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Board Presentation: The Role of Targeted Interventions to Support Growth and Diversification in Developing Countries: Recent Staff Work

IMF staff presented to the IMF Board the findings of an inter-departmental working group established to organize work on the cross-cutting issue of diversification to boost growth, resilience, and job creation in low-income countries (LICs). Advice to national policymakers in LICs initially focused on promoting diversification via measures to improve the business environment (horizontal policies), but country authorities have repeatedly posed questions on specific sectoral policies and interventions. The working group therefore sought to examine both the frequency of such interventions (vertical policies) and what policy lessons could be drawn from the examination of the recent literature, surveys of country teams, and country case studies. One conclusion was that horizontal and vertical policies are better viewed more as complements than substitutes: while vertical policies carry risks, particularly in circumstances of weak capacity and vulnerability to policy capture by established firms, there are also a number of cases where a mix of these policies supported substantial diversification over time.

High-Level Conference: Climate-Related Natural Disasters—Macroeconomic Effects and Policy Responses

IMF staff organized a conference, held virtually on June 16, 2021, bringing together policy makers, experts and top-tier academics. The conference was opened with remarks by RES director Gita Gopinath, who introduced a high-level policy panel comprising Managing Director Kristalina Georgieva, Mia Mottley (Prime Minister, Barbados), and Richard Randriamandrato (Minister of Economy and Finance, Madagascar). The panel was conducted as a conversation moderated by Haslinda Amin (Bloomberg Television). Panelists discussed how climate change exacerbates existing vulnerabilities to macro-critical natural disasters, such as droughts, floods, and hurricanes. The benefits of the debt service suspension initiative and other novel forms of debt relief, such as disaster clause provisions in Barbados's public debt, were extensively acknowledged. Two technical sessions covered several topics, encompassing the impact that disasters have on the saturation of the economy with safe assets, the effects of climate change on local sectoral specialization, the role of financial adaptation and monetary policy, and how to include disasters in macro-fiscal frameworks.

Toolkit Publication: DIGNAR-19—A Toolkit for Macro Policy Assessments of the COVID-19 Pandemics in Emerging and Developing Economies (EMDEs)

Zamid Aligishiev, Giovanni Melina, and Felipe Zanna made the DIGNAR-19 toolkit publicly available on the IMF website, to help analysts conduct quantitative macroeconomic assessments and policy scenario analysis in EMDEs, with a focus on growth and debt. The DIGNAR-19 toolkit provides a user-friendly Excel-based interface that requires little to no knowledge of advanced software. The toolkit comprises three blocks: simulation, graphing, and realism tools. These translate the contents of an Excel input file into instructions for Matlab/Dynare programs. All three tools run behind the scenes and produce an Excel file with simulation outputs and customizable charts. A manual was published to facilitate the use of the toolkit.

Online Course Delivery: Public Debt, Investment, and Growth: The DIG and DIGNAR Models (DIGx)

Giovanni Melina and Felipe Zanna delivered the second session of the online course on Public Debt, Investment, and Growth: The DIG and DIGNAR Models. This course explains how to analyze the relation between public investment, growth, and public debt dynamics, using two dynamic structural models: the Debt, Investment, and Growth (DIG) model and the Debt, Investment, Growth and Natural Resources (DIGNAR) model. The course presents and discusses the key pieces of these models (the investment-growth nexus, the fiscal adjustment, and the private sector response) and their interactions, which helps understand and assess the macroeconomic effects of public investment scaling-up plans, including on growth and debt dynamics.

Country Application: Guinea—Diversification and Medium-Term Growth Prospects

Zamid Aligishiev and Giovanni Melina applied the DIGNAR-19 toolkit to provide an analysis for Guinea's Article IV consultation. Growth in Guinea is becoming increasingly concentrated in the mining sector. The analysis demonstrates some of the risks associated with the current growth model, as well as the benefits that could be accrued from economic diversification. To enable such diversification, Guinea needs to increase returns on non-mining private investment, which would then underpin a reorientation of the growth path. The model results highlight the risks associated with increasing concentration in the mining sector and the benefits that could be accrued from pursuing a diversification strategy.

Presentation to Authorities: Enhancing Resilience to Climate Change in the Maldives

Giovanni Melina and Marika Santoro presented an analysis on climate adaptation to the Maldivian authorities, in the context of the Article IV consultation. The increased likelihood of adverse climate-change-related shocks calls for building resilient infrastructure in the Maldives. Fulfilling these infrastructure needs requires a comprehensive analysis of investment plans, including with respect to their degree of climate resilience, their impact on future economic prospects, and their funding costs and sources. This analysis touches upon these challenges, through calibrating a general equilibrium model. The main finding is that there is a significant dividend associated with building resilient infrastructure. Under worsened climate conditions, the cumulative output gain from investing in more resilient technologies increases up to a factor of two. However, given the Maldives' limited fiscal space, particularly after COVID-19, the international community should also step-up cooperation efforts. It is also shown that it is financially convenient for donors to help build resilience prior to the occurrence of a natural disasters rather than helping finance the reconstruction ex-post.

Defying the Odds: Remittances During the COVID-19 Pandemic

In this Working Paper, Kangni Kpodar, Montfort Mlachila, Saad Quayyum and Vigninou Gammadigbe investigate the dynamics and drivers of remittances during the COVID-19 pandemic, using a newly compiled monthly remittance dataset for a sample of 52 countries, of which 16 countries with bilateral remittance data. The paper documents a strong resilience in remittance flows, notwithstanding an unprecedent global recession triggered by the pandemic. Using remittance flows during Jan 2020-Dec 2020, the results show that: (i) remittances responded positively to COVID-19 infection rates in migrant home countries, underscoring its role as an important automatic stabilizer; (ii) stricter containment measures have the unintended consequence of dampening remittances; and (iii) a shift from informal to formal remittance channels due to travel restrictions appears to have also played a role in the surge in formal remittances. The findings also suggest that the fiscal stimulus in host countries is positively associated with remittances as the fiscal response cushions the economic impact of the pandemic. A column summarizing the key findings of the paper is forthcoming on Voxeu.org.

Intergenerational Social Mobility in Africa Since 1920

On August 11, Rasmane Ouedraogo and Nicolas Syrichas gave a webinar organized by the IMF Institute Training at Africa Training Institute (ATI) to present the findings of a Working Paper on intergenerational social mobility in Africa. Using a large harmonized dataset of more than 72 million individuals, the paper examines socioeconomic status mobility across generations, measured by educational and occupational attainment. It finds substantial geographical variations in the degree of upward/downward educational and occupational mobility across and within African countries, and the gender and rural/urban divide. In exploring the determinants of social mobility in Africa, the paper finds that social mobility on the continent could be partly explained by observable individual characteristics (gender, marital status, age, etc.), and that educational mobility is a driver of occupational mobility. The quality of institutions, the level of public spending on education, social protection coverage, natural resource endowments, and countries' fragility are strong predictors of social mobility in Africa.

The Close Relationship between Informality and Gender Gaps in Sub-Saharan Africa

This book chapter by Vivian Malta, Lisa Kolovich, Angelica Martinez and Marina Mendes (The Global Informal Workforce: Priorities for Inclusive Growth, edited by Delechat, C. and L. Medina, 2021) investigates the factors that can explain the larger presence of women in the informal sector, including education, social norms, and legal barriers. It shows that gender gaps in education, limited access to reproductive health care, and higher rates of early marriage are contributing factors to women’s participation in the informal sector. For women, each additional child increases the probability of being in the informal sector by 1.4 percent. In contrast, being married or having children reduces a man’s likelihood of working in the informal sector.

High-Level Conference Presentation: How to Boost the Post-COVID-19 Recovery? Policy Lessons from Country Applications of the DIGNAR Model

Giovanni Melina gave a talk at a high-level conference organized by Villa Mondragone, leveraging several country applications of the DIGNAR model. Over six years, the DIGNAR model has helped shape policy discussions about the investment-growth-debt nexus, natural resource revenue management, fiscal and governance reforms, and international aid in developing countries. Lately, these issues became even more important because, in many cases, the COVID-19 pandemic wiped out the fiscal space countries had at their disposal.

Public investment for growth: a country’s absorptive capacity is key

The blog published on Globaldev draws from the recently published paper by Daniel Gurara, Kangni Kpodar, Andrea Presbitero and Dawit Tessema (World Development, 2021). It underscores that project unit costs tend to increase when public investment levels are too high, especially during investment booms and when investment efficiency is low. These findings call for a gradual scaling-up of public investment consistent with a country's absorptive capacity. Strengthening the institutions that manage public investment is critical to reap the greatest return from any additional dollar of infrastructure spending.