INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series

Global Macroeconomic and Financial Stability

International Monetary Fund (IMF)

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SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

FINANCING FOR DEVELOPMENT

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1. Introduction

In pursuing global macroeconomic and financial stability, the Addis Agenda calls for actions in the following areas:

- ***Strengthening global governance*** by: committing to further governance reform in both the IMF and the World Bank to adapt to changes in the global economy (*106, SDG 10.6*).

- ***Improving cooperation, coordination and policy coherence*** by: calling for increased cooperation between major international institutions (*113*).

- **Enhancing global macroeconomic stability with sustainable development** by: pursuing sound macroeconomic policies to maintain a stable macroeconomic environment as well as robust and equitable growth and sustainable development (105); strengthening the international financial safety net (107); committing to special drawing rights (SDR) review (107); urging the IMF to continue efforts to provide more comprehensive and flexible financial responses (IMF facilities) to the needs of developing countries (107); and calling on IFIs to support developing countries in developing new instruments for financial risk management and capacity-building (107).

2. Stocktaking

2.1. Strengthening global governance

The international community committed to further **governance reform in the IMF to adapt to changes in the global economy (*106, SDG 10.6*).** The IMF quota increases under the 14th General Review of Quotas and the entry into force of the Board Reform Amendment in early 2016 are major achievements that reinforce the credibility, effectiveness, and legitimacy of the IMF. The total quotas were doubled to SDR 477 billion, resulting in more than 6 percent shift in quota shares to dynamic emerging market and developing countries and also from over-represented to under-represented IMF members. The quota shares and voting power of the IMF's poorest member countries were protected. The implementation of these reforms constituted a major step toward better reflecting the increasing role of dynamic emerging market and developing countries (EMDCs) in the institution's governance structure.

2.2. Improving cooperation, coordination and policy coherence

The Addis Agenda calls for **increased cooperation between major international institutions (113)**. To this end, the IMF:

- Closely coordinates with the World Bank on poverty reduction issues in the design of IMF concessional programs. Bank staff also provide an assessment letter on the authorities' poverty reduction strategy for the information of the IMF's Executive Board.

- Prepares Debt Sustainability Analyses (DSAs) for low-income countries jointly with Bank staff, including in the context of requests for IMF resources.

- On deliverables under the 2030 development agenda, actively collaborates with other IFIs and donors. This includes in particular IMF support for boosting domestic tax revenue in member countries: (i) a recent joint IMF/Bank initiative to develop improved diagnostic frameworks for tax policies in developing countries, and to enhance the role of developing countries in discussion of international tax issues; and (ii) increased collaboration on tax issues with the World Bank, OECD, and the UN counterparts through a recently launched "platform" for enhanced coordination of work activities.

2.3. Enhancing global macroeconomic stability with sustainable development

The IMF continues to help its members, including LICs, to **pursue sound macroeconomic policies for equitable and sustainable growth and sustainable development (105)**:

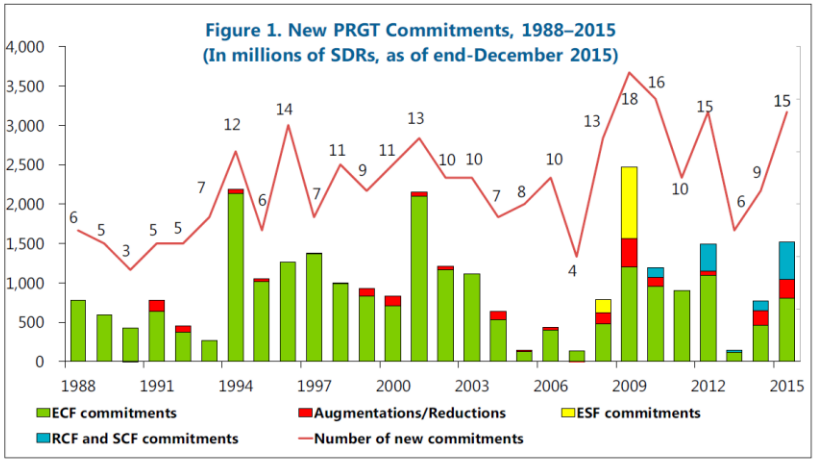
- A guidance note has been issued for improved engagement with small developing states. The engagement with states vulnerable to natural disasters is being further strengthened though the Growth and Resilience Building Initiative, which aims at tailoring our policy advice to such countries, including through more ex-ante preparedness in the face of natural hazards and climate change.

- The IMF is also working on macro-critical aspects of various emerging economic issues affecting its members. Topics include diversification and structural transformation; promoting income, gender, and financial inclusion; and public investment in infrastructure. These work-streams, drawing also on the work of other international organizations, are expected to help bring concrete policy lessons to the IMF's operational work with its member countries and also develop best practices and relevant cross country experiences.

Strengthening the international financial safety net (107) is key to secure macroeconomic and financial stability. To this end, the IMF Board has recently discussed papers to: take stock of challenges facing the International Monetary System (IMS), identifying the system's shortcomings, and laying the basis for reform; examine the adequacy of the Global Financial Safety Net (GFSN); and consider the adequacy of IMF resources.

Relatedly, the IMF has committed to **a review of the SDR (*107*)**. The IMF already discussed in June the case for a general allocation/cancellation of SDRs during the next five-year 'basic period' and concluded that it was premature to make a proposal on an allocation given the pending work on the broader use of the SDR. It has now initiated work to examine a possible broader use of the SDR with initial considerations to be discussed by the IMF Board in early 2017 (see below).

As part of the reform of the GFSN, the IMF continues efforts to provide **more comprehensive and flexible financial responses (IMF facilities) to the needs of developing countries** (*107*). We strengthened in 2015 the financial safety net for countries that are eligible for concessional financing. Access to concessional facilities under the Poverty Reduction and Growth Trust and the Rapid Credit Facility has been increased by 50 percent. This reform provides tangible additional support to the poorest IMF members.



In addition, the IMF established a Catastrophe Containment and Relief (CCR) Trust in 2015 to allow the Fund to provide grants for debt relief for the poorest and most vulnerable countries that are hit by catastrophic natural disasters or public health disasters. Debt relief under the CCR Trust frees up resources to meet exceptional BoP needs created by the disaster. The CCR Trust was used in 2015 to provide some $100 million to support three Ebola-hit countries (Guinea, Liberia, and Sierra Leone).

Another area of support to developing countries is **capacity-building** (***107***). The IMF's capacity development activities, covering technical assistance (TA) and training, account for nearly thirty percent of the IMF's budget, and much of it is allocated to LICs. IMF capacity building in LICs, including fragile and conflict-afflicted countries has increased since 2000 and covers a variety of topics, such as Domestic Resource Mobilization, Public Financial Management, and Statistical Systems. LICs accounted for nearly 50 percent of TA (an increase of 70 percent in the last five years) and nearly 40 percent of training activity delivered by the IMF.

3. Policy options and recommendations for corrective action

3.1. Strengthening global governance

The focus has now turned to work on the Fifteenth General Review of Quotas. Specifically:

- The IMF's Board of Governors has called on the Executive Board to work expeditiously on the Fifteenth Review with the aim of completing it by the 2017 Annual Meetings. The IMF Executive Board has reiterated its agreement that achieving broad consensus on a new quota formula will best be done in the context of the Fifteenth Review, and that the discussions on this issue will be integrated into and move in parallel with the discussion on the Fifteenth Review.

- Any realignment under the Fifteenth Review is expected to result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy, and hence likely in the share of emerging market and developing countries as a whole. The membership is committed to protecting the voice and representation of the poorest members.

3.2. Enhancing global macroeconomic stability with sustainable development

Strengthening the IMS (and GFSN in particular) is of paramount importance. At the multilateral level, it is crucial that the IMF's current level of resources is preserved. While the IMF's permanent resources have been strengthened with the implementation of the quota increases, borrowed resources—used to supplement quota resources when needed—will start to decline significantly later this year unless renewed. Expeditiously renewing the bilateral borrowing agreements is critical to maintaining an adequately-resourced IMF.

The IMF will continue working on adjusting its lending toolkit. Analysis by the IMF concludes that important gaps remain in the GFSN. The IMF's toolkit is therefore being re-assessed on how it can fill those gaps, notably by providing insurance and supporting adjustment more effectively. In addition, a formal review of existing IMF facilities available to PRGT-eligible countries will be conducted in 2018.

The IMF also aims to strengthen cooperation with Regional Financial Arrangements (RFAs). For example, the IMF will run an exercise with the Chiang Mai Initiative to simulate how we would work together in the event of a crisis. This test run would be a first step in ironing out more detailed operating procedures for more effective cooperation.

The IMF will continue exploring whether a broader role for the SDR could contribute to the smooth functioning of the international monetary system. This work will seek to identify gaps and market failures that the SDR could help to address in light of the structural shifts in the international monetary system and heightened uncertainty.

Capacity building efforts will continue. Domestic revenue mobilization has been singled out as a top priority for the IMF's TA that will benefit LICs. Important steps will be the adoption of medium-term fiscal frameworks; broadening tax bases; improving tax administration; and designing appropriately calibrated tax regimes for natural resource sectors. In addition, the IMF will play an active role to strengthen the voice of LICs in the dialogue on international tax issues.