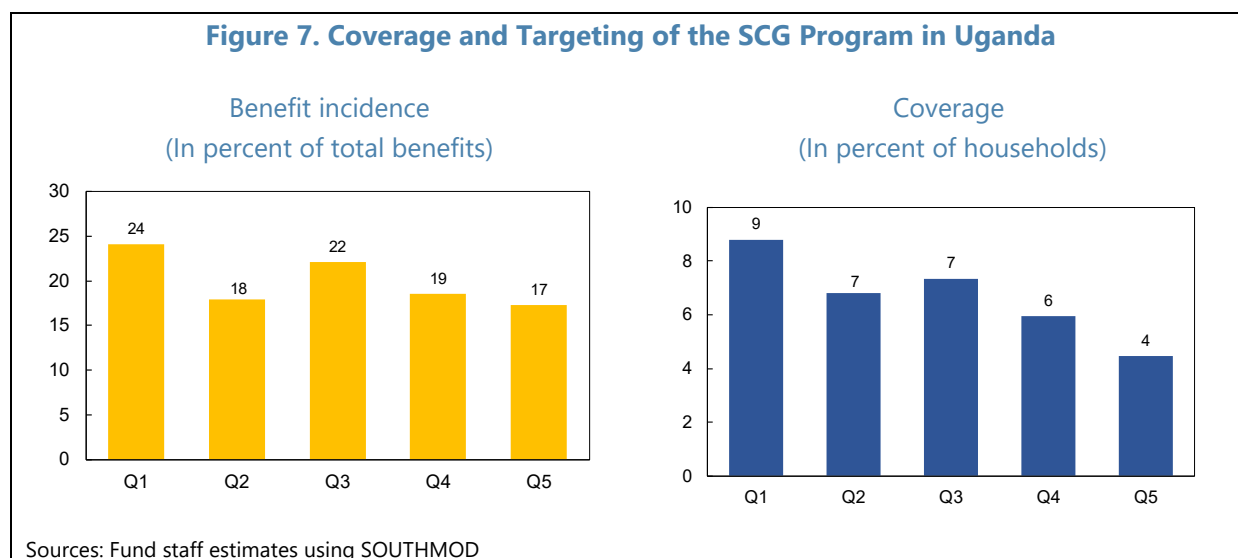
23. Uganda's flagship social protection program is the Senior Citizens Grant (SCG), which provides cash benefits to senior citizens, and the only eligibility criterion is age. Initially, the program targeted individuals over 65 in specific districts (lowered to 60 in the Karamoja region). In 2020, it expanded to encompass all seniors aged 80 and above nationwide. This increased age criterion is now uniformly applied, although beneficiaries registered prior to July 2020 maintain their eligibility. As of 2022, the program disburses UGX 25,000 monthly per beneficiary (USD 6.75), accounting for 8.7 percent of per capita GDP. Currently, the SCG reaches about 645,000 individuals, representing 42 percent of those over 65, with its total spending constituting 0.12 percent of GDP.

24. Other social programs exist, but their analysis falls beyond the scope of this study. The Extremely Vulnerable Households Program offers in-kind and cash transfers to food-deprived households in the Karamoja region. The program reached 215,218 households in 2018, less than 2.5 percent of national households. The Youth Livelihood Program and the Uganda Women's Entrepreneurship Program focus on empowering youth and women through skill training and project financing. Meanwhile, the Operation Wealth Creation initiative aims to transition subsistence agriculture to commercial levels by providing agricultural inputs.

Assessment of Social Safety Nets

25. The SCG program shows limited progressivity and experiences significant leakages toward better off households by design. While the largest proportion of the transfers goes to

households in the lowest consumption quintile, those going to households in Q2 to Q5 are relatively uniform, with each quintile receiving, on average, 19 percent of the benefits. The program's sole eligibility criterion is age, with no linkage to household consumption levels. This absence of a Proxy Means Test (PMT) or other targeting mechanisms accounts for the SCG's moderate progressivity and significant leakages; around 76 percent of the total benefits go to non-poor households. On average, 6.4 percent of households benefit from the SCG, with the highest coverage among the poorest 20 percent, where 8.8 percent of households have at least one beneficiary. Coverage decreases with rising consumption levels, dropping to 4 percent in the highest quintile.

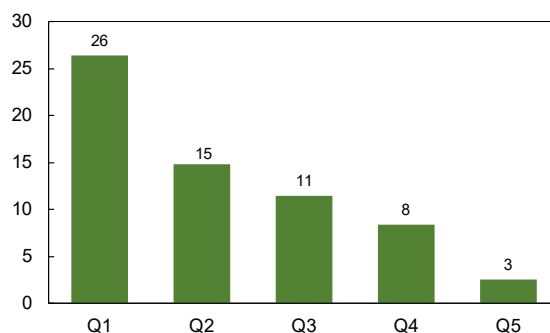


26. The SCG program shows the highest adequacy at the bottom of the consumption distribution (Figure 8). The SCG accounts for approximately 7.6 percent of consumption for beneficiary households. This adequacy diminishes as household consumption increases, ranging from 26.3 percent in the lowest quintile to 2.5 percent in the highest quintile. Notably, among poor households benefiting from the program, the SCG comprises a significant proportion of their total household consumption.

27. The poverty alleviation impact of the SCG program, while modest, aligns with trends observed in other SSA countries. With a baseline poverty rate of 20.4 percent, the SCG contributes to a reduction of 0.6 percentage points (Table 7). In other words, in the absence of the SCG, the poverty rate would have been higher by this margin. This level of poverty mitigation is consistent with outcomes in similar countries, considering the program's budget allocation.

Figure 8. Adequacy of Benefits: The SCG Program in Uganda

(In percent of household consumptions)



Sources: Fund staff estimates using SOUTHMOD

Table 7. Poverty Reduction of the SCG Program

(In percent)

Baseline Poverty Rate	Poverty Reduction
	SCG
20.37	0.57
Baseline Poverty Gap	Poverty Gap Reduction
	SCG
5.27	0.34

Sources: Fund staff estimates using SOUTHMOD

Reform Scenarios for SCG

28. We evaluated two reform scenarios: (i) increasing benefits with unchanged coverage; and (ii) expanding coverage to all seniors and newborn, maintaining benefit levels, targeting a SCG budget of 0.5 percent of GDP. Table 6 presents a detailed analysis of the potential impact on poverty reduction, coverage, adequacy, and the allocation of total benefits to households in the lowest consumption quintile. In the scenario of increasing benefits to achieve 0.5 percent of GDP in expenditures, a more than fourfold increase in the current transfer amounts is required. Under this scenario, the transfer would account for 60 percent of Q1 beneficiary households' consumption, potentially reducing poverty by 1.72 percentage points. A larger reduction in poverty, estimated at 2.1 percentage points, could be achieved by expanding the coverage to include all individuals over 65 and all newborn while maintaining the transfer at UGX 25,000. However, this coverage expansion, lacking specific targeting measures and including children, leads to a decrease in the proportion of benefits reaching the poorest 20 percent, thereby increasing leakages. Consequently, incorporating a targeting mechanism could yield comparable reductions in poverty with significantly lower resource requirements.

Table 8. Characteristics and Poverty Reduction Reform Scenarios

	Actual	Benefit increase	Coverage expansion
Panel A: Poverty reduction effects			
Poverty Rate reduction (p.p)	0.57	1.65	1.68
Poverty Gap reduction (p.p)	0.34	0.64	0.77
Panel B: Scheme characteristics			
Coverage Q1	8.80	8.80	26.32
% benefit received by Q1	24.07	24.07	18.62
Benefit Adequacy	26.35	56.35	18.36

Sources: Fund staff estimates using SOUTHMOD

E. Zambia

Description of Main Social Safety Net Benefits

29. Budget allocations within SSN programs in Zambia vary significantly, with the SCT program budget allocation being the largest, amounting to approximately 0.44 percent of GDP. According to SOUTHMOD simulations, agricultural benefits not covered in this note have the second-highest allocation. Meanwhile, the school meal program, benefiting from its policy of using local products, gets 0.1 percent of GDP despite broader coverage. Smaller allocations are seen in the SWL and KGS programs, complementing the SCT, at 0.05 and 0.01 percent of GDP, respectively. It should be noted that these figures only cover transfer costs and exclude the administrative expenses of the programs.

30. Zambia's flagship social assistance program SCT targets labor-constrained individuals and extremely poor households. SCT employs proxy means tests, categorical targeting, and community input, to identify potential beneficiaries. Moreover, beneficiary households must fall into one of the following categories: Households with an elderly person; households with members with severe disability; households with members who are chronically ill and on palliative care; child-headed households; female-headed households with at least three children. As of 2022, the SCT is operational in all 116 districts, providing bi-monthly cash transfers of 400 ZMW. Households with severely disabled members receive a higher benefit of 800 ZMW. In 2022, the program benefitted 680 thousand households, with an average annual transfer of ZMW 3283 (equivalent to 13 percent of GDP per capita).

31. Other social assistance programs work alongside the SCT in Zambia's effort to combat poverty. Key among these programs are:

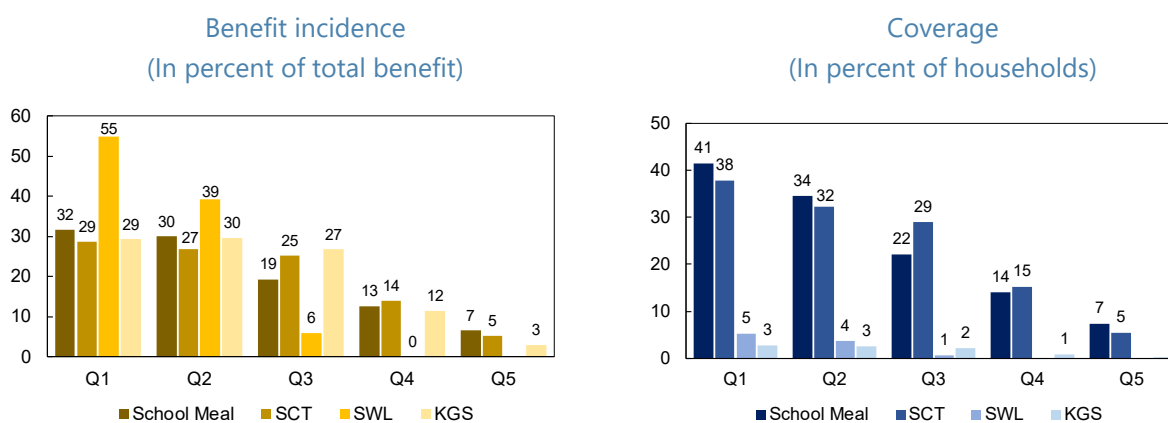
- **Supporting Women's Livelihoods (SWL):** The SWL is one component of the Girls Education and Women Empowerment and Livelihoods (GEWEL) Project. SWL provides training, grants, and support, primarily to women in SCT beneficiary households in targeted districts. In 2022, a total of 50.2 thousand households received a one-time transfer of ZMW 4442 (USD 225, equivalent to 15 percent of GDP per capita).

- Keeping Girls in School (KGS):** Operating under the GEWEL initiative, the KGS program aim to enhance secondary education access for girls aged 14 to 18 from extremely poor households in 39 districts. Targeting girls in SCT households, KGS provides school fee vouchers and, since 2021, an additional lump-sum equivalent of 15 per cent of the annual SCT amount for school-related incidentals like uniforms and shoes. In 2022, the program reached almost 56 thousand girls or 2.7 per cent of all girls aged 14 to 18 in the country. Beneficiary girls received an average transfer of ZMW 1466, amounting to 5.81 per cent of GDP per capita,
- Home-Grown School Meal Program (HGSM):** Managed by the Ministry of General Education, the HGSM initiative operates in 70 districts, providing daily free meals to public school students using locally sourced products. The program, linked to school attendance. In 2022, 1.3 million students received benefits from the program, comprising 54 per cent of the school-aged population (5 to 14). The value of the provided meals amounted to ZMW 397 per child annually, equivalent to 1.57 per cent of GDP per capita.

Assessment of Social Safety Nets

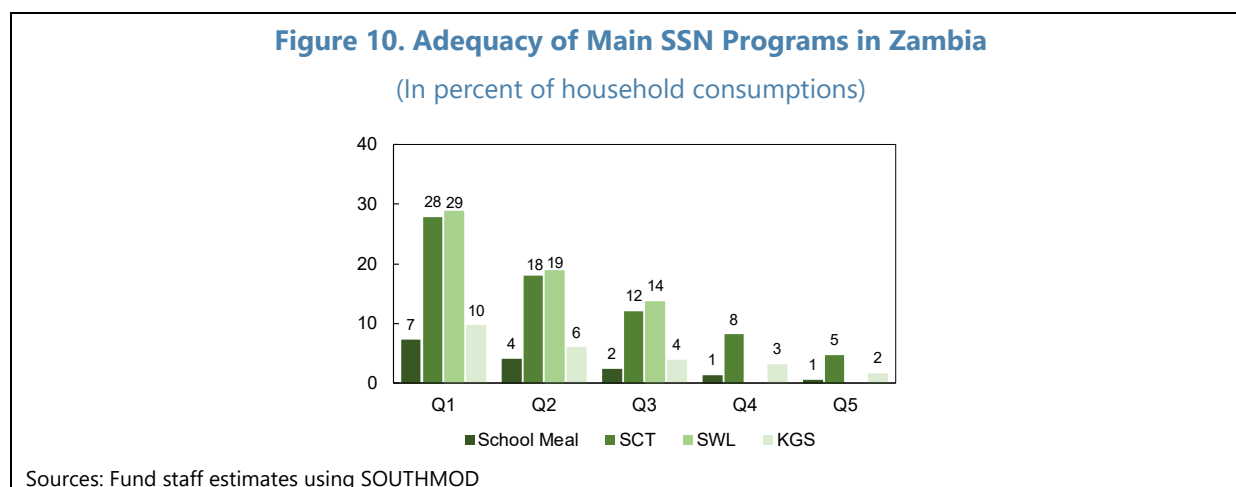
32. In Zambia, the reach and accuracy of different SSN programs vary substantially. On average, about 60 per cent of these programs' benefits go to the poor, those in the bottom 40 per cent of the consumption distribution (Figure 9). The school feeding program and the SCT are the biggest and most widespread, reaching 41 and 38 per cent of the poorest families, respectively. Smaller programs like the SWL and the KGS don't reach as many households. Importantly, SWL does a great job of targeting the right people, giving 94 per cent of its benefits to the bottom 40 per cent of the consumption distribution. However, there is room for improvement on the targeting instrument used by the other programs, as around 20 per cent of their benefits go to the households on the top 40 of the consumption distribution.

Figure 9. Coverage and Targeting of Main SSN Programs in Zambia



Sources: Fund staff estimates using SOUTHMOD

33. SSN program transfers form a notable portion of beneficiary household’s consumption, especially for the households in the bottom 20 percent of the consumption distribution. SCT program transfers account for 28 percent of the household consumption for households in the lowest quintile (Figure 10). This importance decreases as household consumption increases. The school feeding program, with the broadest coverage, provides smaller benefits, averaging 7 percent of the household consumption of households in the bottom 20 percent, and 1 percent for those in the highest quintile. SWL program benefits are comparable to the SCT, and households benefiting from both programs can see transfers amounting to as much as 57 percent of their consumption. Benefits from the KGS initiative are similar in scale to the school meal program.



34. The effectiveness of SSN programs in poverty alleviation in Zambia is closely linked to their respective budget allocations. This correlation is evident in the substantial contribution of the SCT to poverty reduction, where it effectively lowers the poverty rate by two percentage points. Without the program, the poverty rate would escalate to 40.8 percent (Table 9). The KGS program, being the smallest in terms of budget, has a correspondingly lesser impact on poverty reduction, reducing it by only 0.08 percentage points. The targeted nature of these programs not only reduces the poverty headcount but also significantly narrows the poverty gap. The magnitude of the poverty gap reduction mirrors that of the reduction in the poverty rate.

Table 9. Poverty Reduction of Main SSN Programs
(In percent)

<i>Baseline Poverty Rate</i>	Poverty Reduction			
	SCT	School meal	SWL	KGS
38.76	2.05	0.56	0.39	0.08
<i>Baseline Poverty Gap</i>	Poverty Gap Reduction			
	SCT	School meal	SWL	KGS
15.46	1.94	0.55	0.32	0.06

Sources: Fund staff estimates using SOUTHMOD

Reform Scenarios for SCT

35. We evaluated two SSN reform scenarios: (i) increasing the SCT benefit while keeping the coverage, and (ii) expanding coverage while keeping the benefit constant, aiming for SCT program expenditure at 0.5 percent of GDP. Table 4 details the effects on poverty reduction, coverage, and benefit distribution, particularly for households in the first quintile. Boosting spending from 0.44 to 0.5 percent of GDP translates into a 9.14 percent rise in household transfers in the first quintile, resulting in an additional 0.39 percentage point drop in the poverty rate. Alternatively, broadening coverage by easing eligibility nearly doubles first quintile beneficiaries to 65.5 percent of households. This strategy reduces leakages to non-poor households, with 66 percent of benefits reaching the poorest 40 percent, up from the current 56 percent. Such a reform could significantly reduce poverty, potentially decreasing the poverty headcount rate up to 3.52 percentage points.⁵

Table 10. Characteristics and Poverty Impact Reform Scenarios

	Actual	Benefit increase	Coverage expansion
Panel A: Poverty reduction effects			
Poverty Rate reduction (p.p)	2.05	2.44	3.52
Poverty Gap reduction (p.p)	1.94	2.16	3.39
Panel B: Scheme characteristics			
Coverage Q1	37.75	37.75	65.46
% benefit received by Q1	28.68	28.68	36.55
Benefit Adequacy	27.90	30.45	24.30

Sources: Fund staff estimates using SOUTHMOD

⁵ The table below incorporate variations in other benefit linked to SCT eligibility. For example, SWL spending increases from 0.05 percent of GDP to 0.16 percent because of the increase in the coverage of the SCT.