



FINANCING SUSTAINABLE DEVELOPMENT

Key Policy Issues and the Role of the IMF

April 2015

2015 is a pivotal year—a year when the international community will commit to a shared vision on goals for international development through 2030 and beyond. Achieving these Sustainable Development Goals (SDGs) will require a partnership among advanced, emerging, and developing economies, and international institutions to ensure that the required policies are put in place and that sufficient private and public resources are mobilized.

The Fund, with its global membership and mandate at both the national and multilateral levels, is uniquely positioned to contribute to this compact and help implement it. As new deliverables, the IMF is considering:

1. **Boosting the access to IMF resources provided to developing countries**, better positioning them to handle balance of payments needs as they pursue growth;
2. **Expanding diagnostic and capacity-building support** for countries seeking to scale up investment to tackle infrastructure gaps;
3. **Sharpening the focus of operational work on equity, inclusion, and gender**, drawing on ongoing analysis and work of other institutions;
4. **Increasing the focus on and resourcing of work on fragile/conflict-affected states;**
5. **Selective expansion of capacity-building efforts in the areas of revenue mobilization, energy taxation, and financial market development.**

2015 – A PIVOTAL YEAR FOR GLOBAL DEVELOPMENT

The international community is coming together to lay the foundations for sustainable global development through 2030 and beyond.

Key 2015 Milestones for Sustainable Development



Performance relative to the MDGs has been impressive in the aggregate, but uneven across regions and countries

Since the adoption of the Millennium Development Goals (MDGs) in 2000, the majority of developing countries have made large strides in achieving strong growth and reducing poverty. But progress across countries has been uneven, with outcomes weakest in fragile and conflict-affected states (FCS), and performance lagging on education and health goals. The challenge is to build on the strong results across the developing world as a whole, tackling obstacles to growth and inclusion in countries that have fallen behind.

The SDGs are ambitious, but achievable if strong national policies are supported by the international community

Policy reforms are needed at both the national and international levels if the growth, equity, and environmental objectives of the SDGs are to be achieved—reforms that will require a close partnership between advanced, emerging, and developing countries. Boosting official development assistance (ODA), especially for the poorest countries, and financial assistance for climate change mitigation/adaptation measures will be one important component of this partnership.

GLOBAL ACTION

Policy reforms and international cooperation are needed to provide a supportive international environment for sustainable development.

The changing global economic landscape presents new challenges and opportunities for developing countries

The global economy has changed significantly since the adoption of the MDGs. Global macroeconomic and financial instability is a risk to all that must be tackled proactively. Increased integration of developing countries into the global economy has delivered important benefits, but also increased exposure to external shocks, placing a premium on building macroeconomic resilience.

Looking ahead, the role of large emerging economies in the global economy will continue to expand, implying ongoing shifts in the sources of export demand and of capital flows. At the same time, demographic trends will vary markedly across regions, creating both opportunities—a demographic dividend—and the challenge of accelerating job creation in many developing countries.

Global economic stability is a collective priority

The recent global crisis made it clear that stability of the global economy cannot be taken for granted: with increased interconnectedness, financial events in systemically important countries can quickly spill over to other countries, with large adverse effects on global economy activity.

To promote systemic stability:

- Policymakers in the major economies should maintain an ongoing dialogue to ensure that national policies take account of spillovers and that the collective policy mix is supportive of global economic stability.
- Financial regulations in the major financial centers need to be well-designed, mutually consistent, and rigorously implemented. Significant reforms have been made but further work is needed in some key areas.
- The global financial safety net must provide countries, and investors, with confidence that liquidity needs can be met in the event of shocks.

What the IMF will do

The IMF plays a lead role in promoting international economic cooperation, providing a forum for policy dialogue among countries based on extensive diagnostics and analysis. This work identifies key risks and vulnerabilities and the policy measures, including further regulatory reforms, needed to buttress global stability, limit undue volatility, and protect all.

The multi-layered global financial safety net, including enhanced IMF lending capacity, forged during the recent crisis contributed to stability, but remains underused during periods of turbulence. The IMF will review the features of this safety net, including the need for close cooperation with regional facilities and institutions to provide adequate support for the financial integration of emerging economies.

A premium on international cooperation

International cooperation and solidarity is needed to provide an enabling environment for sustainable development in several key policy areas: a) international trade liberalization; b) international tax cooperation; c) mobilizing sufficient resources for development assistance and climate finance; d) strengthening the framework for timely and efficient sovereign debt restructuring; and e) tackling global climate change in a comprehensive manner (see Table 1).

What the IMF will do

The IMF will deepen its work on international tax issues of relevance for developing countries, supporting the establishment of an inclusive forum to discuss tax issues of common interest and to promote enhanced regional tax cooperation.

The IMF will press ahead with its work program on increasing the efficiency of sovereign debt resolution processes. This work is anchored on a market-based contractual approach in which new debt issuances include features that facilitate any ensuing debt work-out process. Efficient debt resolution limits the setback to development from debt difficulties.

Table 1. Global Policy Priorities to Support Sustainable Development

International Trade Liberalization	Developing countries have much to gain from a rules-based, non-discriminatory multilateral trading system. The protracted discussions on a ‘Doha Round’ points to the challenges of strengthening the current system, although the Bali agreement is a step forward. With a growing number of regional and other preferential trade agreements, it will be important to protect and broaden export opportunities for smaller developing economies that are not party to these arrangements.
International Tax Cooperation	Enhanced cooperation is needed to protect tax bases and contain damaging tax competition. Full success of the G20-OECD ‘Base Erosion and Profit Shifting’ project requires bringing developing countries into the initiative, including by ensuring that tax rules address their concerns. Enhanced cross-country exchange of taxpayer information can also benefit developing countries, as part of wider revenue system reforms. Efforts to increase transparency in company reporting need to continue. ¹
Official Development Assistance and Climate Finance	Boosting aid levels, including for climate finance, should be a priority for both traditional and emerging donors, even in the face of budgetary challenges. Aid allocations need to be tilted more towards the poorest and FCS, where needs are greatest. There is scope to increase the role of aid as a tool for leveraging private finance in specific circumstances. ²
Sovereign Debt Resolution Process	While the HIPC/MDRI Initiative sharply cut the number of poor countries in debt distress, there are still many developing countries where public debt levels are high and burdensome. Where debt levels are unsustainable, early action to restructure debt is usually in the best interest of both creditors and distressed borrowers—but a strong market-based resolution framework is needed to ensure timely efficient outcomes.
Climate Change	Climate change poses risks for all, but especially for developing countries. Containing global warming will require international cooperation: a key step will be to reach agreement on national targets to reduce CO ₂ emissions at the COP21 Conference. Most lower-income developing countries have a small carbon footprint, but will need financial assistance to adapt to climate change.

¹ International cooperation is also needed to address illicit financial flows not related to tax evasion—such as money-laundering and the shifting abroad of monies acquired corruptly.

² See “From Billions to Trillions: Transforming Development Finance” (April 2015) for discussion.

NATIONAL ACTION

Sound domestic policies are the bedrock for development success: the IMF can assist with policy advice, technical support, and financing.

Resilient macroeconomic performance is required for sustainable growth

To provide a supportive environment for private investment, governments must deliver moderate inflation, dampen boom-bust cycles, and ensure medium-term debt sustainability. With greater integration into the global economy, and the benefits this brings, comes heightened exposure to external shocks, both from trade and capital flows.

Macroeconomic policy frameworks need to place emphasis on building resilience to shocks—developing fiscal, financial, and reserve buffers that allow economies absorb shocks without incurring severe disruption. Access to IMF financial support is another important safety buffer, boosting foreign reserves when needed.

What the IMF will do

Assessing macroeconomic and financial conditions, vulnerabilities, and policies and providing concrete recommendations is the core of IMF country engagement, covered in its Article IV consultations.

To provide enhanced financial backing for countries as they scale up development efforts, the IMF is exploring the scope for a sizeable increase in the access of developing countries to Fund support, while ensuring the self-sustaining nature of its concessional lending capability over time. Specific measures under consideration are described in Table 2.

The IMF will intensify its policy work to support frontier market economies shifting from reliance on aid to tapping private capital markets, who encounter new vulnerabilities in this transition.

The IMF will work with small island developing countries on developing policies to achieve sustained growth, given their specific vulnerabilities.

Given the importance of good statistical data for decision-making, the IMF will improve the dissemination/availability of national economic data through the launch of cloud-based Open Data Platforms.

Table 2. Changes to Fund Lending Practices under Consideration

Potential Proposals	
1	Boost access to concessional (PRGT) loans for the poorest and most vulnerable Fund members.
2	Boost access to non-concessional loans for better-off low-income countries that can borrow commercially.
3	Expand use of precautionary financial support for frontier markets integrating into world capital markets.
4	Boost access to fast-disbursing loans for countries hit by natural disasters or conflict situations.
5	Consider the extension of the current zero interest rate on all concessional lending.

Boosting development outlays requires increasing budgetary revenues

Governments need revenues to finance the public goods, social services, and critical infrastructure needed for development; given pressing spending needs, boosting domestic revenue mobilization (DRM) is a key priority in most developing countries. Well-designed transparent fiscal regimes for extractive industries are vital for resource-rich countries.

... and using resources more effectively

Most developing countries have significant room to improve both the composition and effectiveness of public spending. Reducing costly energy and other subsidies can free up significant resources, even after mitigating the effect of higher prices on the poor. Public sector reforms can deliver much improved health and education outcomes within existing revenue envelopes. Better public financial management practices can improve value for money and enhance the impact of public spending.

What the IMF will do

As a lead source of expertise on taxation issues, the IMF uses both its own and donor resources to deliver extensive assistance to enhance DRM in developing countries, including designing effective tax regimes for extractive industries. The IMF also provides extensive technical assistance to developing countries on improving the quality, impact, and distributional effect of public spending.

The IMF is developing new analytical tools to evaluate fiscal transparency and tax administration capacity to assist countries in strengthening institutions. It is also producing extensive work on how best to scale back energy subsidies.

Addressing infrastructure gaps is a pressing imperative

Large infrastructure gaps in areas such as energy and transportation are a fundamental obstacle to growth in many developing countries. Decisions are needed on how infrastructure projects should be undertaken and on the appropriate pace of scaling-up—taking account of weaknesses in public management capacity, absorption constraints, and the impact on debt sustainability.

Building capacity in project management, procurement, and public-private-partnership (PPP) frameworks—“investing in investing”—is essential: so too is strengthening debt management capacity.

What the IMF will do

Analyzing the impact of boosting public investment is a key element of the IMF’s policy dialogue with its developing country members; analytical tools used to inform this debate include models for scenario analysis, debt sustainability frameworks, and a new PPP fiscal risk assessment tool.

The IMF’s new policy on borrowing limits will provide countries with greater flexibility to meet their financing needs as they boost investment.

The IMF will deepen its technical assessments of institutional capacity in public investment management, PPP frameworks, debt management capacity, and debt sustainability analysis. Where weaknesses are identified, staff will work with other agencies to help build capacity.

The IMF will issue periodic assessments, with country consent, of public investment capacity, providing investors with a better information base and thus reducing uncertainty and promoting capital flows.

Financial sector development is needed for growth—but so too is financial sector stability

The government plays a key role in creating an enabling environment for financial sector development over time: by protecting creditor rights, promoting competition, and supporting the establishment of new markets (where blocked by market failures). Financial deepening enhances both macroeconomic stability, providing governments with greater room to conduct counter-cyclical policies, and private sector development, providing firms with wider access to funding. But financial development initiatives need to be appropriately balanced against the need to maintain financial sector stability, given the potentially severe impact of financial crises on both growth and the public finances.

What the IMF will do

The IMF undertakes extensive analytical and policy work on financial stability issues, drawing on this work in policy advice and technical assistance and in conducting national financial sector assessments (FSAPs). It supports capacity-building in financial sector regulatory oversight and provides targeted technical assistance to support financial market development.

The IMF will operationalize its ongoing analytical work on how best to promote financial market deepening.

Sustainable growth requires policies to promote inclusion...

Growth is sustainable over the longer term if the benefits are equitably distributed: policy measures to enhance inclusion are thus an important component of a sustainable development strategy.

Key measure that benefit the less well-off include: a) improving delivery of public services, including health, education, and water/sanitation; b) promoting women's economic participation, including through labor market reforms and removal of legal restrictions; c) boosting productivity in the rural economy, where poverty is concentrated; d) expanding access to financial services; and e) well-targeted social protection schemes.

... and contain environmental damage

Environmental protection needs to be calibrated to country circumstances, but should not be seen as a "luxury" for poorer countries.

What the IMF will do

The IMF has expanded its analytical work on macro-relevant elements of inclusion, including on jobs and growth, inequality, access to finance, and the economic impact of gender inequities. The IMF has also undertaken a substantial body of work on carbon pricing and environmental taxes.

These work streams will be expanded, drawing lessons from ongoing pilot studies and from the work of other institutions, to bring concrete policy messages to country work.

The IMF will provide technical assistance to help developing countries design easy-to-administer carbon pricing schemes.

Fragile/Conflict-affected States (FCS) face special challenges

Countries afflicted by fragility and conflict face complex development challenges, warranting exceptional support from the international community until they have exited fragility—usually a lengthy process.

What the IMF will do

The IMF has been working to improve the effectiveness of its work with FCS members, recognizing that engagement must be seen as a long-term process requiring close coordination with other development partners.

The IMF will increase the resources allocated to work on FCS, both for country operations and for capacity-building. Building capacity in key state economic agencies will be a key component of this expanded work effort.

THE ROAD TO ADDIS: NEXT STEPS

The IMF is committed to supporting the post-2015 development agenda

The third UN *Financing for Development* Conference in July aims to forge an international consensus on the actions needed to mobilize financing to support the attainment of the new Sustainable Development Goals.

What the IMF will do

The IMF is participating fully in the preparatory discussions; it will issue a new policy paper on “Updating the Monterrey Consensus” in June; and it intends to reach decisions on its own new “deliverables” before the world convenes in Addis.