

G20 Principles for effective coordination between the IMF and MDBs in case of countries requesting financing while facing macroeconomic vulnerabilities

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Multilateral development banks (MDBs) frequently play an important role in helping to address countries' financing requirements during periods of macroeconomic vulnerability. For this type of MDB financing to be most effective, it should build on the implementation of sound policy frameworks, and countries' engagement with the IMF, which is the lead institution to assess macroeconomic conditions and advise countries on the appropriate actions to restore macroeconomic stability. Insufficient coordination between the IMF and MDBs may undermine macroeconomic adjustments, with negative impacts on a country's economic growth and stability.

In order to enhance the decision-making process, **the IMF and the MDBs should be encouraged to ensure effective coordination when MDBs consider providing financing to countries facing macroeconomic vulnerabilities** and more broadly when programmatic policy-based lending is envisaged.

In the end, it should however be clear that each institution should remain responsible for its lending decisions and be independent in reaching them.

Against this background, and building on existing good practices, the G20 has devised the following Principles for effective coordination between the IMF and MDBs in case of countries requesting financing while facing macroeconomic vulnerabilities.

1. The MDBs should:

- Engage in a regular dialogue with the IMF to proactively identify potential opportunities for coordination and to ensure consistent policy signaling.
- When considering a budget-support loan, provide their Boards of Directors with convincing evidence, based on a recent IMF assessment, that a country has in place a sound macroeconomic policy framework.
- Offer emergency financing to help a country address macroeconomic vulnerabilities only after having received an assessment by the IMF that an appropriate macroeconomic framework is in place and appropriate actions are being taken to restore macroeconomic stability or there is a credible commitment to adopting and implementing such policies. This assessment should be provided to MDB Boards of Directors for their consideration and with the view to inform their decision, as a complement to MDB staffs' own assessment.
- Encourage countries experiencing BoP crisis to pursue an IMF-supported program (funded or unfunded) in order to establish a credible and consistent policy framework for restoring macroeconomic stability.

- Structure lending in a manner to provide the borrowing country with appropriate incentives to carry through with its program of reform commitments, including, for example, through sequenced disbursements and corresponding conditions that are consistent with IMF conditionality. Substantive prior actions, grounded in areas in which the MDB has appropriate expertise, should be in place before resources are disbursed.
- Ensure, where appropriate, that the lending underpins a government's commitment to pro-poor social programs and well-targeted social safety nets to the extent that the country's macroeconomic adjustment places poor and vulnerable segments of the population at risk.
- Accurately categorize the type of support required (e.g., countercyclical, balance of payment, programmatic) to appropriately structure the terms of the budget support loans (e.g., tenor, grace period, conditionality).

2. The IMF should:

- Upon request from an MDB that it is considering providing financing to help a country address macroeconomic vulnerabilities, provide a clear, frank, and up to date assessment of the country's macroeconomic situation and prospects, and of macroeconomic and related structural policies. Such an assessment could be provided through i) an IMF Executive Board assessment in a recent Article IV consultation or program review, or ii) when conditions have changed or the most recent assessment is more than 6 months old, an assessment letter that contains a clear and candid assessment of a) the member's macroeconomic conditions and prospects and b) current macroeconomic and related structural policies.
- Maintain open lines of communication and provide the MDBs with updates on the IMF's assessment of macroeconomic conditions and policies ahead of any additional MDB Board decisions on provision of financial support or subsequent loan tranches, and engage in a constant dialogue and exchange with the MDBs on the subject.

3. The IMF and the MDBs should:

- Ensure close communication between their respective staff teams working on countries experiencing, or likely to experience, macroeconomic vulnerabilities.
- Establish, as appropriate, channels for "upstream" exchanges of views between senior managers of the respective institutions on possible provision of MDB financial support to countries facing macroeconomic instability (for instance, development of lines of inter-agency communication at an appropriately senior level regarding macroeconomic assessments; establishment of structured exchanges of views on country cases during the Spring and Annual Meetings of the IMF-WB; etc.).
- Enhance coordination around provision of technical assistance and capacity building, especially for low-income countries, in order to reinforce their capacity to anticipate, analyze and respond to a crisis.
- Conduct a regular evaluation, by the Board of Directors of the institutions, of the implementation of these guidelines.