Financing for Sustainable Development Report 2019

Inter-agency Task Force on Financing for Development

United Nations

This report is a joint product of the members of the Inter-agency Task Force on Financing for Development (a full list of members can be found on page x). The Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Financing for Sustainable Development report.

The online annex of the Task Force (http://developmentfinance.un.org) comprehensively monitors progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals. It provides the complete evidence base for the Task Force's annual report on progress in the seven action areas of the Addis Agenda (chapters III.A–III.G). The report is by necessity more concise and selective and should thus be read in conjunction with the online annex.

The online annex also covers several key cross-cutting initiatives that build on the synergies of the Sustainable Development Goals:

- Delivering social protection and essential public services
- Ending hunger and malnutrition
- Closing the infrastructure gap
- Promoting inclusive and sustainable industrialization
- Generating full and productive employment for all
- Protecting ecosystems
- Promoting peaceful and inclusive societies
- Gender equality
- Investing in children and youth
- Addressing the diverse needs and challenges faced by countries in special situations
- Global partnership

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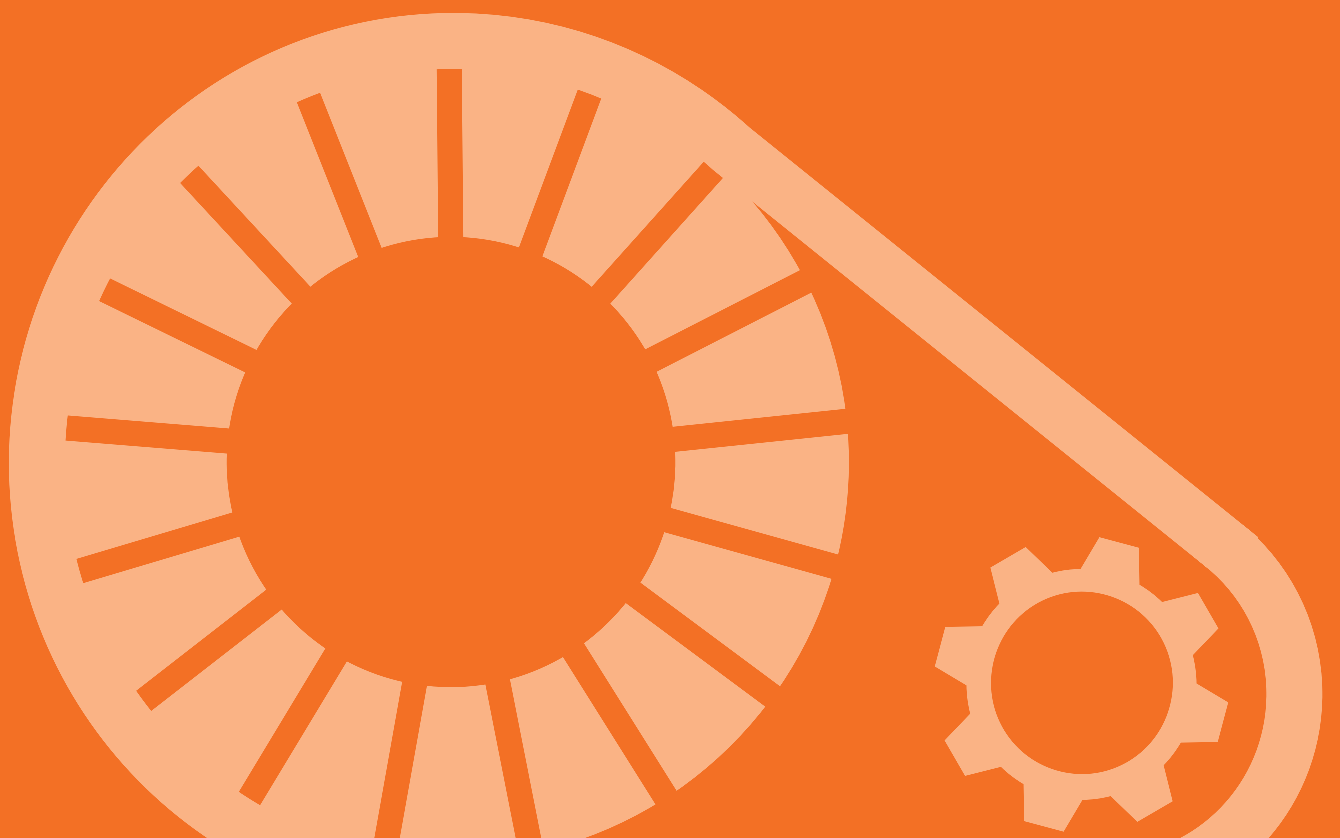
ADDRESSING SYSTEMIC ISSUES



Chapter III.F

Addressing systemic issues

1. Key messages and recommendations

The global economy is facing heightened risks and financial volatility, with global growth likely to have peaked, as discussed in chapter 1. Geopolitical factors, trade disputes, financial market volatility and non-economic factors, such as climate change, risk further impeding growth, stability, and development, as well as worsening poverty, inequality and vulnerabilities. There is increased urgency to address the systemic economic and financial risks and architectural gaps that threaten implementation of 2030 Agenda for Sustainable Development.

Weaknesses in the global financial system could pose heightened risks to achievement of the Sustainable Development Goals (SDGs). These risks include: the volatility of international capital flows, resulting from the short-term nature of many elements of international capital markets; persistent global imbalances; debt sustainability challenges in the public and private sector (see chapter III.E); and growing monopoly power and less effective competition policies (see chapter III.B). High debt levels in public and private entities—including through highly leveraged financial market derivatives—raise vulnerabilities and feed boom-bust cycles. The compression of the wage share of income has exacerbated inequality. The rapid pace of technological change, while possibly providing new remedies, can also exacerbate global systemic risks.

To achieve sustainable development, *the international community should continuously examine whether its institutions are sufficient and remain fit for purpose*. This reflection has begun—for example, within the Group of Twenty (G20)—but the global implications warrant wider, open and inclusive discussions. As noted in the Addis Ababa Action Agenda, this should be complemented by efforts to increase the coherence of the global system and improve the inclusivity of global economic governance.

While implementation of financial sector reforms in the aftermath of the 2008 global financial and economic crisis (hereafter, 2008 crisis) has reduced risks in the regulated financial system, there are growing risks in areas beyond such reforms, including outside of the regulatory framework. Governments can aim to better manage capital flow volatility with policy actions that maintain the benefits of long-term investment in developing countries while reducing the risk of financial crises. *The international community should be mindful of spillovers from domestic policy choices including on the volatility of private capital flows to developing countries. Efforts to incentivize long-term investment to facilitate SDG achievement can contribute to this objective.* The International Monetary Fund (IMF) has developed an Institutional View on the liberalization and management of capital flows, which guides IMF advice to and assessments of its members. *At the national level, countries should incorporate strong macro-prudential regulations—and capital account management techniques when needed—into integrated national financing frameworks, as called for in the Addis Agenda, to ensure coherence across national policies* (see chapter II).

In the medium to longer term, shifts in the international monetary system, including those related to external adjustment and global imbalances, could increase financial volatility, particularly in a period of political uncertainty. This underscores the importance of strengthened international cooperation and of *ensuring adequate resources and comprehensive coverage in the global financial safety net.* Under the current financial architecture, currency risk associated with welcome international financing is often borne by those in developing countries least able to manage it. *The international community should develop better mechanisms to help address currency risk in developing countries, including through a greater use of currency risk diversification, as called for in the Addis Agenda. Similar to some other insurance mechanisms, international entities are well placed to manage such risks globally.*

Agreed regulatory reforms need to be fully, consistently and transparently implemented, but they alone are not enough to create sustainable and stable financial systems. Outside the traditional regulatory perimeter, technology companies and non-bank financial institutions are intermediating growing shares of credit. Technology companies often blur the lines between software, settlement, and financial intermediation. There are concerns about increasing risk-taking in credit markets with deteriorating underwriting standards, such as leveraged loans packaged into collateralized loan obligations. *To effectively manage risks arising outside the regulatory perimeter, financial regulators will need to increasingly shift to looking at the underlying risks associated with the financial activity rather than the type of financial institution providing financial services, with international regulatory standards also needing to adapt to the new landscape.*

Given the complex and ambitious set of transformations needed to deliver on the 2030 Agenda, coherence across policy areas is critical. There is a growing understanding of how financial regulations are impacting incentives for sustainable development investment. There is less understanding of the impacts of social and environmental risks on credit quality and the stability of the financial system. Policies and regulations need to act together in order to create a sustainable financial system. *The regulatory system needs to be congruent with the measures to boost the sustainability of the private financial system, such as sustainability reporting and impact measurement* (see chapter III.B).

Well-run national development banks (NDBs) can help countries develop financing options for SDG-related investments. *NDBs should be aligned with the SDGs in a holistic way and be considered in integrated national financing frameworks. Collaboration of NDBs and multilateral banks, through cofinancing or on-lending arrangements, can enhance SDG-related finance through the complementarity of international resources and local market knowledge.* Member States of the United Nations and the international community can work together to strengthen NDB risk management. Research is needed to better understand how the regulatory frameworks applied to NDBs can be tailored to protect their financial sustainability while incentivizing the sustainable development effectiveness of their investment.

Concern remains over the decline in correspondent banking, which is driven by cost—including maintaining important anti-money laundering and related standards—and risk considerations. Well-managed technological solutions have the potential to address the costs and risks of operating correspondent banking relationships. *Member States can work together to incentivise or require the adoption of know-your-customer utilities and the Legal Entity Identifier (LEI).*

As the 2030 Agenda makes high demands of maximizing synergies and breaking down silos, coherence of financial and economic systems with sustainable development is critical. Member States have aimed for economic, financial and trade policy coherence since the Monterey Consensus. The deeper coordination that is now needed extends across a broader set of international policy areas and institutions including tax, investment, competition and non-economic issues which have previously been excluded, such as climate change, disaster risk, human rights, gender and migration.

Global governance must be enhanced to support the ambitious 2030 Agenda. Throughout this report, there are many calls for deepening international cooperation, strengthening global governance and improving inclusive international norm-setting. Across these areas, *more work is needed on broadening and strengthening the voice and participation of developing countries, as was committed in the Addis Agenda.*

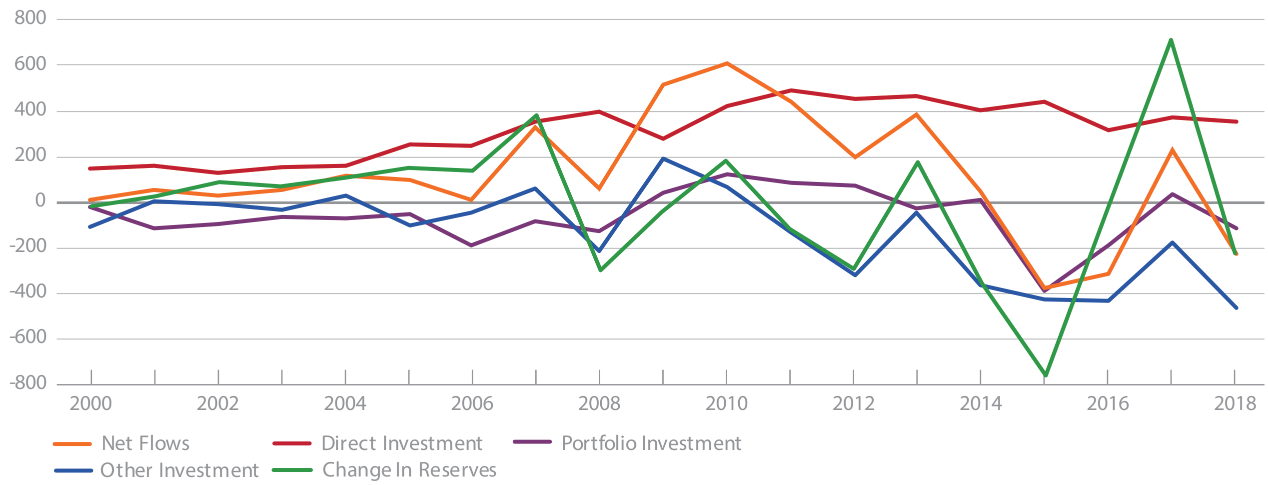
2. Macroeconomic stability and the international architecture

In recent years developing countries have seen capital outflows and bouts of heightened volatility, reflecting rising interest rates in developed economies and growing investor risk aversion due to heightened geo-political uncertainty. In particular, portfolio flows, which are primarily driven by institutional investors, cross-border bank loans and other debt instruments,[1] have remained highly volatile, with aggregate negative net flows to developing countries since 2014 (figure 1).

The volatility of capital flows can, in part, be linked to the short-term focus of international financial markets, as discussed in chapter III.B. Volatility of capital flows can be decomposed into debt and equity flows and into the flows of residents and non-residents, each of which may move independently based on risk perceptions and market conditions. At the same time, financial markets have increasingly differentiated across countries with outflows and pressures on exchange rates more acute in countries with weaker fundamentals or higher political risk, as can be seen by the rising dispersion of emerging market currency volatility to levels not seen since the financial crisis (figure 4). An IMF study of the 2008 crisis found that countries with stronger pre-crisis fiscal positions and macro-prudential frameworks, and those with more flexible exchange rate regimes, experienced smaller losses, underscoring the importance of national policies and plans.[2] Such countries had greater policy space to enact countercyclical measures to help address the effects of the crisis.

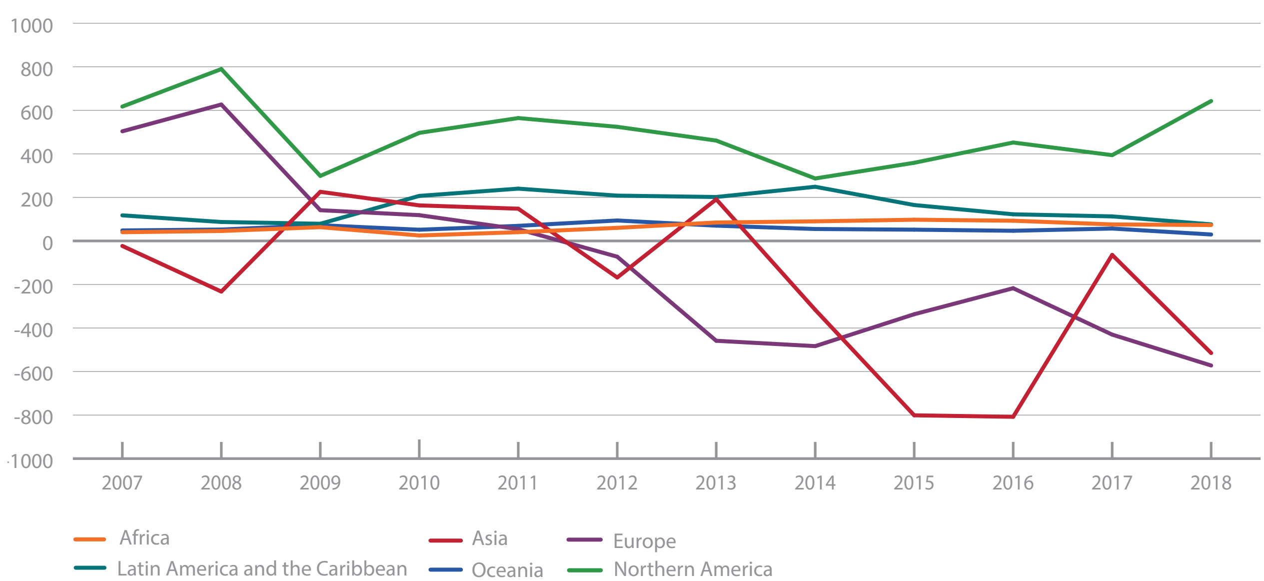
The direction of capital flows also varies by region, as shown in figure 2, with Asia and Europe currently being the prime suppliers of capital to the rest of the world and North America, the largest recipient. The global imbalances in capital flows are the inverse of the imbalances in the current account (largely trade in goods and services) and movements in international reserves, which have been a feature of the international financial system for several decades. Risks from these imbalances could be elevated during periods of uncertainty.

Figure 1
Net financial flows to countries in developing regions, 2000-2018
(Billions of United States dollars)



Source: IMF World Economic Outlook, October 2018.
Note: Positive values denotes a net inflow of capital and an increase in reserves. A negative value indicates a net outflow of capital and a decline in reserves. 2018 value is a projection.

Figure 2
Net financial flows, by region, 2007-2018
(Billions of United States dollars)



Source: IMF World Economic Outlook, October 2018.
Note: Positive values denotes a net inflow of capital. A negative value indicates a net outflow of capital. 2018 value is a projection.

2.1 Capital account management

While capital inflows can deliver substantial benefits to countries by supplementing domestic savings and investment, large and volatile capital flows can also give rise to macroeconomic and financial stability risks, often impacting the real economy. There is little systematic evidence that liberalization of the capital account on balance raises welfare, highlighting the importance of long-term capital flows invested in sustainable development.

The Addis Agenda notes that when dealing with risks from large and volatile capital flows, necessary macroeconomic policy adjustment could be supported by macroprudential and, as appropriate, capital flow management measures. In 2012, the IMF developed an Institutional View on the liberalization and management of capital flows, which recommends that recipients of capital flows should primarily use macroeconomic policies to manage capital flows, and notes that capital flow management measures can be appropriate in certain circumstances, although these should not substitute for warranted macroeconomic adjustment. In 2018, the IMF published a study and taxonomy of capital flow management, which can serve as a useful reference for peer learning.[3] It examined case studies of capital account management methods, analysed their appropriateness and assessed whether alternative macroeconomic measures could have been taken.

One lesson from the study is that national capital account management policies need to be coherent with macroeconomic and macroprudential policies. Indeed, to achieve the SDGs, measures should also be coherent with the full range of policies across the different action areas of the Addis Agenda, such as international investment agreements (see chapter III.D) and financial and capital market development policies (see chapter III.B). To be most effective, capital account management policies should therefore be incorporated into integrated national financing frameworks (see chapter II).

It could be helpful to develop a better understanding of how source countries of capital flows can meet domestic objectives while avoiding large international spillovers in the form of volatility. Developed countries should continue efforts to incentivize longer time investment horizons for international investors. This would not only help to achieve sustainable development, it could have the added benefit of potentially helping reduce capital market volatility.

2.2 Multilateralism, surveillance and macroeconomic coordination

With risks shifting to the downside, there is greater urgency for coordinated policies that can enhance prospects for strong and inclusive growth. However, the current geopolitical landscape points to weaker coordination, not more.

The IMF External Stability Report shows that global current account balances — defined as the absolute sum of surpluses and deficits — stand at about 3.25 per cent of global gross domestic product (GDP) as of 2018. Of this, 40 to 50 per cent are now deemed excessive (i.e., some countries are saving too much, and others are borrowing too much).[4] International reserve accumulation by some developing-country monetary authorities increased dramatically following the Asian financial crises of the late 1990s, with reserve accumulation rising to a peak of 15.2 per cent of world gross product in 2013 (figure 3). This policy provided self-insurance against sudden stops in capital flows and, in so doing, reduced the likelihood of a recourse to sharp procyclical adjustment, should such a sudden stop occur. The policy also precipitated an increase in the demand for US-dollar-denominated assets, thus contributing to widening global imbalances, and paradoxically the flow of resources from developing countries as a group to the developed world.

Since 2001, the share of international reserves held in US dollars has, however, been steadily falling. US-dollar-denominated reserves accounted for less than 62 per cent of the total at the end of the third quarter of 2018, down from a peak of 71.5 per cent in 2001, with a relatively constant decline throughout the 2008 crisis and other economic events. In 2018, euro-denominated assets account for 20.5 per cent of the total, and Chinese renminbi-denominated assets, which were reported for the first time in 2016, for 1.8 per cent.

At the same time, while global imbalances in aggregate have remained broadly unchanged in recent years, they have become increasingly concentrated in developed economies (figure 2). This reflects several factors, including commodity-price developments, the gradual tightening of global financial conditions, and asymmetries in demand recovery in developed countries. Given the challenging external environment, policymakers in developing countries should be prepared for further capital outflow pressures, which could result in sharp and disruptive currency and asset price adjustments.[5]

Such large and sustained excess external imbalances in the world's key economies pose growing risks to global stability, especially in periods of policy uncertainty. In the near term, these imbalances risk aggravating trade tensions. Over the medium term, sustained deficits would lead to further widening of debtor positions in key economies. Indeed, persistent global imbalances and elevated sovereign debt have been sustained to date in large part because capital markets trust that large developed economies will repay their debt. Sovereign debt is now near or exceeding 100 per cent of GDP in nine developed economies. While it is difficult to know at what level debt becomes unsustainable, geopolitical risks and policy uncertainty can lower the ability of some countries to maintain excessive debt. Financial market actors are already discussing that a sudden shift of risk perception and the willingness of international investors to hold debt of some advanced countries is possible. Mere discussion of this among analysts raises the risk of such a sudden shift occurring.

International coordination to address global systemic risks uses several channels: IMF multilateral surveillance involves monitoring global and regional economic trends and analysing spillovers from members' policies onto the global economy; the IMF and FSB conduct an Early Warning Exercise to assess economic, financial, fiscal, and external risks, integrating macroeconomic and financial perspectives; the FSB Plenary assesses vulnerabilities affecting the global financial system; and the G20, with the help of the IMF, conducts a mutual assessment process to evaluate how policies fit together.

The IMF continues to undertake efforts to enhance its surveillance. The 2018 IMF Interim Surveillance Review found that bilateral and multilateral surveillance discussions are underpinned by a shared and deeper understanding of global interconnectedness and linkages across sectors.[6] There has also been progress in core areas of Fund work such as risk analysis, fiscal and external sector analysis, integration of macro financial analysis, and macrostructural policy work. Looking ahead in 2020 there will be a Comprehensive Surveillance Review and a review of the Financial Sector Assessment Program. In January 2019, the FSB decided to review its framework for assessing financial stability vulnerabilities to ensure that it is flexible enough to handle a financial system that will continue to evolve over time.[7]

2.3 The global financial safety net

Given rising global risks, building resilience to shocks can save money and improve welfare. Chapter III.A discusses finance for social protection floors that can act as automatic stabilizers during a shock. Internationally, a strong global financial safety net (GFSN), which is designed to help cushion countries when they experience crises, can help bolster resilience. Yet, the adequacy of resources in the GFSN remains an open question.

The GFSN comprises international reserves, central bank bilateral swap arrangements (BSAs), regional financing arrangements (RFAs), and the resources of the IMF. As noted, the GFSN has become multilayered, and has uneven coverage with sizeable gaps.[8] Many countries, including large developing countries and those that could act as transmitters of shocks, continue to lack adequate access to predictable and reliable funding. The size and structure of the GFSN has not changed appreciably since the 2018 *Financing for Sustainable Development Report*. At that time, the Inter-agency Task Force on Financing for Development inventory of quick-disbursing international instruments mapped out the different components of the GFSN, showing a wide array of instruments, but highlighting gaps in coverage and the need to increase GFSN flexibility and countercyclicality, reinforcing the IMF analysis.

IMF non-concessional financial commitments from its General Resources Account to 16 countries amounted to $191.4 billion at end-September 2018. In fiscal year 2018, $91 billion in arrangements were approved, leaving the IMF with a forward commitment capacity of $262.5 billion at the end of 2018. For low-income member countries, the IMF committed concessional loans amounting to $2.4 billion at end-April 2018. A comprehensive review of the concessional lending facilities and a review of conditionality and of the design of Fund-supported programmes will be conducted in 2019, while the adequacy of IMF resources overall is being discussed in the context of the IMF Fifteenth General Review of Quotas (box 2).

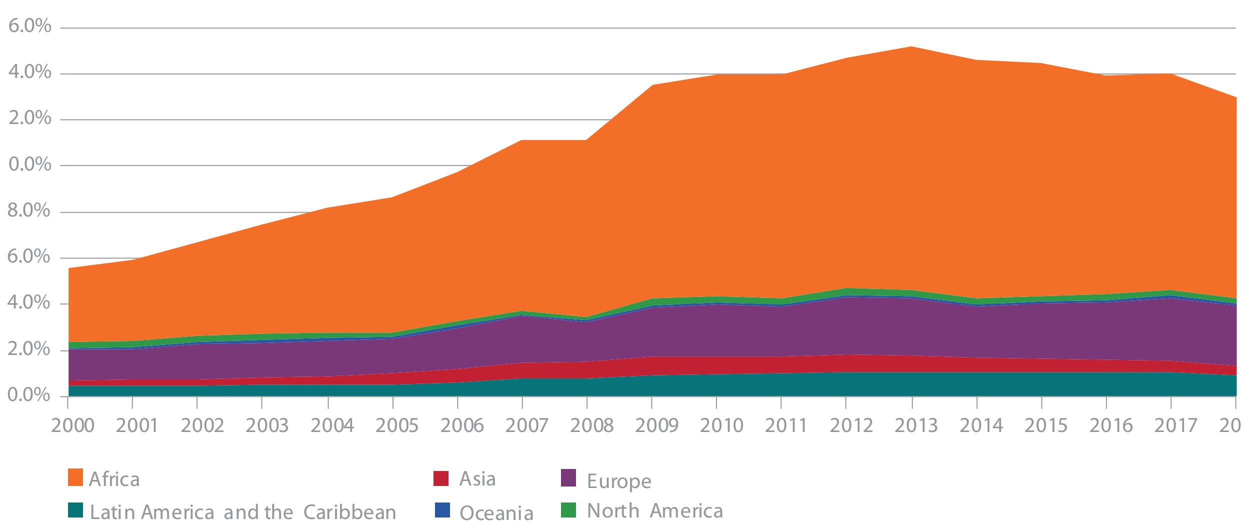
With a multilayered structure, coordination of the different components of the GFSN is important. In 2018, a review of implementation of G20 principles to strengthen the coordination of policy-based lending for countries requesting financing while facing macroeconomic vulnerabilities found that the IMF and the MDBs had strengthened coordination and deepened their dialogue at the staff and managerial level.[9] Regional financial cooperation and integration can play an important role complementary to the global financial architecture, including in shocks response, development finance and promoting regional trade (box 1). Regional institutions have the credibility and legitimacy to play a more active role in supporting financial system stability. Use of the principle of subsidiarity can promote regional and global institutions serving as complements rather than competitors.

One additional option that could increase countries' re-

Figure 3

International reserves, by region, 2000–2018

(Percentage of world gross product)



Source: Task Force calculations based on IMF International Financial Statistics, World Economic Outlook.

Note: Total reserves, excluding gold; 2018 data from end September for those countries without 2018 year-end data.

serve buffers involves allocations of IMF special drawing rights (SDRs). For example, a previous allocation of SDRs was made in the wake of the 2008 crisis. In March 2018, the IMF executive board discussed whether a broader role for SDRs could contribute to the smooth functioning and stability of the international monetary system. However, political support for strengthening the role of SDRs remains weak; most IMF Executive Board members were uncertain or unconvinced that there is a role for the SDR in addressing the weaknesses in the international monetary system. IMF board members supported further analysis of how economic and technological transitions—such as a potential move towards a multipolar global economy and adoption of financial technologies—could reshape the monetary system.

Box 1

Reinforcing the financial safety net in Latin America

The regional financial architecture of Latin America and the Caribbean is one of the most extensive in the developing world. Regional institutions can play a significant role in providing countercyclical funding and supplementing the resources that countries receive from institutions such as the International Monetary Fund. With few exceptions, regional financial cooperation in Latin America and the Caribbean has been related to agreements on trade integration. Its financial architecture and institutions have been organized around the need to support liquidity and balance-of-payments financing, an effort now centred in the Latin American Reserve Fund (FLAR) for its eight member states.

Six of the FLAR members have made timely and expeditious use of the FLAR credit facilities. In many instances, balance-of-payments challenges in the region are not simultaneous, so the fund can operate effectively to counter crises without countries resorting to global facilities. A regional reserve fund with a larger membership and more capital would contribute even more to regional financial stability. Regional development banks can also supply countercyclical financing, as can national development banks (see main text).

Other issues to explore in regional cooperation include (i) exploring the use of regional currencies for bilateral trade settlement; (ii) understanding how an expansion of the regional development banking system can contribute to sustainable development; (iii) investigating the possibilities for currency swaps lines among regional trading partners; and (iv) examining a possible role for regional institutions to facilitate exchange-rate insurance in contexts where volatility is driven by speculation.

Source: ECLAC.

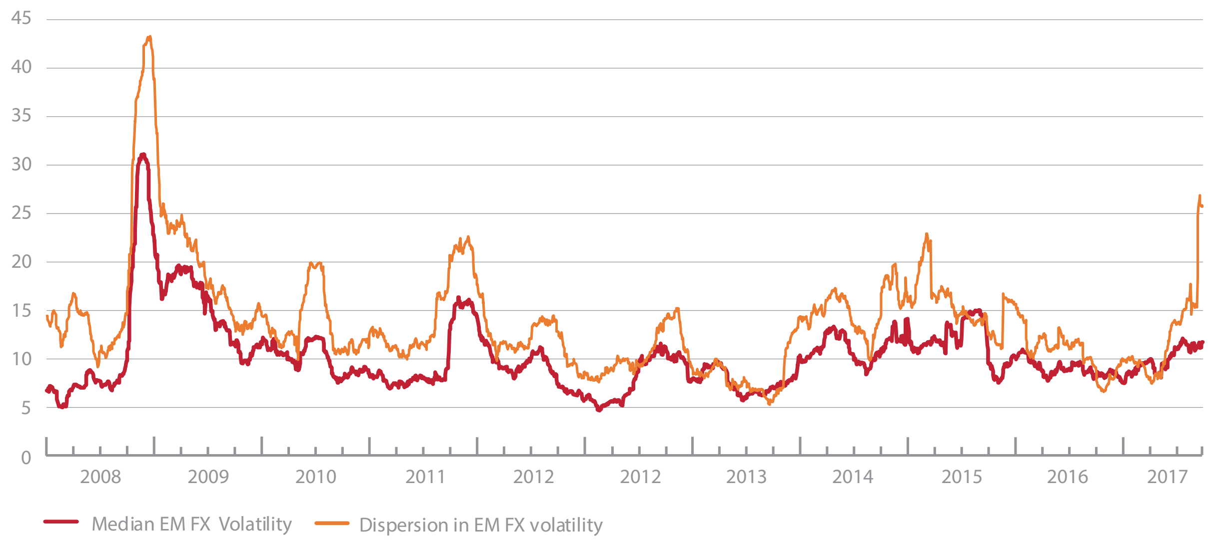
2.4 Currency risk management

Currency mismatches have also been at the core of many developing-country, as well as developed-country, financial crises. This problem may worsen in two ways: The transition to multi-polarity in the international reserve system may further heighten volatility of exchange rates. In addition, new instruments being developed to achieve the SDGs—such as platforms to use blended finance to increase foreign-currency-denominated investment or lending to domestic enterprises, which generally have assets in local currency (see chapter III.C)—can create currency mismatches, which the domestic entity is often least well placed to manage.

Currency risk is also a significant impediment to sustainable, long-term investment in developing countries. For example, financiers responding to an FSB consultation cited currency risks as the most relevant factor constraining the supply of infrastructure finance. These costs constrain SDG-related investment. Currency risk is particularly difficult to manage, since the cost of hedging is tied to local interest rates, which can be higher than the expected return on the investment. While market instruments exist to hedge currency risk, these are generally costly and relatively short-term. As shown in figure 4, at times, there is dispersion in volatility of currencies, with currencies reflecting idiosyncratic domestic risks, which are not necessarily correlated with global risk aversion. At other times, the volatility of most emerging-market currencies increases synchronously; these episodes correspond to global macroeconomic and liquidity conditions. In general, however, domestic interest rates compensate for the volatility, on a diversified basis. For example, a basket of 22 developing countries outperformed the market, with positive returns, even throughout the emerging-market crises of the 1990s and early 2000s.[10]

Given the high cost of hedging, one of the tools for managing currency risk could be greater use of diversification by international actors. This was recognized in the Addis Agenda, which calls on MDBs to lend in local currencies, making "use of all risk management tools, including diversification".[11] More recently there have been proposals for regional institutions (box 1) to offer hedging mechanisms. While this has a benefit of adding some diversification, to get the full benefit of risk management more currencies and regions should be incorporated. The Currency Exchange Fund (TCX) is an example. It was founded in 2007 by a group of development finance institutions to act as a market-maker in currencies and maturities not covered by the private sector. TCX pools the currency risk related to the lending activities of multiple institutions, operates in 70 currencies, and through about 3,000 transactions has taken on currency risk for $6.5 billion in lending. Scaling up this approach could be achieved by some type of global re-insurance, exchange of exposure, or increasing the capital base of TCX or other international financial institution.

Figure 4
Emerging market currency volatility
(Percentage)



Source: IMF Global Financial Stability Report October 2018.
Note: 60-day realized volatility for 20 selected currencies, dispersion is calculated as the difference between the 90th and 10th percentiles.

3. Financial regulation and the Sustainable Development Goals

The 2008 crisis forced an overhaul of the global financial regulatory architecture to address risks in the financial system. New standards, tools and practices were developed following the crisis, including the Basel III capital and liquidity accords and widespread adoption of stress testing for the banking sector. These reforms are in line with the recent IMF study on the 2008 crisis, which found that countries with greater financial vulnerabilities in the pre-crisis years suffered larger output losses after the crisis.[12]

The reform agenda agreed at the G20, although still incomplete, has been largely implemented and has strengthened the resiliency of the financial system in key areas. Nonetheless, there is a risk that a renewed push for deregulation in some countries could reverse gains. At the same time, new risks continue to arise, and the application of new technologies to finance is complicating traditional models of regulation and oversight, thus emphasising the importance of regulation which focuses on the risks associated with financial activity rather than on the type of financial institution.

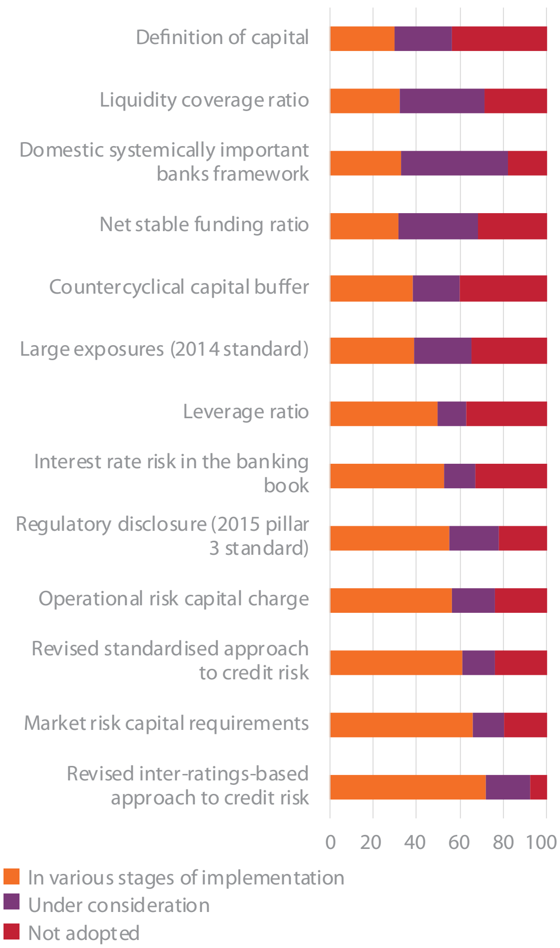
Risk-mitigating measures, while strengthening the resilience of the financial system, may also have unintended consequences on access to credit for investments needed to achieve sustainable development, and on environmental and social factors. The international community is making efforts to evaluate the effects of reforms to better understand the impact they may have on the SDGs, including lending to developing countries, long-term lending, and lending to sectors crucial to sustainable development (such as small- and medium-sized enterprises (SMEs) and trade finance).

Ultimately, however, stability and sustainability are mutually reinforcing; without a stable financial system, the 2030 Agenda risks being derailed by future financial crises. The challenge is to design policy and regulatory environments that support financial market stability and promote investment aligned with the SDGs and financial inclusion in a balanced manner, with appropriate consumer protection, as called for in the Addis Agenda.[13]

3.1 Implementation of regulatory reform

The reform agenda has focused on reducing risks through four channels: (i) strengthening financial institution resiliency; (ii) ending systemic risks posed by too-big-to-fail financial institutions; (iii) making derivatives markets safer; and (iv) enhancing the resilience of non-bank financial intermediation.[14] In November 2018, the FSB concluded that the new regulatory framework is largely in place.[15] In addition, although the Basel III standards were agreed among the Basel Committee's members and designed for relatively complex financial systems, they are increasingly being adopted worldwide (figure 5). However, the FSB also reported that implementation of reforms is not complete and remains uneven (figure 6). It calls for its members[16] to maintain momentum and avoid complacency, as there is a risk that uneven implementation or a rollback of reforms in one jurisdiction could spawn opportunities for regulatory arbitrage and lead to a race to the bottom in regulation and supervision. This could jeopardize financial stability and thus achievement of the SDGs.

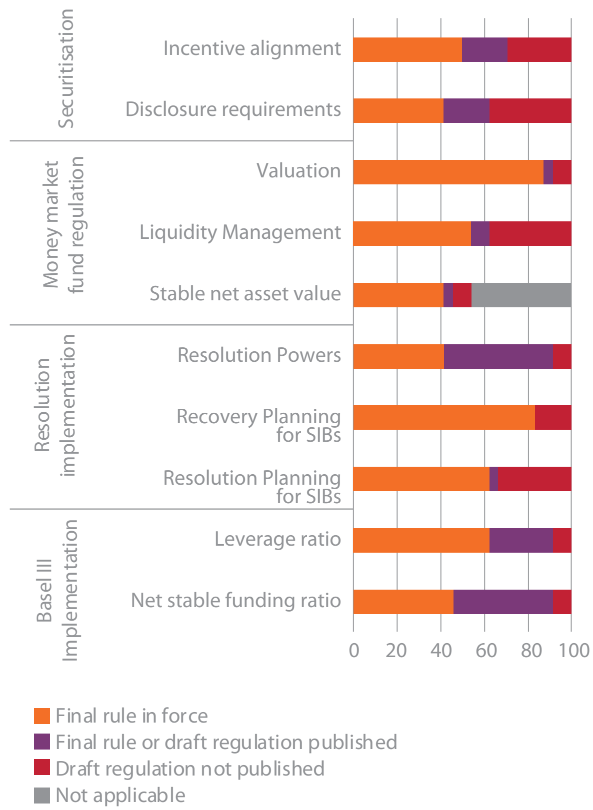
Figure 5
Adoption of Basel III standards outside of Basel Committee memship, 2018
(Percentage of jurisdictions)



Source: BIS.
Note: 100 countries were surveyed, for a full list see BIS (2018) "The Basel framework in 100 jurisdictions: implementation status and proportionality practices", FSI Insights on policy implementation No. 11, November, available from: https://www.bis.org/fsi/publ/insights11.htm. Countercyclical capital buffer (CCyB); Interest Rate Risk in the Banking Book (IRRBB); standardised approach for credit risk (STA); internal ratings-based approach (IRB).

Implementation of reforms has been particularly strong with regard to strengthening financial institution resiliency, through capital adequacy and liquidity coverage. Addressing risks associated with financial institutions being too big to fail is also advancing. This includes the establishment of effective resolution regimes to make it possible to resolve financial institutions in an orderly manner without severe systemic disruption or exposing taxpayers to the risk of loss. Resolution regimes seek to enable regulators to close non-viable financial institutions while protecting the firm's functions that are critical to the financial market or the real economy, ensuring that losses are borne by shareholders and creditors, and protecting the payments system and insured depositors. Furthermore, bank supervision has become more intensive, especially at large banks, with the expectation of government bailouts

Figure 6
Progress of regulatory reform implemention, 2018
(Percentage of jurisdictions surveyed)



Source: FSB.
Note: Systemically important banks (SIBs). The six EU members of the FSB are presented as separate jurisdictions.

appearing to have diminished, as measured by the decline in the funding advantages of the largest banks.[17]

Countries hosting the largest derivatives markets have implemented stronger reporting, clearing, trading and margin requirements. Reforms to non-bank financial intermediation (often referred to as shadow banking) have also been implemented. Regulations have been introduced in almost all jurisdictions on money market funds, repos, and other instruments that contributed to the 2008 crisis. The largest gap in implementation progress is for liquidity management rules for money-market funds, with nine jurisdictions not yet publishing draft rules. Most countries also now have macroprudential authorities and some tools with which to oversee these systemic risks.

The key priorities of the international standard setters include completing implementation of the leverage ratio, which seeks to constrain excessive risk-taking, and the frameworks for the cross-border resolution of banks and insurer solvency (figure 6). The net stable funding ratio—which is designed to ensure banks have sufficient liquid assets to cover long-term liabilities to withstand a crisis—is also lagging in implementation in 13 jurisdictions, accounting for 65 per cent of the banking market having not yet implemented this reform.

3.2 Impact of regulatory reforms on resilience and credit growth

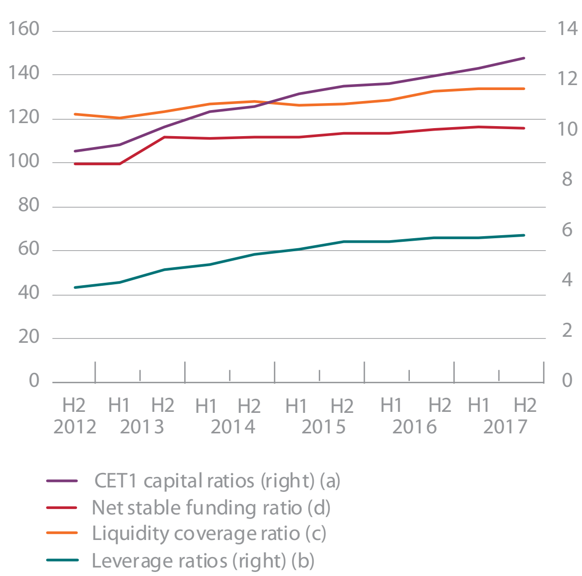
The Addis Agenda acknowledges the possibility of risk-based regulatory reforms having unintended consequences by constraining credit in areas where credit expansion is necessary. Countries committed to ensure that policies and regulations support financial market stability and financial inclusion in a balanced manner. It also notes that exceptions to financial regulations may be needed to achieve global goals. Stability and sustainability can be mutually reinforcing, and failure on either front can increase financial crisis risks.

Overall, implementation of reforms has led to banks being better capitalized, less leveraged and more liquid than they were before the global financial crisis. Figure 7 shows that the largest internationally active banks have improved their buffers, making the banking system more resilient to economic shocks. In addition, most risks posed by the specific types of non-bank financial intermediation that contributed to the 2008 crisis have been significantly reduced.[18]

To date, there is evidence that the changes in financial sector regulation have been achieved without impeding the overall provision of credit to the global economy. While international banks deleveraged after the crisis, since 2014, bank lending and total credit to non-financial firms and households has grown relative to GDP (figure 9). Total credit growth in emerging markets and developing economies[19] has grown faster than in advanced economies relative to GDP, with a dip only in 2008. This in part reflects the low cost of bank credit and bond finance in recent years, supported by exceptionally accommodative monetary policies. The greatest growth has been to non-financial corporations (versus households), which shows that, in general, lending is more likely to be supporting economic activity, although there is concern that the credit has not increased real investment (see chapter III.E).

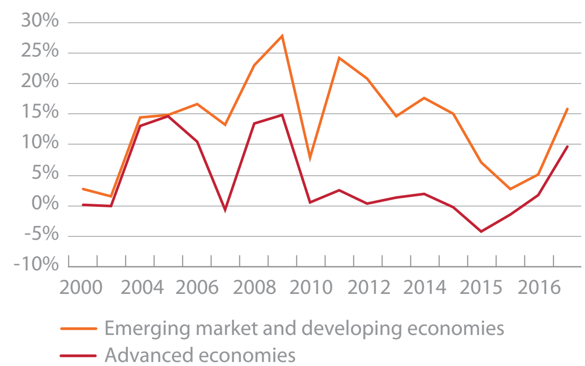
Evidence to date suggests that the financial crisis slowed, but did not necessarily reverse, the long-term trend towards higher global financial integration. While total gross cross-border bank claims dipped between 2010 and 2016, following initial deleveraging after the fi-

Figure 7
Bank capital and liquidity positions
(Ratio, percentage)



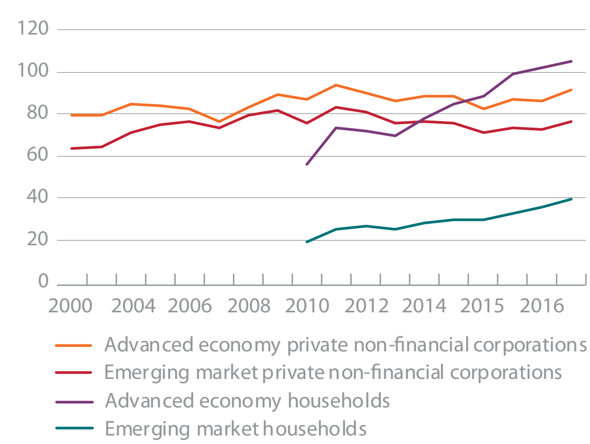
Source: BCBS.
Note: (a) 84 banks, (b) 66 banks, (c) 68 banks, (d) 91 banks.

Figure 8
Credit growth to the private non-financial corporate sector, 2000-2017
(Percentage)



Source: BIS.
Note: year-on-year growth of total outstanding credit to the private non-financial sector, data as of Q4, weights based on 2016 data.

Figure 9
Credit growth relative to economic output, by development status, 2000-2017
(Percentage)

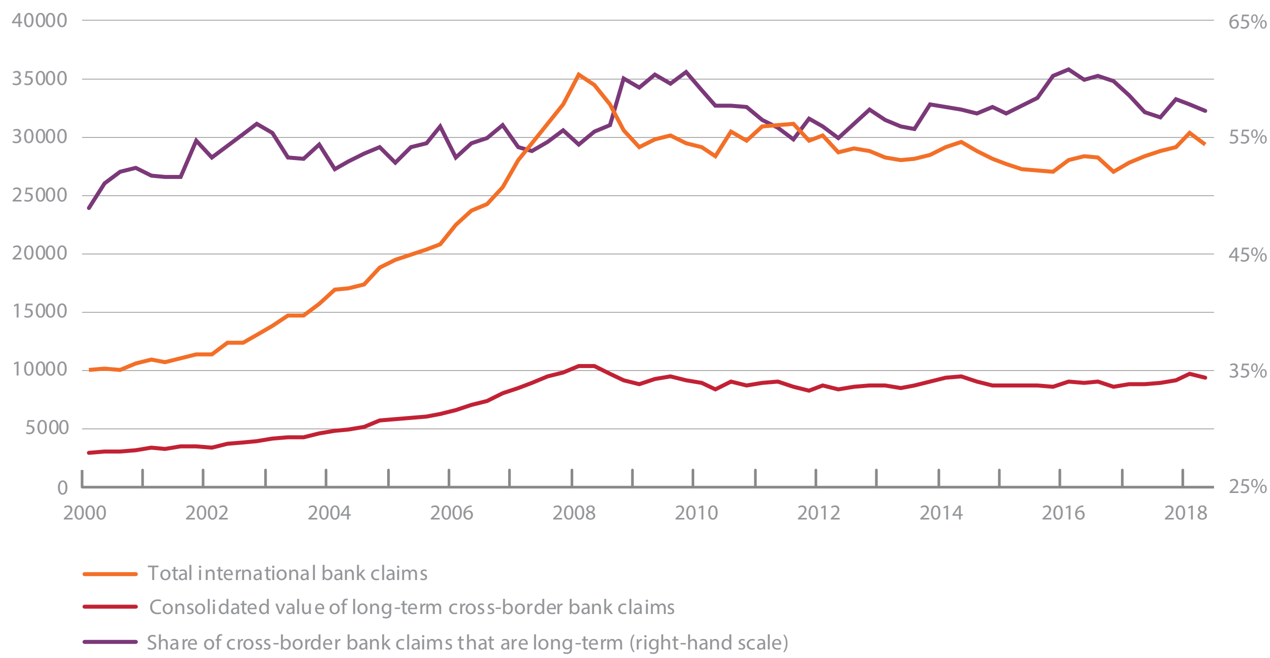


Source: BIS.
Note: Households includes non-profit institutions serving households.

Figure 10

Cross-border banking exposures, 2000-2018

(Billions of United States dollars, percentage)

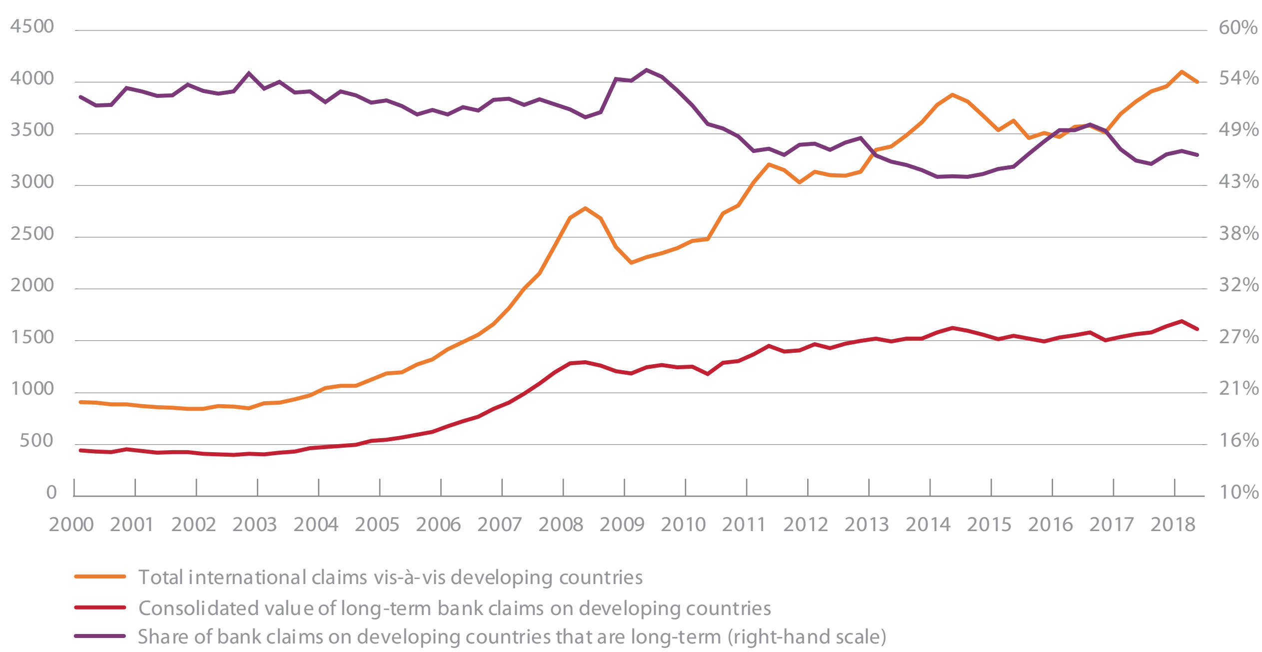


Source: BIS.

Figure 11

Cross-border banking exposures to developing countries, 2000-2018

(Billions of United States dollars, percentage)



Source: BIS.

nancial crisis (figure 10), total cross-border bank lending to borrowers in emerging markets has grown since 2009 (figure 11), despite volatility over the years. However, much of this increase has been short-term, with long-term lending growing more slowly, underscoring some of the challenges for policymakers in developing countries in ensuring the quality of borrowing, and in managing debt and capital account risks. Chapter III.E discusses the potential for private sector debts to end up on the sovereign balance sheet in the event of a financial crisis.

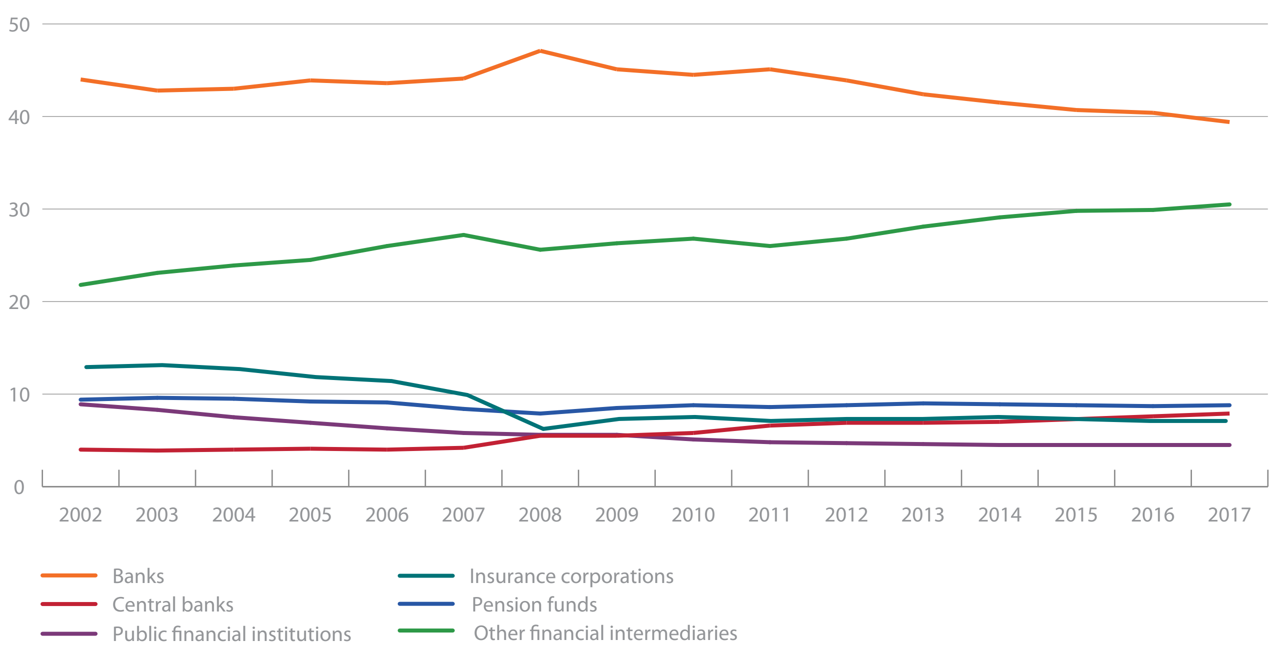
3.3 Emerging risks and opportunities

As the financial system continues to evolve, new threats to financial stability may emerge. For example, the supply of financial services has become more diversified, including through the growth in non-bank financial intermediation. Assets held by non-bank intermediaries have continued to grow faster than the global economy, and now make up a larger share of all financial assets (figure 12). Assets of institutions that may pose bank-like financial stability risks, such as collective investment vehicles, now make up about 14 per cent of the total global of financial assets (see "narrow measure" in figure 13).[20]

Effective financial regulation needs to address systemic risks from financial intermediation, both bank and non-bank, as well as the full spectrum of other risks, such as settlement risk and fraud. Regulations will vary by the type of risk; for example, consumer protection would not be effectively addressed through capital requirements. Indeed, this approach is consistent with FSB efforts to set regulatory norms to address financial stability risks associated with non-bank financial institutions that were highlighted in the 2008 crisis.

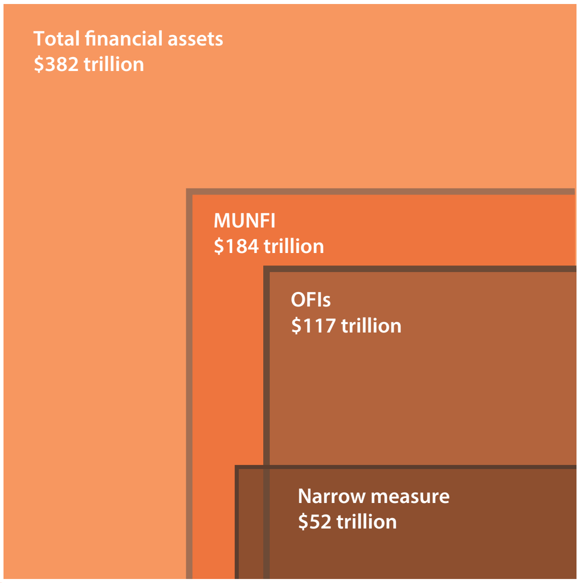
In addition, rapid advances in financial technology (fintech) are transforming the economic and financial landscape. As discussed in chapter III.G, fintech can support potential growth and poverty reduction by strengthening financial development, inclusion and efficiency, but may also pose risks to consumers and investors and, more broadly, to financial stability and integrity. Most new fintech companies are not banks, and some are outside of the traditional regulatory framework. Yet, while some of these operators offer purely payments services or technology solutions (e.g., software), others have begun to intermediate credit and to blur the lines between software, payments and intermediation. A particular case is that of large technology companies, which may directly offer financial services or become important third-party providers to financial institutions.[21] To date, the application of these new technologies to the financial sector does not appear to have had systemic implications. As these operators grow in importance, regulation may need to better cover these risks, while not stifling innovation. This could entail a shift from looking at the type of financial institution providing financial services, to the underlying risks associated with the financial activity.

Figure 12
Assets of financial intermediaries, 2003-2017
(Percentage of global financial assets)



Source: FSB.
Note: Covering 21 jurisdictions plus the euroarea; some exchange rate effects have been netted out by using a constant exchange rate from 2017.

Figure 13
Composition of non-bank financial intermediary assets, 2017
(United States dollars)



Source: FSB.
Note: Monitoring universe of non-bank financial intermediation (MUNFI) comprises insurance corporations, pension funds, other financial institutions (OFIs), and financial auxiliaries. Narrow measure includes non-bank financial entities that are involved in credit intermediation activities that may pose bank-like financial stability risks.

3.4 Impact of regulatory reform on infrastructure finance

A November 2018 FSB evaluation of the effects of financial regulatory reforms on infrastructure finance concluded that, overall, private infrastructure finance has grown in recent years after a temporary drop during the financial crisis. This growth has been mainly due to growth in non-bank finance, with bank infrastructure finance having been relatively flat after falling in the wake of the 2008 crisis.[22] Infrastructure financing provided by the financial sector accounts for a relatively small share (about 5 to 10 per cent) of the global spending on infrastructure investments, while the bulk is provided by the public sector (see chapter III.B).

A broad range of financial regulations can potentially affect infrastructure finance, along with a range of other factors such as monetary and financial conditions and adjustments to the structure and business models of large financial institutions operating globally. While it is difficult to precisely disentangle the changes to infrastructure finance due specifically to regulatory reforms, the FSB analysis does not identify a significant effect of the initial Basel III reforms on volumes or prices across different groups of institutions (e.g., banks with weaker solvency and liquidity profiles versus stronger banks, global systemically important banks versus other banks). In addition, bank-provided infrastructure finance does not seem to have been affected disproportionately compared to other types of bank lending. The FSB does find that regulatory reforms have contributed to shorter average maturities of infrastructure loans by global systemically important banks, which is in line with the goal of the reforms to reduce banks' maturity mismatches.

Within the small percentage of infrastructure finance provided by the financial sector, developing countries, many of which have large infrastructure financing needs, have historically relied more heavily on bank loans for financing projects. Some countries that are not able to raise sufficient levels of long-term financing at affordable rates from banks may look to market-based finance, but others lack market access. These countries may need long-term financing from MDBs and other sources of international public finance. This need has contributed to increased focus on new instruments, such as blended finance for infrastructure projects (see chapter III.C).

The evaluation on infrastructure finance is the first part of the broader evaluation of the effects of reforms on financial intermediation by the FSB. The second part, focusing on the effects on the financing of SMEs, will be the subject of a public consultation launched ahead of the June 2019 G20 Summit. As reported in the 2018 Financing for Sustainable Development Report, The Basel Committee agreed in late 2017 to phase in lower risk weights for SME loans. An evaluation on the effects of the too-big-to-fail reforms will also be launched in early 2019 and completed in 2020.

3.5 Interaction of financial regulation with environmental and social goals

Financial regulation, which has been designed to address financial stability, does not incorporate environmental, social and governance risks. Yet, regulations create incentives in the financial system, including for lending and investments that advance, or hamper, achievement of environmental and social goals. For example, higher capital charges for borrowers with higher credit risk are essential for banks to manage balance sheet risks, but financial authorities should also ensure that there are not unintended consequences for access to affordable credit among excluded populations such as women or the poor, impacting inequality and achievement of the SDGs. Similarly, the modalities of financial sector development, which are strongly influenced by the regulatory framework, have important implications on inequality (see chapter III.B).

Long-term environmental and social risks can also have material impacts on financial sector returns, risks, and stability. These include questions such as how climate risks affect the insurance industry, the impact of environmental and social risks on the long-term credit quality of borrowers, or the impacts of worsening social stability, climate and disaster risks on the stability of the financial system. The financial industry is just beginning to understand how to incorporate the impacts of non-financial factors—for instance from climate-related risks—into financial risk analysis, and policymakers could help to set norms in this area.

Such risks are becoming clearer in relation to climate change, as the private sector has begun to take voluntary action to disclose climate risks embedded in investments. The Task Force on Climate-related Financial Disclosures (TCFD)[23] announced that the number of firms supporting the TCFD recommendations[24] has grown to over 590, representing market capitalizations of over $8.8 trillion, and including financial firms responsible for assets of nearly $107 trillion. In September 2018, the TCFD published a status report, which provides an overview of the extent to which companies in their 2017 reports included information aligned with the core recommendations. The majority of the over 1,700 firms surveyed disclose information aligned with at least one of the TCFD recommended disclosures, although few disclose the financial impact of climate change on the company. A minority of companies disclose forward-looking climate targets or the resilience of their strategies under different climate-related scenarios. Even fewer companies assess and disclose the extent to which their investments expose the communities within which they operate to disaster and climate risk. Financial companies were more likely than non-financial companies to disclose how they had embedded climate risk into overall risk management, but they were less likely to report their climate-related metrics and targets. The absence of consistent reporting requirements from regulators means that the disclosure of such risks and targets will continue to be uneven across companies and jurisdictions (see chapter III.B).

Credit ratings agencies (CRAs) also play an important role in the functioning of capital markets and influence the flow of finance towards countries, companies and projects. The increase in investors demanding that businesses disclose environmental and social risks, including climate and disaster risks, has also led to changes in how CRAs address these risks. There are two distinct, but related issues: risks that are material to a company's financial returns, and externalities that impact global goods more broadly (see chapter III.B). CRAs are increasingly factoring material risks into their analysis, although this is not yet systematic.[25] As discussed in the 2018 Task Force report, a longer-term outlook would likely increase the impact of sustainability considerations on performance, since many environmental and social risks are relevant only on time horizons longer than five years. CRAs could, as a first step, publish longer-term ratings alongside traditional ratings. Some new firms have emerged to give sustainability ratings, although these have a range of methodologies, which can result in contradictory ratings for the same firms (see chapter III.B). With the three largest CRAs still holding a 95 per cent share of the credit ratings business in the largest financial markets, there also remain concerns about competition and oligopolistic practices, which could impede progress in this and other areas.

4. National development banks

National development banks (NDBs) are a main source of long-term credit in many middle-income countries, and also successfully play an active role in many developed economies. Together they hold approximately $5 trillion in assets, making them an important contributor to local financial systems and financing sustainable development.[26] There are many financially sustainable and well-governed NDBs, such as the German development bank KfW Group and the Dutch development bank FMO, with clear mandates to maximize development and a track record of effective financing of SDG-related investments. On the other hand, there have also been NDB failures, underscoring the importance of monitoring NDB risk, if they are to play a greater role in financing sustainable development. Policymakers should consider NDBs interlinkages with private banks and their potential to generate systemic risks, although on balance NDBs also contribute to the diversification of risk and thus to financial stability. NDBs can also link to multilateral development banks (MDBs), borrowing from them to mobilize resources for the domestic financial system (see chapter II).[27]

4.1 Assets and liabilities

NDBs generally have a development mandate, and as such, can play a variety of roles in the development process, including promoting (i) financial inclusion and deepening of domestic financial markets; (ii) innovation and structural transformation; (iii) infrastructure investment; and (iv) the provision of other public goods, such as supporting climate change mitigation and adaptation. In addition, they can counteract procyclical behavior of private finance.[28] While NDBs differ in the details of their mandates, governance structures and business models,[29] they are typically active in sectors relevant for the SDGs, such as agriculture, infrastructure and SMEs, and often operate in market segments that commercial banks eschew. According to a World Bank Survey, nearly 90 per cent target lending to micro, small and medium-sized enterprises (MSMEs), 78 per cent lend to large corporations, 64 per cent support private financial intermediaries, 58 per cent lend to state-owned enterprises and over 40 per cent lend to local governments.[30] About half of NDBs provide subsidized lending using budget transfers from the government, cross subsidization from other profitable business lines, or low-cost lines of credit from international donors or multilateral development banks. NDBs typically engage in longer-term lending than private banks, with an estimated 54 per cent of NDB loans having maturities over 10 years. In Latin America, 49 per cent of NDB assets finance productive lending activities, compared to 20 per cent of private bank assets.[31] While asset quality has historically been a recurrent problem in some NDBs, in the Latin America and Caribbean region, NDBs have exhibited lower non-performing loan ratios than their private counterparts.[32]

NDBs are generally capitalized with public funds, but they often leverage their balance sheets. While 89 per cent of NDBs borrow from other financial institutions or issue debt on local capital markets, 64 per cent receive government guarantees, and 40 per cent receive budget transfers. In general, NDBs have more stable sources of funding than private banks (with a long-term funding ratio of about 36 per cent versus 7.4 per cent for commercial banks),[33] due to a lower dependence on short-term deposits. Their liabilities are ultimately contingent liabilities of the State, but for those that borrow from markets, creditworthiness and financially sustainability need to be maintained to have a successful business model.

4.2 Risk management

NDBs need effective risk management, both to ensure effective operations and protect government resources and to minimize spillover risks to the domestic banking system. Management at many NDBs cite improving risk management capacity as their most important challenge, with becoming financially self-sustainable the second most frequently cited challenge. Pricing risk appropriately across the NDB balance sheet is crucial, because failure to do so could result in lack of financial sustainability and the need for repeated recapitalization to compensate for poor financial performance.

However, there is a lack of clarity on how to best price risk in the presence of market failures and externalities, and thus how NDB balance sheets should be evaluated. One view is that risk at NDBs should be evaluated the same way as commercial banks, ignoring the mandate of the institution concerned. Indeed, as noted above, financial regulators should consider risk exposures, not institutional type. This view is reflected in the way many NDBs are currently regulated and supervised. In 2017, 72 per cent of NDBs responding to the World Bank survey were regulated like private banks, with two thirds of those needing to comply with Basel II or Basel III capital adequacy standards.[34]

An alternative view is that NDBs have a different risk profile because of their liability and asset structures, particularly due to longer-term liabilities. Thus, applying the standardized approach to risk weighting from the Basel framework, which was written for deposit-taking banks with shorter-term liabilities than NDBs, may not be appropriate. As noted above, the FSB has found that banking sector regulatory reforms have contributed to shorter average maturities of infrastructure loans, in line with the goal of the reforms to reduce banks' maturity mismatches.

Furthermore, the newest Basel III standards, which countries are increasingly moving towards, contain additional rules that can impact NDB operations, such as higher risk weights for concentrations of risk, and higher risk weights for the early stages of project finance investment, which decline as projects move into operational phases. Each of these rules could shift incentives for NDB operations and potentially hamper their alignment with national sustainable development priorities.

Governments can thus also explore other methods to manage risk, including on a portfolio basis (for example, higher overall capital ratios without risk weightings). Risk concentration can also be managed by merging sector-focused NDBs in a single NDB with a broader mandate. Or the Government, as the ultimate owner, can try to embed a portfolio approach to risk across different NDBs into an NDB regulatory framework. Additional research is needed to better understand how the regulatory frameworks applied to NDBs can be tailored to protect their financial sustainability while incentivizing the sustainable development effectiveness of their investment.

4.3 Governance challenges

Governance issues at NDBs, particularly political clientelism, have historically been challenging and have been a major driver of poor performance. Management of NDBs must remain close enough to policymakers to be responsive to national development priorities, while maintaining operational independence in their lending decisions to protect against corruption or other operational risks. Well-designed governance mechanisms can aim to generate this responsiveness while insulating the bank from excessive interference. Depending on ownership and national structures, measures that have proven effective include diversification of directors on the board, the board appointing NDB senior management, engagement with CRAs, oversight by independent supervisory authorities, adherence to prudential guidelines,[35] engagement with parliaments and civil society, and transparent reporting of strategies, investments and results.

Rigorous development impact assessment can further promote the effectiveness of NDBs. Monitoring and evaluation frameworks should focus on the achievement of mandated development goals, not on lending volumes. Policies need to align NDB board, management and staff incentives with these development impacts. NDBs can learn lessons and good practices from each other and from MDBs.

5. Correspondent banking linkages

Correspondent banking is another area where there have been unintended consequences of changes in the regulatory framework (in this case, anti-money laundering and related rules), with financial institutions terminating business relationships with entire regions or classes of customers, in a process called de-risking. Correspondent banking relationships (CBRs) impact the ability to send and receive international payments, with potential consequences on the cost of remittances, financial inclusion and international trade, among other areas, and thus on achievement of the SDGs. For example, de-risking can have the effect of reducing competition in remittances channels, just at a time when there is a call to increase such competition to lower the cost of remittance transfers. In the intergovernmentally negotiated conclusions and recommendations of the 2018 ECOSOC Forum on Financing for Development, Member States invited this Task Force to continue to monitor the decline in correspondent banking and its effects.

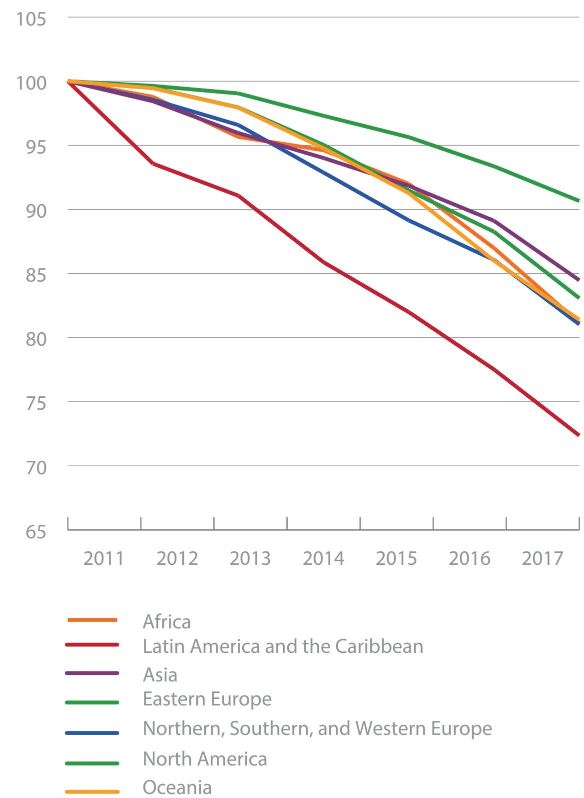
The decline in the number of active CBRs continued in 2017, with a year-on-year reduction of 4.1 per cent and a drop of 15.5 per cent since 2011,[36] with all continents or subcontinents experiencing declines (figure 14). The number of active corridors between countries, where at least one relationship exists, also continued to decline, falling 2.4 per cent in 2017, and 7.3 per cent since 2011. [37] The status of CBRs also varies by region. For example, in October 2018, the IMF organized a Caribbean roundtable to take stock of progress on CBRs in the region. Participants noted there has been no further erosion in access to CBRs in the last year, and that most banks have secured access to foreign currency clearance through alternate arrangements.

The decision to establish or break a CBR is taken by private banks. It can be driven by several factors, but is generally related to the cost of maintaining a CBR versus the associated risks. In particular, fixed costs associated with opening and maintaining a correspondent banking relationship can be high, in large part due to compliance with anti-money laundering and combating the financing of terrorism (AML/ CFT) standards. This can be particularly problematic when there is not sufficient volume of business to compensate for these costs.

The FSB established an action plan in 2015 to address the decline in CBRs, including four focus areas: (i) research and analysis; (ii) clarifying regulatory expectations; (iii) capacity-building; and (iv) strengthening tools for due diligence by banks. To implement this plan, the Financial Action Task Force (FATF) clarified regulatory expectations by releasing guidance on CBRs in 2016.[38] A recent survey found that a large proportion of the private sector entities have been informed of the new guidance, although in some countries more can be done by regulators to inform their financial institutions.[39] The IMF also supports efforts by analysing risks and developing policy responses in its surveillance; assessing the implementation of standards; and building capacity to help strengthen legal, regulatory and supervisory frameworks. The FSB, FATF, Global Partnership for Financial Inclusion, IMF and World Bank will report to the G20 in June 2019 on remittance service providers' access to banking services.

Strengthened tools for sharing standardized due diligence by correspondent banks, which can reduce the costs of operating a CBR, are an important part of the FSB action plan. In February 2018, 13 large banks constituting the Wolfsberg Group published a new Correspondent Banking Due Diligence Questionnaire, to be used with their own existing respondent banking institutions and any new respondent banks by end-2019. It is

Figure 14
Number of active correspondent banks in each region, 2011-2017
(Index, 2011 = 100)



Source: FSB.
Note: Correspondents are counted multiple times across corridors, but not across message types and months.

unclear how many banks outside the Wolfsberg Group will adopt the standardized questionnaire. Extensive use of the questionnaire will reduce the duplication in the collection of information and save costs, especially if responses are collected through know-your-customer utilities and thus able to be reused.

Technological development related to advances in fintech could also present opportunities to reduce costs, if risks are well managed. The payment chain for CBRs currently has high barriers to entry, sunk costs, and inefficiencies. New technologies that enable automation, payment tracking and point-to-point settlement, can potentially lower the cost of payments and address some risks associated with payment failure. Distributed ledger technologies are being implemented in new global payments settlement systems as well as being adapted for linking into the existing SWIFT payment system operated by banks.[40] As recently noted by IMF staff, there are three areas where distributed ledger technologies could be used: back-end processes; compliance; or means of payment.[41] However, more work would be needed understand risks and potential unintended consequences related to different technologies. For example, some technologies can increase transparency if used effectively, but can also be used to evade regulation. In this regard, there is a need for global standards for fintech more broadly (see chapter III.G). Additional policies that have been recommended include a global, tech-neutral standard for cross-border payments;[42] the use of central bank digital currencies;[43] and use of Legal Entity Identifier (LEI) in payment messages.

The use of LEIs in payment messages would facilitate the unambiguous identification of the originator and beneficiary of payments, and a more reliable screening of payment messages as due diligence accompanies the issuance of an LEI. As at end-2018, over 1.3 million legal entities have been issued LEIs in more than 200 jurisdictions, although wider coverage is likely needed to support effective use of the LEI in payments. Data collection on the direct and ultimate parents of entities with LEIs, helpful for reducing financial integrity risks, has been ongoing since May 2017 with more than 84 per cent of LEI registrants either reporting information or opting out for valid reasons.[44] Technical changes are being made to payment message formats to enable inclusion of the LEI in messages, but there is no regulatory requirement for their use. Advance joint commitment by regulatory bodies to require the use of LEIs would remove concerns about disadvantages to banks in countries that made such regulations first. As the Task Force has previously recommended, more widespread adoption of LEIs could reduce the cost of their issuance and have application in other aspects of financial integrity and combatting illicit financial flows.

6. Institutional and policy coherence

In the Addis Agenda, Member States recognized the importance of addressing inconsistencies in the international system and committed to taking better advantage of relevant United Nations forums for promoting universal and holistic coherence and international commitments to sustainable development. As identified in the Addis Agenda, coherence across the three dimensions of sustainable development should aim at consistency of multilateral financial, investment, trade, development and environment policies, institutions and platforms.

There have been significant, but uneven, efforts to align financial, investment, trade, development and environment policies, institutions and platforms with the SDGs. These efforts are advanced in development cooperation, for which many donors have agreed on the need for mutually supportive policies on issues that go beyond aid[45], yet still only half of OECD DAC members carry out analysis of policy coherence between domestic policies and development objectives.[46] The IMF has undertaken numerous efforts to incorporate the SDGs in their work on fiscal policies (see chapter II) and is developing a framework on social spending in response to an independent evaluation, which highlighted that IMF advice in this area has been uneven. Trade institutions, for example, are still working to incorporate the SDGs, which is made harder by the existing base of trade and investment agreements, which are not easy to

Box 2

Governance of international institutions

The Addis Ababa Action Agenda called for further progress in strengthening the voice and participation of developing countries in international institutions. This was also included as Sustainable Development Goal targets 10.6 and 16.8 in the 2030 Agenda for Sustainable Development. The 2016 implementation of the International Monetary Fund (IMF) Fourteenth General Review of Quotas met one of the commitments Member States of the United Nations undertook in the Addis Agenda. In keeping with the commitment to ensure a strong, quota-based and adequately resourced IMF at the centre of the global financial safety net, the IMF is working towards completing the Fifteenth General Review of Quotas, including a new quota formula, by the 2019 Spring Meetings and no later than the 2019 Annual Meetings. The Executive Board's third progress report on the Fifteenth Review was submitted to the IMF Board of Governors in September 2018. In line with the agreed work plan, discussions are expected to continue in the coming months.

In the Addis Agenda, Member States also committed to open and transparent, gender-balanced and merit-based selection of the heads of the international financial institutions. Traditionally, the World Bank president has been from the United States of America, while the IMF has been headed by a European. Except for the current head of the IMF, all previous leaders of both institutions have been male. In 2012, several developing-country candidates were nominated to be World Bank president. The World Bank Board announced the process for replacing President Jim Yong Kim in January 2019. Nominations are accepted from any World Bank Group shareholder from 7 February to 14 March, to be followed by a shortlisting process and a selection by the World Bank/IMF Spring Meetings in mid-April, after this publication has gone to press.

Source: UN/DESA.

renegotiate (see chapter III.D). As another example, the existing base of taxation treaties were for the most part not motivated with increasing revenue mobilization, but instead to decreasing double taxation, with the sometimes unwarranted assumption that such a policy would encourage investment.

The Monterrey Consensus broke new ground by bringing together discussions on economics, finance and trade. International norms, institutions, and platforms have evolved considerably since both the 2008 crisis and the 2015 adoption of the 2030 Agenda and Addis Agenda, yet there are still gaps in how aligned they are with sustainable development in some policy areas. The Addis Agenda's promise to promote alignment across a wider set of policy areas for the most part remains unfulfilled. For example, financial regulatory policies are not cognizant of environmental agreements, with each policy area operating independently. This problem is exacerbated by the lack of dedicated multilateral institutions in a number of areas. For example, tax cooperation and international investment promotion have no single coordinating secretariat or body and a predominance of bilateral treaties. This makes coordination difficult and prevents cross-cutting discussions. In some policy areas that are increasingly important for the structural transformation needed to put countries on the path to achieving the SDGs, there are neither global institutions nor bilateral policy frameworks, as exemplified in the discussion on increasing monopolies internationally (see chapter III.B). Efforts to achieve greater institutional and policy coherence at the international level, will often benefit from more inclusive and democratic decision-making with universal participation (see box 2).

In November 2018, the G20 Eminent Persons Group on Global Financial Governance gave its recommendations to G20 countries on measures to increase the coherence of the international system. In the Addis Agenda, Member States recognized the need to improve global governance and arrive at a more inclusive and representative international architecture for sustainable development. The main organs of the United Nations, ECOSOC and the General Assembly, as inclusive bodies with equitable governance, can address cross-cutting issues of coherence. Support for multilateralism necessitates that Member States commit both to come to the table in good faith and to afterwards implement what is agreed. The 2019 High Level Dialogue on Financing for Development is an opportunity for Member States to show their support for multilateralism, make concrete commitments for faster national implementation of the Addis Agenda and discuss how to address gaps in the international architecture and promote coherence across siloed policy areas.

Box 3

The Global Compact for Safe, Orderly and Regular Migration

In December 2018, Member States of the United Nations adopted the Global Compact for Safe, Orderly and Regular Migration (GCM).[47] This is the first intergovernmental agreement prepared under the auspices of the United Nations to cover all dimensions of international migration in a holistic and comprehensive manner. The GCM recognizes that migrants and migration dynamics affect development outcomes across a range of sectors and vice versa.

The GCM addresses a number of Sustainable Development Goal (SDG) targets, including migrants' access to public services regardless of their migration status (SDGs 3 and 4), protecting labour rights (SDG 8), and advancing well-managed migration policies and reducing the transaction costs of remittances (SDG 10). These issues need to be fully integrated into sustainable development strategies and associated integrated national financing frameworks.

For example, SDG target 4.b calls for expanding the availability of cross-border scholarships to developing countries for higher education. Progress made in achieving this target would facilitate migration for education purposes, and also, as called for in SDG target 4.4, increase the number of youth and adults from developing countries with technical skills.[48] The GCM includes objectives on basic services for migrants in a gender- and disability-responsive as well as child-sensitive manner, including providing inclusive and equitable quality education to migrant children and youth, as well as facilitating access to lifelong learning opportunities.

The GCM is particularly relevant to the commitments in both the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda to facilitate safe, orderly and regular migration, notably through SDG target 10.7. In practice, comprehensive and effective migration management involves a wide range of initiatives, for which the guiding principles, cooperative framework and objectives and commitments outlined in the GCM will be critical.

The potential economic, social and environmental benefits of migration can be quite large,[49] the realization of which depend upon available resources and the policies put in place by Governments. The GCM puts forward specific provisions to support development financing efforts, including encouraging, for example, the implementation of programmes and financial products that facilitate migrant and diaspora investments in entrepreneurship, and of digital platforms and other mechanisms for coordinated voluntary or philanthropic engagement of migrants and diasporas, especially in humanitarian emergencies in their countries of origin. If implemented as part of a coherent overall strategy, the 2030 Agenda, Addis Agenda and GCM can significantly improve migration governance globally.

Source: IOM and UN/DESA.

Endnotes

1 Represented by other flows in figure 1.
2 See International Monetary Fund, "The Global Economic Recovery 10 Years after the 2008 Financial Meltdown", in *World Economic Outlook: Challenges to Steady Growth* (Washington D.C., 2018).
3 See International Monetary Fund, The *IMF's Institutional View on Capital Flows in Practice* (Washington D.C., 2018).
4 International Monetary Fund, *External Sector Report: Tackling Global Imbalances and Rising Trade Tensions* (Washington D.C., 2018).
5 International Monetary Fund, *Global Financial Stability Report: A Decade after the Global Financial Crisis: Are We Safer?* (Washington D.C., 2018).
6 See International Monetary Fund, "2018 Interim Surveillance Review", IMF Policy Paper (Washington D.C., 2018).
7 Randal K. Quarles, Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System and Chair of the Financial Stability Board, Ideas of Order: Charting a Course for the Financial Stability Board, remarks at the Bank for International Settlements Special Governors Meeting, Hong Kong, 10 February 2019.
8 International Monetary Fund, "Adequacy of Global Financial Safety Net", IMF Policy Papers (Washington D.C., 2016).
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