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THE ROLE OF THE IMF IN SUPPORTING THE IMPLEMENTATION OF THE POST-2015 DEVELOPMENT AGENDA

EXECUTIVE SUMMARY

2015 is a year for action on global development. In September, the global community is expected to agree on the Sustainable Development Goals (SDGs), which will set out development objectives for the next 15 years. The policies to meet the SDGs were broadly agreed on in July, at the Financing for Development (FfD) Conference in Addis Ababa and outlined in the UN's Addis Ababa Action Agenda.

The IMF has actively participated in the global debate on the post-2015 agenda, articulating policy positions on key FfD issues that fall within its remit. The IMF has also committed to new initiatives that are core to sustainable development.

This paper discusses the implementation of the IMF's new initiatives that were endorsed by its Executive Board ahead of the FfD conference (IMF, 2015a and 2015b). The paper elaborates how these initiatives will be operationalized through the IMF's three modes of engagement with its membership—policy advice, capacity building support and lending. The paper also discusses the IMF's role in supporting an enabling global environment for sustainable development.

These initiatives, while staying within the IMF's mandate, will aim to boost economic resilience in member economies and sustain development in crucial ways. The following IMF actions resonate deeply with key FfD and SDG issues:

- *A strong revenue generating capacity is fundamental for a developing country to sustainably generate financing for its own development.* In this context, the IMF will enhance its capacity building support to boost domestic revenue potential in these countries, and strengthen their voice in the dialogue on international tax issues.
- *Many developing countries need to address large infrastructure gaps to meet their development needs.* The IMF will help by providing policy advice in assessing the macroeconomic aspects of scaling up public infrastructure investment without endangering public debt sustainability, and enhanced capacity building in public institutions deemed critical for successful public investment in infrastructure.
- *As developing countries pursue their development needs as well as integrate with external financial markets, they are likely to encounter greater balance of payments pressures.* The IMF's Executive Board has endorsed a significant increase in access to

all its concessional lending facilities, providing developing countries with a wider safety net to finance balance of payments needs, including from adverse shocks.

- *It is imperative to ensure that fragile and conflict-affected states (FCS) are not left behind in the development process.* The IMF will provide more effective support to these economies by customized policy advice that is responsive to their special challenges, address better their wide and persistent capacity building needs, and provide greater access to its lending. The IMF will also maintain a zero interest rate on lending for low-income countries that are struggling with disasters and conflicts.
- The IMF will also advance its work on many other areas relevant for sustainable development. These include: deepening its policy advice on aspects of inclusion and environmental sustainability—core SDG objectives that are macro-relevant in many economies—and bring it to its operational work; supporting policy analysis and capacity building to balance financial market deepening with financial stability; and improving data collection and dissemination for better economic decision making.

The IMF's post-2015 agenda will be operationalized at a balanced pace, to allow learning from pilots, reinforcing the international effort in these areas including through deeper collaboration with relevant organizations such as the World Bank, gauging the membership's demand for the initiatives, and quantifying the resource needs, prior to the full integration of the initiatives in the IMF's overall activities.

Approved By
Siddharth Tiwari

Prepared by SPR with extensive inputs from other functional and area departments.

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Acronyms and Abbreviations

BEPS	Base Erosion and Profit Shifting
BRICS	Brazil, Russia, India, China, and South Africa
CBF	Capacity Building Framework
CIAT	Centro Interamericano de Administraciones Tributarias (Inter-American Center of Tax Administrations)
CMIM	Chiang Mai Initiative Multilateralisation
COP-21	United Nations Climate Change Conference, December 2015
CRA	Contingency Reserve Arrangement
DC	Developing Countries
DIG	Debt-Investment-Growth
DIGNAR	Debt, Investment, Growth, and Natural Resources
DMF II	Debt Management Facility II
DSA	Debt Sustainability Assessment
DSF	Debt Sustainability Framework
EAC	East African Community
ECCU	East Caribbean Currency Union
eGDDS	Enhanced General Data Dissemination System
EITI	Extractive Industries Transparency Initiative
EM	Emerging Markets
FAS	Financial Access Survey
FARI	Fiscal Analysis of Resource Industries
FCS	Fragile and Conflict Affected States
FCL	Flexible Credit Line
FfD	Financing for Development
G-20	Group of 20
GDP	Gross Domestic Product
GFSN	Global Financial Safety Net
IFF	Illicit Financial Flows
IMS	International Monetary System
IOTA	Inter-European Organization of Tax Administration
LICs	Low Income Countries
MAC DSA	Market Access Countries Debt Sustainability Analysis
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MENA	Middle East and North Africa
MOOC	Massive Open Online Course
MTDS	Medium-Term Debt Management Strategy
ODPs	Open Data Platforms
OECD	Organization for Economic Co-Operation and Development
P-FRAM	PPP Fiscal Risk Assessment Model

PIMA	Public Investment Management Assessment
PPP	Public-Private Partnerships
PRGT	Poverty Reduction Growth Trust
RA-FIT	Revenue Administration Fiscal Information Tool
RA-GAP	Revenue Administration Gap Analysis Program
RBM	Results Based Management
RCF	Rapid Credit Facility
RFAs	Regional Financial Arrangements
RFI	Rapid Financing Instrument
RTAC	Regional Technical Assistance Center
SDG	Sustainable Development Goals
SCF	Standby Credit Facility
TADAT	Tax Administration Diagnostic Assessment Tool
UN	United Nations
WAEMU	West African Economic and Monetary Union

INTRODUCTION

1. 2015 marks the start of a new global partnership on economic development:

- The international community will adopt the Sustainable Development Goals (SDGs) in New York in September, which will serve as guiding posts for development until 2030. The SDGs are broader in scope than the expiring Millennium Development Goals (MDGs), aiming to achieve development that is sustainable in economic, social, and environmental dimensions.
- The policies to provide an enabling environment and mobilize sufficient finances for achieving the SDGs were discussed at the Financing for Development (FfD) Conference at Addis Ababa in July, resulting in the "[Addis Ababa Action Agenda \(AAAA\)](#)." The AAAA called for global cooperation between all countries to advance sustainable financing and development. The need to help boost developing countries' own domestic revenue potential and strengthen their voice in the dialogue on international tax issues featured heavily in the AAAA.
- The final component of the post-2015 agenda will involve reaching a global agreement on national CO₂ emissions targets to address climate change at the COP-21 conference at Paris in December.

2. The IMF is strongly committed, within the scope of its mandate, to this global partnership. Promoting sound macroeconomic and financial policies that underpin sustained growth and robust development finance are central to IMF work. In engaging with member countries at the national level, the IMF provides policy advice to strengthen macroeconomic policies, technical assistance to build state capacity in government agencies (for example, revenue collection, public finance and investment management, and effective spending), and resources to boost economic resilience against adverse shocks. Globally, promoting global economic and financial stability, a precondition for sustainable development, is a key IMF mandate. The IMF has also started deepening its focus on aspects of economic, social, and gender inclusion, and environmental protection, which are core SDG objectives and vital for balanced and sustained growth.

3. Having reviewed its operations through the lens of the post-2015 development agenda, the IMF has identified several initiatives to enhance its support for sustainable development. These initiatives (see IMF 2015a, and 2015b), cover a broad range of priorities highlighted in the FfD debate and overall aim to enhance economic and financial resilience in developing countries to better enable them to achieve sustained economic growth and stability, poverty alleviation, and lasting economic development.¹ Key among these are the IMF's efforts to:

- *bolster domestic revenue mobilization potential by tackling issues at both, domestic and international levels;*

¹ Throughout the paper, developing countries refer to all countries that are not "higher income countries" in the World Bank classification system (see IMF, 2015a for details).

- *help address macroeconomic aspects of resolving infrastructure gaps while maintaining public debt sustainability,*
- *enhance access to IMF concessional facilities to enable developing countries to better handle shocks;*
- *address the special challenges of fragile and conflict-affected states (FCS) through customized policy advice, enhanced capacity building efforts and greater support through lending; and*
- *deepen work on aspects of equity, inclusion and environmental sustainability that are macro critical in many economies; promote sustainable development of domestic financial markets; and improve data collection and dissemination.*

4. This paper elaborates on the IMF's role in implementing its post-2015 initiatives through its policy diagnostics and advice, capacity building efforts, and lending operations.²

Each section summarizes existing IMF activities related to the deliverables and how the work will be advanced going forward. The final section concludes with a reflection on the next steps.

POLICY DIAGNOSTICS AND ADVICE

5. Policy diagnostics and advice will be stepped up in three areas: (i) assessing the macroeconomic consequences of scaling up public investment in infrastructure; (ii) deepening analysis on macro-relevant inclusion issues (inequality, gender, access to finance) and environmental sustainability, which are core SDGs, and bringing the analysis to operational work; and (iii) enhancing policy analysis and advice to address the challenges of fragile states and small developing countries.

A. Macroeconomic Aspects of Scaling Up Public Infrastructure Investment

6. Providing policy guidance to assess the interactions between public investment, financing, fiscal policy and debt sustainability is already an important component of the IMF's policy advisory role. The IMF's Debt Sustainability Analysis (DSA) guides member countries' borrowing decisions—within an overall macroeconomic framework that analyzes countries' capacity to finance their policy objectives—to maintain debt on a sustainable path. Two types of frameworks are used: one for countries with market access (MAC DSA), and the joint World Bank-IMF Debt Sustainability Framework (DSF) framework tailored for low-income countries (LICs). The DSA is a work-horse tool to ascertain member countries' medium term debt sustainability in the context of their fiscal policies, including for public infrastructure investment. In addition, the Medium-Term Debt Management Strategy (MTDS) analytical tool guides the composition of member countries'

² These modes of engagement closely relate to the IMF's main functions: surveillance, capacity building, and use of Fund resources.

borrowing over the medium term, by taking into account the cost-risk tradeoff of various funding strategies, and ensuring the financing needs are met at the lowest possible cost consistent with a prudent degree of risk.

7. New models have been recently developed to understand better the macroeconomic and fiscal consequences of scaling up. The Debt-Investment-Growth (DIG) and DIGNAR variant (for natural resource exporters, see Buffie and others, 2012; Melina, Yang, and Zanna, 2014) focus on the relationship between public investment, growth and public debt under different financing options and country circumstances. These models have been applied to some 20 member countries to highlight the tradeoffs embedded in their development plans. For example, in Senegal, the analysis focused on the effects of a public investment program that coordinates new investment in low-cost hydroelectric power with a phased contraction of the oil-based sector. The findings suggested, on the one hand, significant payoffs in supply of energy, private investment, real wages and real GDP from the investment plans, but on the other, wider short-term fiscal deficits that would need to be financed by borrowing (Issoufou and others, 2014). Similar tradeoffs were highlighted in scaling up public investment in Ethiopia (see IMF 2014a), and the Republic of Congo (IMF, 2014b).

8. Going forward, the IMF's policy advice in assessing the macroeconomic payoffs from public investment will be strengthened by:

- **Expanding existing analytical frameworks.** The DIG and DIGNAR models are being expanded to systematically incorporate uncertainty about parameters, and shocks (for example, productivity and terms of trade shocks), to help assess how uncertainties interact and ultimately determine the risk of unsustainable debt. Also, the application and dissemination of the DIG model will be helped by developing an easily usable, publicly available user interface. The model enrichments are also being accompanied by new analysis on relevant policy questions, such as the effect of absorptive capacity constraints on public investment.
- **Developing new diagnostic tools.** In 2015, the IMF developed two relevant tools: (i) the Public-Private Partnership Fiscal Risk Model (P-FRAM) to quantify the macro-fiscal implications of PPP projects, particularly useful for developing countries with limited fiscal space that are seeking greater PPP financing of their infrastructure projects while at the same time understanding the nature of the fiscal risks relating to contingent liabilities. This model has been applied to a few pilots (for example, Honduras, and Jamaica, in the latter to understand the key fiscal risks under the IMF-supported program given the authorities' interest in expanding the role of PPPs in infrastructure services); and (ii) the Public Investment Management Assessment (PIMA) tool, to identify strengths and gaps in countries' institutions relevant for successful planning, allocation and implementation of public investment. The PIMA was built on analysis of 25 advanced, emerging and low-income countries. It is now being applied to a number of countries, including, at the request of the G-20, to assess the investment strategies in these economies, the findings from which will help further develop the tool—in collaboration with the World Bank—before its full roll out. More generally, besides helping guide the IMF's own technical assistance efforts (see next section), the lessons from the pilot cases on the application

of the P-FRAM and PIMA will be incorporated on an ongoing basis to improve the application of the tools.

9. These tools will be offered more widely to countries seeking policy guidance on macroeconomic aspects of scaling up public investment. The diagnostics from any or all of these tools—the standard DSAs, the DIG, DIGNAR, PFRAM and PIMA—will deepen the analysis of the macroeconomic implications and risks implied by public infrastructure investment plans. The key takeaways could be summarized in the Article IV consultation or program country reports to promote wider knowledge dissemination. The diagnosis from these tools will also help identify areas where capacity building could help strengthen the management of public investment (see the next section).

B. Support for Core SDGs on Inclusion Issues

10. The IMF has deepened its policy advice and diagnostic work on aspects of economic, financial and gender inclusion, as well as on environmental sustainability:

- **The focus has been on providing guidance to countries on the appropriate policy mix to boost economic growth and efficiency while addressing inequality issues.** For example: (i) in the Republic of Congo, where more than 50 percent of the population lives below the poverty line, staff recommended that the authorities complement much-needed fiscal consolidation with specific tax and fiscal expenditure reforms to achieve the distributional objectives of fiscal policy (IMF 2014b); and (ii) to address policy challenges relating to jobs and unemployment in the Middle East and North Africa (MENA) region, IMF staff have developed an employment-growth template to project medium-term labor market outcomes and implications for growth (Chami and others, 2012), which has been applied to several countries.
- **Recent analytical work has focused on issues relating to jobs and growth, income inequality,³ access to finance, gender inequities, and energy or climate-related challenges.** For example:
 - Recent analytical work on income inequality has highlighted that income inequality can have an adverse effect on the sustainability of economic growth (see Ostry and others, 2014, Dabla-Norris and others, 2015a)
 - Analytical work has also focused on aspects of deepening the financial sector while safeguarding financial stability (see Sahay and others, 2015). A new framework focusing on

³ This has been complemented by IMF analysis highlighting the role of economic diversification for sustained growth, structural transformation, and resilience to shocks (see IMF 2014e). A toolkit has been developed to determine the level of diversification in countries' exports of goods and help assess countries' potential for structural transformation (see IMF [website](#)). The IMF is also building an approach to boost the IMF's capacity to identify, analyze and, where relevant, offer policy advice on priority structural issues for all its member countries to provide guidance on options to increase productivity and potential output.

the relationship between financial inclusion and financial deepening was also developed and has been applied to over 25 countries (see Dabla-Norris and others, 2015b and 2015c), such as Colombia, India, Nigeria, Paraguay, and Zambia, and will continue to be applied in more. The application of the framework in Zambia revealed that relaxing constraints on collateral offers the greatest growth benefits (IMF 2015c). In Paraguay, reducing borrowing constraints—by having better information and contract enforcement—was assessed to have a positive impact on growth while reducing inequality (IMF 2015d).

- Staff analysis has also focused on the role of labor market institutions and income inequality (Jaumotte and Osorio Buitron, 2015), fiscal policy and income inequality (IMF, 2014c), and the distributional aspects of fiscal consolidation (Ball and others, 2013, and Woo and others, 2013).
- The macroeconomic gains from addressing gender inequities and increased female labor force participation have been analyzed in a number of recent IMF studies (for example, Elborgh-Woytek and others, 2013; Gonzales and others, 2015).
- A substantial body of IMF work has also addressed fiscal aspects of environmental sustainability, such as; carbon pricing; energy subsidies (IMF, 2013a); and environmental taxes (Parry and others, 2014a and 2014b; Coady and others 2015), and more recently, the IMF has also focused on other aspects of environmental sustainability beyond energy issues (see Kochhar and others, 2015 on water management issues).

11. Going forward, this work will be expanded and the policy messages will be integrated with operational work in each relevant area of inclusion. The IMF will draw on its ongoing analyses as well as the expertise of other institutions such as the World Bank in integrating its policy messages into country work as reflected in Article IV consultation and program reports. The focus will be on countries seeking to develop policies to promote economic inclusion, where such issues are macro-critical for achieving sustained growth. Specifically:

- **Inequality.** New areas of analysis include: deepening the analysis of the role of fiscal policy and inequality (IMF 2015e), a framework to analyze distributional impacts of macroeconomic policies, structural reforms and inequality, and a template for evaluating the distributional impact of energy subsidy reform.
- **Gender.** New work will include: how gender restrictions contribute to inequality, gender equality and growth, the impacts of gender budgeting, gender dimensions of financial inclusion, and more country-level analysis of policies to raise female labor force participation (for example, in India, having, among its peers, the lowest labor force participation rates for women, recent staff analysis has recommended labor market flexibility, higher investment in infrastructure, and enhanced social spending to promote higher participation rates (IMF 2015f)).
- **Access to Finance.** Following the conclusion of the pilot studies using the new framework on financial inclusion as noted above as well as an effort to mainstream macro-financial issues in

the IMF's surveillance work more generally, the key policy findings will be used to bring concrete policy advice in the IMF's operational work. New work in this area delves deeper into the relationship between financial inclusion, macro-financial stability, economic growth, and inequality (Sahay and others, forthcoming).

- **Environmental sustainability.** The IMF will build on its recent work on quantifying the magnitude of energy subsidy by country, and domestic environmental co-benefits of carbon pricing (see Parry and others 2014a and 2014b, Coady and others 2015) and further deepen analyses of the role of fiscal, macroeconomic, and financial sector policy in addressing climate change (for further discussion of the latter see IMF, 2015g).
- **Policy challenges in selected SDGs.** Staff will provide a synthesis of the key policy challenges in attaining selected SDGs that are relevant to the IMF's work (see IMF, 2015g). This study will highlight the synergies and tradeoffs between the SDGs, and policies to minimize these tradeoffs.

C. Policy Advice for Fragile States and Small Developing Countries

12. The IMF will also continue to strengthen the effectiveness of its policy work with fragile and conflict-affected states (FCS). Steps will be taken to provide more tailored policy advice that is sufficiently attuned to the political economy circumstances and flexible to adapting to the realities on the ground. The lessons learnt from other modes of engagement with FCS, such as capacity building (see IMF, 2015h and next section) will also help to customize the IMF's policy diagnostics and advice on FCS. The IMF will also improve tools for better knowledge sharing of its work and those of other organizations—such as the World Bank and the OECD—amongst staff teams, authorities of FCS for peer learning, and other relevant institutional stakeholders.

13. The macro-critical challenges faced by small states, particularly emanating from natural disasters and climate change are increasingly getting more policy attention in the IMF's work. The IMF recently prepared a staff guidance note on engagement in small states that calls for integrating natural disaster risks into macroeconomic frameworks to increase these countries' preparedness to deal with challenges from external shocks (IMF, 2014d). Policymakers in some countries have started integrating such risks into their policy frameworks. Such challenges are likely to increase over the medium term with the impact of climate change.

14. Looking ahead, the IMF, in collaboration with other international institutions, such as the World Bank, will seek to develop a policy framework for small states that deals with the special challenges created by vulnerability to natural disasters. The framework would include: explicit recognition of the costs of natural disasters in baseline macro-frameworks and debt sustainability analyses; policies to boost resilience, and quantification of the needed fiscal and financial buffers. While particularly relevant for small states, the development of such a framework would also help other economies that are exposed to recurrent natural disasters.

CAPACITY BUILDING SUPPORT FOR DEVELOPMENT

15. Given clear synergies between the IMF's policy analysis and capacity building work, its initiatives in policy advice will also inform and improve the IMF's capacity building functions in its core areas of expertise, for example: macroeconomic policy, tax policy and revenue administration, expenditure management, monetary and exchange rate policy, financial sector stability, legislative frameworks, and macroeconomic and financial statistics—and more recently inclusion issues.⁴ The IMF's ongoing and new capacity building efforts (see below), aided by donor support that accounts for one-half of the IMF's capacity development spending (on technical assistance and training), will in turn feed back to strengthen the IMF's policy work on sustainable development.

16. The IMF's capacity building efforts will be further enhanced to build institutions critical to sustainable development, such as to: (i) boost countries' domestic revenue potential; (ii) respond to the special needs of its FCS that tend to face pressing weaknesses in state capacity in multiple dimensions; and (iii) build state capacity and institutions in other relevant areas such as for: scaling up public investment to address infrastructure gaps, promoting sustainable financial market deepening, and enhancing data dissemination as a basis for economic decision-making.

A. Strengthening Domestic Revenue Potential

17. A central theme of the AAAA is the need to strengthen revenue mobilization in developing countries—an area in which the Fund's role is well-established and will remain prominent. As stressed in the AAAA, strong revenue generating capacity is crucial for the state to reliably generate the resources to finance its development objectives both fairly and efficiently. Capacity building on tax design and administration already comprises one-fifth of total IMF resources for national capacity building efforts, benefitting from significant donor support. This work has highlighted the scope for significantly raising domestic fiscal revenues by designing more robust, efficient and fairer tax systems. For example, in Mauritania, simplification of the income tax structure, tightening measures to protect the corporate tax base of multinationals against erosion, base broadening (excises and VAT), coupled with reforms of the tax administration, led to a significant increase in non-oil tax revenues by more than 4 percent of GDP; in the Philippines, tobacco tax revenues have been raised three-fold since 2012, to provide incentives to reduce health damage, while at the same time increasing revenues. Elsewhere, technical assistance to improve revenue administration has borne significant payoffs (for example, Cambodia and Kenya, the latter among many sub-Saharan Africa countries).

⁴ For example, the IMF provides provide courses at its headquarters and in regional training centers in cooperation with the World Bank that provide participants with diagnostic tools for analyses in key development areas, such as labor market reform, redistributive fiscal policies, financial development and inclusion, and poverty reduction strategies.

18. Going forward, the IMF will further enhance its technical assistance efforts in this area to support and strengthen nationally-built revenue reform strategies and apply its recently built and tested tools to deliver effective support in building revenue capacity. To this end, the IMF will continue work within well-articulated medium term programs to support, using tailored delivery modes (HQ-based missions, expert visits, Regional Technical Assistance Centers (RTAC) support), and is strengthening its capacity to analyze outcomes and strengthen focus through a result-based assessment. The Fund will also continue to draw on these capacity development efforts to inform relevant policy analysis and enable staff to provide more customized policy guidance to its member countries.

19. Some innovative Fund-developed tools are already proving helpful in designing and implementing effective country-led interventions in support of better revenue systems:

- ***The Tax Administration Diagnostic Assessment Tool (TADAT)***, which provides a standardized assessment of tax revenue performance and so provides the basis for a prioritized program of engagement. TADAT, available for implementation by qualified assessors in and outside the IMF, has been piloted in nine very different countries (for example, Cote d'Ivoire, Malawi, and Norway), and will be rolled out later this year.
- ***Revenue Administration Gap Analysis Program (RA-GAP)***, which identifies the factors underpinning actual versus potential outcomes in tax revenues and then designs corrective actions. This tool has been applied for technical assistance in revenue administration in a number of countries (for example, Jamaica, Philippines and Uganda).
- ***Revenue Administration Fiscal Information Tool (RA-FIT)***, being developed in collaboration with the OECD, IOTA and CIAT, is a web-based platform for compiling comparative fiscal data helping to benchmark and compare the operational performance of revenue agencies across countries, and helps shed light on the areas and issues that will benefit from technical assistance delivery.

20. Addressing tax challenges in the extractive industries will remain a key component of IMF technical support and be further developed. This has been a focus of IMF technical assistance and hands on practical advice for several years (Daniel and others, 2010; Calder, 2014). An important development is the **Fiscal Analysis of Resource Industries (FARI)** modeling framework to evaluate, compare and help design fiscal regimes for extractive industries, to be released for external public use in late 2015. The FARI model can be used to understand the characteristics of alternative fiscal regimes for extractive industries (and has been applied to many countries, including Chad, Kenya, and Liberia). It can be used in conjunction with a natural resource revenue template—recently developed by the IMF in collaboration with the Extractive Industries Transparency Initiative (EITI)—to improve the collection, transparency, and consistency of government revenue from natural resources.

21. As one pillar of a joint initiative to strengthen member countries' domestic revenue systems, [announced](#) in the run up to the FfD conference, the IMF and World Bank will

explore the scope to develop a tax policy diagnostic tool allowing countries to assess broader elements within the overall tax system, and design reform strategies; and development partners to target technical assistance—likely with a particular focus on international tax issues. Further details on the design of this tool will be developed over the course of 2015.

22. The second pillar of the initiative is to help members deal with the challenges of tax avoidance by multinationals—a particular focus in the FfD context. This is discussed below (see the section on “Systemic Issues”), but work in this area will be closely tied—as it must be—to work on domestic tax issues.

23. The IMF will also continue to expand its technical assistance to developing countries on designing easy-to-administer carbon pricing schemes and wider energy price reforms that help raise additional resources, while at the same enable countries to internalize adverse externalities in terms of environmental damage.

B. A More Resilient Capacity Building Framework for Fragile States

24. Fragile and conflict-affected states (FCS) face wide and persistent challenges in building state and economic capacity. These economies benefit little from global growth as their economies are racked by low administrative capacity, political instability, and often conflict. And their recent growth performance has been weak—achieving an increase in per capita income of less than 15 percent over the past 15 years, as compared to close to 70 percent for non fragile developing countries. While developing countries, overall, made good progress with meeting the Millennium Development Goals, most FCS have been left far behind.

25. The IMF’s engagement with FCS can be strengthened further to better respond to their specific challenges. A recent review of IMF engagement in FCS (IMF, 2015h) found that the IMF’s technical assistance and training delivery to FCS has risen by 40 and 63 percent respectively between 2009 and 2014, and that IMF Regional Technical Assistance Centers (RTACs) are particularly effective in providing decentralized capacity building that is well tailored to FCS needs. That said, many gaps in these efforts remain: the pace of capacity building needs to recognize the limited absorptive capacity in these economies, there should be a stronger focus on training and support through resident advisors, and engagement strategies need to be longer term in nature, taking into account the risks of setbacks in the process.

26. Drawing on this review, the IMF will strive to enhance its capacity building work for its FCS members by: (i) establishing with country authorities clearer goals and targets for institution building; (ii) besides the IMF TA providing teams, also put the IMF country team at the center of the planning and monitoring of capacity building efforts along with country authorities to allow for feedback between capacity building and policy advice; and (iii) better coordinating with other development partners (World Bank, regional development banks, and key bilateral aid agencies) to strengthen the international community’s overall capacity building approach towards FCS. This proposed framework will also aim at building on the new results based management (RBM) framework, which is expected to be rolled out in FY16 to strengthen monitoring and reviewing of

outcomes of the IMF's capacity building efforts. Staff will start by drawing lessons from a few recent case studies—Mozambique and Sudan—of countries where capacity building efforts have been relatively more successful, to draw lessons on the common factors behind the success.

C. Technical Assistance to Build State Capacity for Infrastructure Provision

27. The IMF will explore options to enhance its capacity building effort in building public institutions for infrastructure provision, working with other international organizations. While the PIMA framework has thus far been used as a diagnostic tool (see previous sub-section), it also helps identify areas which could benefit from capacity building support in member countries. The PIMA is expected to be piloted in a few countries over the coming year for a full-fledged assessment of countries' public investment management institutions. The IMF will explore options for using the findings from the PIMA diagnosis to address the identified capacity development needs, including by drawing on the expertise of other institutions.

28. The IMF is also ready to provide technical assistance in other areas that are macro-relevant for infrastructure investment, again in coordination with other institutions such as the World Bank. Important areas include improving the debt portfolio risk management through stronger medium-term debt management strategies; and improving the service delivery from infrastructure assets (for example, in the measurement and reform of power and water subsidies).

D. Balancing Financial Deepening with Financial Stability

29. The IMF has been deepening its efforts to better integrate (or "mainstream") financial issues in its policy advice to members through Article IV consultations and program reviews. The mainstreaming of macro-financial surveillance aims to develop a deeper understanding of the interlinkages between the financial sector and the economy. For developing countries, in particular, this workstream focuses on a number of issues relevant for sustainable financial deepening, such as how best to promote a stable and inclusive financial system that mitigates the tradeoffs between financial deepening and financial stability, and the policy priorities to promote development and macro-financial stability in the context of countries' increased integration with global financial markets. The mainstreaming of macrofinancial work is being applied on a pilot basis in 24 country cases, including several developing countries (for example Samoa and Uganda in the course of FY 2016), to build up experience and draw out best practices. The development of the Financial Access Survey (FAS) (<http://fas.imf.org>) will also help develop data and statistical methodologies to contribute to its policy advice on financial issues.

30. Looking ahead, the lessons from the ongoing macro-financial surveillance initiative and other analytical work on how best to promote financial market development without weakening financial stability (see Sahay and others, 2015) will be operationalized more broadly to offer well-targeted and accessible technical assistance. Specifically:

- The IMF will continue to support capacity building in financial regulatory oversight and establishing systemic risk and crisis management frameworks, while increasing its technical assistance to support financial market development.
- Contingent on further donor support and demand from member countries, the IMF will also explore developing, in collaboration with the World Bank, a diagnostic tool to guide targeted capacity building in financial market development in LICs.

E. Data and Knowledge Sharing

31. The IMF will continue to strengthen its statistical data dissemination and knowledge sharing by better leveraging its technology and raising awareness of alternative dissemination avenues and data exchange platforms. This includes the recently launched Enhanced General Data Dissemination System (eGDDS) initiative, and supporting its dissemination with a cloud-based platform—the Open Data Platforms (ODPs)—financed in partnership with regional development banks. Jointly with the African Development Bank, the IMF has provided technical assistance to several member countries to implement ODPs, (for example, Cameroon, Ethiopia, Mauritius, Tunisia, Uganda, and Zambia), but more countries need such assistance.

32. Looking ahead, the e-GDDS is expected to play an important role in improving the capacity for the production and dissemination of data, including some of the indicators to monitor select SDGs that are relevant for the IMF's work with its membership. It provides new impetus to promote data transparency by addressing the main impediments to dissemination including inadequate resource allocation to statistical work, incipient technical expertise and IT infrastructure, and disparate arrangements for data dissemination at the national level. The renewed focus on disseminating data in a standardized format will also serve to facilitate publication of other data important for ascertaining social and demographic conditions, such as selected SDGs at the country's choosing. It will also enhance the information base for economic decision-making and facilitate the reporting burden to countries.

33. In addition to improved data dissemination, the IMF will make greater use of web-based tools to enhance the effectiveness of its capacity building activities. For instance, the IMF is expanding its online training course offerings available to both government officials and the general public (e.g. Massive Open Online Courses (MOOCs)) to increase the reach of its training. The Fund will also make more frequent use of videoconferences and/or web-based seminars for TA, peer-to-peer learning events, and make more widely available on the IMF's external website recommendations and results of IMF TA and best practices.

WIDER FINANCIAL SAFETY NET FOR DEVELOPING COUNTRIES

34. The IMF's lending facilities were overhauled in the aftermath of the global financial crisis and reformed further in recent years to provide a wider safety net for developing countries. Specifically for LICs, the 2009 reforms included a doubling of the lending capacity of the PRGT and the introduction of the Standby Credit Facility (SCF) to be used either on an actual or precautionary basis depending on whether eligible countries face immediate or potential financing needs (IMF 2009). Modifications to the SCF in 2013 helped ease time limitations on the use of precautionary SCFs and allow more frontloading of access. With frontier market economies continuing to integrate in global financial markets and potentially more exposed to global liquidity shocks, the IMF will intensify its policy work to support these economies, including with the expanded use of precautionary financial support for those in need of liquidity support.

35. The IMF has recently adopted a set of reforms to its lending architecture to help expand access to Fund resources for developing countries and provide them with a wider safety net to finance balance of payments needs (IMF, 2015b). The key measures include:

- Access norms, annual and cumulative normal access limits across the concessional facilities have been raised by 50 percent for all PRGT-eligible countries,⁵ addressing the erosion of access levels relative to trade, capital flows, and GDP since 2009–10.
- The funding mix of concessional to non-concessional financing has been rebalanced under blended arrangements from 1:1 to 1:2 for PRGT-eligible countries that receive financial support from the Fund in the form of a blend of concessional and non-concessional financing, recognizing that these countries typically have significantly greater access to market funding than envisaged when the current facilities were established.
- Access to fast-disbursing support under the Rapid Credit Facility (RCF, to PRGT-eligible countries) and Rapid Financing Instrument (RFI, to all member countries) has also been raised by 50 percent to assist countries in fragile situations, or hit by conflict, or natural disasters.
- The level of concessionality on RCF—which is available to address a variety of urgent balance of payments needs, including from fragility, natural disasters and other shocks—is further increased, by setting the interest rate on RCF loans at zero percent.

36. The above reforms aim to benefit all low-income country members—frontier markets such as Ghana and Kenya, small countries such as Grenada and Samoa, and fragile states such as Central African Republic and Haiti—in three specific ways: (i) offering a wider cushion to meet

⁵ Those eligible to receive concessional financing from the Poverty Reduction and Growth Trust (currently 73 in number).

short-term balance of payment shocks given the higher cumulative access limits; (ii) provide higher access to countries with larger balance of payments needs and that also require long-term IMF engagement, such as countries in fragile situations; and (iii) provide options for a higher access under emergency situations to handle natural disasters or fragile situations (through the RCF and RFI) when the capacity for longer-term engagement is absent.

SYSTEMIC ISSUES

37. With its global membership and mandate to promote balanced economic growth and economic and financial stability at both national and international levels, the IMF's focus on systemic issues is vital for sustained development. Besides its diagnostic work in multilateral surveillance that underpins the international policy dialogue (including, in recent years, with an intensified focus on cross border risks and spillovers), the IMF has also contributed in strengthening the global financial safety net—after the global crisis, the IMF's resources were more than tripled to about one trillion dollars, and its lending framework was further reformed to provide a wider liquidity backstop to member countries seeking this support (for example, the FCL, PLL). This work needs to continue given persistent spillover risks within a highly integrated global economy. Priorities include:

- Prompt implementation of the 2010 Quota and Governance reforms and completion of the 15th General Quota Review to enhance the IMF's credibility and legitimacy, and strengthen its resource base;
- Engaging on an ongoing basis and strengthening cooperation and coordination with BSAs and RFAs; and
- Continuing to underscore the importance of strengthening and implementing the unfinished global financial regulatory reform agenda. The IMF will also stress the urgency of rigorous national implementation of the global financial regulatory reforms, addressing too-big-too-fail issues, and applying OTC derivatives rules cross border.

38. The IMF will further enhance its work on two other systemic areas: (i) reforms to address and resolve sovereign debt vulnerability; and (ii) provide stronger support on international tax issues to developing economies. Progress in these areas will help boost developing countries' economic resilience and capacity to raise sustainable financing for development.

A. Addressing Sovereign Debt Vulnerability

39. The IMF has traditionally performed three interrelated roles in helping prevent and resolve sovereign debt crises, which will be further strengthened in several ways:

- **Crisis Prevention.** Maintaining sound economic and financial regulatory policies and public financial management, and monitoring vulnerabilities relating to medium-term debt

sustainability, is the first line of defense in preventing a sovereign debt crisis, and the key focus of IMF's work on crisis prevention. The Debt Sustainability Analysis (DSA) framework, the main diagnostic tool to monitor debt vulnerabilities has been strengthened substantially in recent years, in particular with the revamping of the framework for market access countries in 2013 (see above, and IMF 2013b).⁶ Also, the IMF's policy guidance on debt limits was modified to provide countries with greater flexibility to finance productive investments while containing risks to medium-term debt sustainability (IMF 2014e), and the IMF and World Bank have jointly ramped up technical assistance on debt management in LICs by establishing the Debt Management Facility (DMF II) to finance capacity-building efforts for medium term debt management strategies, first time international market issuance, and development of local currency government bond markets. By ensuring that government financing needs are met at the lowest cost subject to prudent degree of risk, a strong MTDS plays an important role in crisis prevention.

- Looking ahead, the IMF and the World Bank will further analyze how debt vulnerabilities in LICs have evolved in recent years, which will inform the forthcoming review of the debt sustainability framework for LICs in 2016.
- **Crisis Resolution.** Notwithstanding recent progress in prevention, debt crises still occur and need to be resolved in an efficient manner. Within its mandate to pursue market-based and contractual approaches to resolving sovereign debt crises (IMF 2013c), the IMF is promoting reforms in a number of areas:
 - *Reform of the IMF's lending policies.* The IMF is currently considering how best to calibrate its framework for large-scale lending operations to limit the costs of crisis resolution, while reducing moral hazard and excessive debt accumulation, and will bring specific proposals to its Executive Board later in 2015;
 - *Framework for engaging with official and private creditors.* Work is ongoing in articulating a clearer framework for official sector involvement in debt restructurings, against the backdrop of an increasingly-diverse landscape for official financing. This work will also review the IMF's lending-into-arrears policy, which was designed to avoid situations in which private creditors can have a de facto veto over IMF lending decisions.
 - *New clauses in sovereign bond contracts.* In October 2014, the IMF Executive Board endorsed key features of enhanced collective action and modified pari passu clauses for international sovereign bond contracts that would limit the influence of holdout creditors in circumstances where a debt restructuring is needed.⁷ Several countries, ranging from

⁶ The IMF has also developed an online course, DSAx, which provides training to government officials on using the DSA framework.

⁷ These recommendations are in line with the new model clauses published by the International Capital Markets Association.

emerging markets such as Croatia, Indonesia, and Mexico to low-income countries such as Ethiopia, have recently included clauses consistent with these recommendations in new debt issuances.

- **Debt relief.** As part of the Multilateral Debt Relief Initiative (MDRI), the IMF provided an estimated US\$3.4 billion of debt relief (in nominal terms) to many of the world's poorest countries. More recently, in response to the Ebola crisis, the IMF established the Catastrophe Containment and Relief Trust. This has made available US\$100 million in grants for debt relief to Guinea, Liberia, and Sierra Leone to help free up much needed resources.

B. International Tax Cooperation

40. As a core part of its work in strengthening revenue systems, the IMF is responding to increased demand for support on international tax issues. As shown in IMF (2014f), developing countries' tax bases may be even more vulnerable to tax avoidance by multinationals than are those of the advanced economies; addressing this is not only a matter of capacity building, but also ensuring that tax practices are suitable to country-specific circumstances. The Fund already provides extensive support on these issues (see for instance IMF 2013d, and 2014f), and they are likely to become more important in both the IMF's advisory and analytical work. The IMF will also be working with other international organizations to develop 'toolkits' to assist developing countries in this area.

41. The IMF also provides policy guidance to regional economic unions to enable improved regional tax cooperation. For example, assistance has been provided to WAEMU in coordinating tax policy and administration (Mansour, and Rota-Graziosi, 2014). Similarly, the IMF has provided advisory support for EAC country authorities on their external tax treaties. In the ECCU, regional technical assistance has been aimed at minimizing tax competition that occurs through incentives.

42. Clearly, international cooperation is also needed to address illicit financial flows not related to tax evasion, such as money laundering and financial transactions related to criminal activity (see IMF, 2015a). Here too, the IMF will continue to advance its work on issues of financial integrity, anti-money laundering and combating the financing of terrorism, including in response to the recent review of its work in these areas by its Executive Board (see IMF, 2014g).

43. Looking ahead, a core objective of the recently launched IMF-World Bank joint initiative on taxation will be to increase the voice of developing countries in the international debate on tax rules and cooperation. Leveraging the comparative advantage from their collective expertise and near-universal membership, this pillar of the initiative will deepen the institutions' ongoing collaboration with developing countries to identify key international tax policy concerns (see IMF 2015i) and potential solutions, both at the country level and in the international dialogue. This work will complement, and be coordinated with, the ongoing work of the OECD and the UN. A first consultation with developing country counterparts on these issues will take place during the 2015 Bank-Fund Annual Meetings at Lima, building on the precedent set by the joint workshop on tax issues during the April 2015 Spring Meetings.

THE WAY FORWARD

44. While the IMF is fully committed to delivering on this post-2015 agenda, it will take gradual steps to allow for a smooth integration of the initiatives in its work program.

Monitoring of progress on the initiatives over the next 1–2 years will be important for assessing how the IMF is responding to the evolving needs of its developing country membership and helping reinforce the international effort in these areas. Staff will be informed by drawing lessons from the ongoing or planned country pilot studies, identifying the overall magnitude of demand from the membership for the initiatives, and experience from drawing on the expertise of other international institutions, such as the World Bank. These takeaways will help to provide a clearer understanding of the resource implications and potentially additional resource demands needed to carry out the post-2015 agenda and to evaluate possible financing options.

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