NEXT STEPS: IMF INITIATIVES IN SUPPORT OF SUSTAINABLE DEVELOPMENT

81. The IMF is already heavily engaged across many of the key policy areas discussed in the preceding sections. We focus here on initiatives the IMF will undertake to further strengthen its support for its developing country members in their pursuit of sustainable development, reflecting priorities that have figured in the FfD debate where the IMF has the capacity to contribute.

- *Supporting developing countries in strengthening their capacity to collect domestic revenues*, both through domestic capacity-building and international tax cooperation;
- *Helping countries address large infrastructure gaps in an efficient manner that does not imperil public debt sustainability;*
- *Building economic resilience/policy space;*
- *Developing policies that adequately address issues of equity/inclusion and of environmental sustainability;*
- *Providing effective support to meet the special needs of Fragile and Conflict-Affected States (FCS),* many of whom are falling behind relative to the rest of the developing world;
- *Promoting the development of domestic financial markets;*
- *Improving macroeconomic data collection and dissemination to enhance the information base for decision-making.*

Strengthening domestic revenue mobilization and management

82. Developing countries have called for enhanced support from international institutions and bilateral partners in generating domestic budgetary revenues, through support for national capacity-building in tax policy and administration and enhanced international tax cooperation to contain the shifting of potential revenues aboard.

83. The IMF already allocates one-fifth of its support for national capacity-building efforts to providing assistance in the areas of tax policy and administration. Further resources will be allocated to this end when well-targeted country-owned requests for assistance materialize; the room to provide enhanced support would be further increased if additional bilateral donor support is forthcoming, including for the IMF's regional technical assistance centers (RTACs). Assistance in designing appropriate and transparent tax arrangements for extractive industries is an area where further engagement could yield particularly high returns.

84. The IMF will support nationally-owned strategies for revenue reform, and continue to widen the application of a range of revenue tools it has recently developed to support

countries. Prominent among these is '**TADAT**' (Tax Administration Diagnostic Assessment Tool), a tool to provide a standardized assessment of performance of the revenue agency. Other tools include **RA-FIT** (Revenue Administration Fiscal Information Tool), which provides a web-based platform for compiling comparative data, thereby allowing benchmarking of the operational performance of the revenue agency relative to other countries; **RA-GAP** (Revenue Administration Gap Analysis Program), which helps revenue collection agencies estimate the shortfall of actual from potential collections, identify the underlying causes, and design corrective actions; and ***FARI*** (Fiscal Analysis of Resource Industries), a modeling framework used to evaluate, compare and help design fiscal regimes for extractive industries, which is being prepared for public release in late 2015.[30]

85. Shifts among the different modalities for supporting revenue agencies and finance ministries may be warranted to maximize the effectiveness of IMF support. Many officials in developing countries have underscored the value of hands-on assistance in implementing reforms, suggesting that greater use will need to be made of resident advisors, regular visits by experts, and the resources of the RTACs. But, with no "one size fits all," these are issues that will need to be resolved in collaboration with national authorities.

86. Measures to enhance international tax cooperation, including—but not limited to—BEPS and enhanced information exchange, have the potential to enhance the effectiveness of domestic efforts to collect tax, although it is important that efforts to exploit the potential of new initiatives do not direct resources away from the longer-term challenges of gradually building a fully effective tax administration.

87. The IMF will deepen its work on international tax issues of relevance for developing countries, while working to support the establishment of appropriate fora for discussions of tax issues of common interest, including enhanced regional cooperation. One issue where regional collaboration is needed is to limit the frequency of "zero-sum" tax competition among countries for a near-fixed pool of potential external investment.

88. The IMF will continue its support for developing countries in their efforts to increase the efficiency of public spending. This will help to contain the spending pressures faced by many countries, and create fiscal space for increased spending on social sectors and infrastructure (IMF, 2014g). Specifically, the IMF will support capacity building on efficient design of redistributive spending programs (see IMF, 2014h and IMF, 2014i), reducing energy subsidies, and public investment efficiency and management (see further below).

89. The IMF will continue to expand its technical assistance to developing countries on designing easy-to-administer carbon pricing schemes and wider energy price reforms. Such

[30] The Fund has also recently launched, in collaboration with the Extractive Industries Transparency Initiative (EITI), a natural resource revenue template to improve the collection, transparency, and consistency of government revenue from natural resources.

measures would enable countries both to "internalize adverse externalities" in terms of environmental damage in the pricing of carbon and to generate additional revenues.

Infrastructure Policy Support

90. Many developing countries are, or will be, scaling up investment spending to address severe growth-constraining infrastructure gaps. Where requested, the IMF will expand its work to assist policy-makers in a) evaluating the macroeconomic and financial implications of alternative approaches and b) assessing/improving institutional capacity in managing public investment. The measures, taken together, constitute an infrastructure policy support package that countries can choose to access in whole or in part.

91. This policy support package for infrastructure provision would include some or all of:

- *A Public Investment Management Assessment (PIMA)*, using a new tool being developed that assesses capacities in three stages of public investment—planning, allocation, and implementation. Reform priorities would be identified and capacity building strategies developed in collaboration with other institutions—particularly the World Bank.
- *A Debt-Investment-Growth (DIG) modeling framework*. The DIG model enables policy-makers to assess the growth, debt, and fiscal implications of alternative investment programs and financing for strategies.
- *Debt Sustainability Assessments (DSA)*. Already the workhorse tool for assessing the medium-term implications of specific budgetary policies, the assessments would seek to better allow for the contingent liabilities incurred under Private-Public Partnerships (PPPs).
- *The PPP Fiscal Risk Assessment Model* (P-FRAM) is a new tool designed to quantify the macro-fiscal implications of PPP projects and associated fiscal risks.
- *Technical assistance in developing a Medium-term Debt Management Strategy* (MTDS) and in debt portfolio risk management. An established tool, implemented jointly with the World Bank, this work would be expanded to cover assessment of contingent liability risks associated with guarantees or new investment financing instruments.

92. Use of these tools, and the resulting assessments and capacity building plans, would be summarized in the ensuing Article IV reports, underpinning an integrated discussion on strengthening the infrastructure investment policy environment. An external website would be developed on which country assessments and reform strategies would be presented (with the authorities' consent), as a mechanism for facilitating knowledge-sharing across countries, and with the investor community.

Enhancing policy space and resilience

93. Access to IMF financial resources provides a financial safety net to help countries manage adverse shocks, acting as a potential supplement to foreign reserves when there is a significant balance of payments need. This support is especially important to countries with limited capacity to borrow in domestic or foreign markets. The case for expanding the access of developing countries to Fund resources is discussed in a separate Board paper, "*Financing for Development: Enhancing the Financial Safety Net for Developing Countries* (IMF 2015h)." Staff will issue a supplement to the present document following Board discussion of IMF (2015h), describing any changes in access levels and terms approved by the Board.

Increased Engagement on Equity/Inclusion and Environmental Issues

94. As noted previously, the IMF has expanded its analytic work on macro-relevant elements of inclusion, including on jobs and growth, inequality, access to finance, and the economic impact of gender inequities. Some of this work, notably on job creation, is already being drawn upon in the IMF's operational work. A program is underway to establish how best to bring policy insights from the ongoing work on inequality, gender, and energy/environment issues into Article IV consultations, using a diverse group of 25 countries as pilot cases.

95. Looking ahead, the IMF intends to:

- **Intensify efforts to bring concrete policy messages on equity/inclusion issues to operational work**, drawing on the lessons from the current pilot project and on the experience of other institutions (such as the World Bank).

- **Expand the analytical work underway** on a) inequality (on the role of global drivers, the influence of fiscal policy and of structural reforms), b) gender (the impact of gender inequities on growth, inequality and financial inclusion, gender budgeting, and the drivers of labor force participation), c) jobs (informality, reform of labor market institutions), and d) financial inclusion (assessing the growth and distributional consequences of potential reforms, and tradeoffs with financial stability), again with a view to drawing clear policy messages of relevance for IMF operational work.[31]

96. Looking to the medium-term, it is expected that equity/inclusion issues, where viewed as being macro-relevant, will be a regular component of IMF operational work.

97. The IMF will continue with its work on energy pricing and environmental tax issues, drawing on this body of analysis in its operational work in countries. As noted earlier, the IMF

[31] The IMF's recently launched Financial Access Survey now provides data on financial inclusion encompassing internationally-comparable basic indicators of financial access and usage (http://fas.imf.org).

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

Strengthening Support for Fragile/Conflict-Affected States (FCS)

98. FCS face exceptional development challenges that typically result, for extended periods, in sluggish growth and poor performance in improving key social indicators.[32] These usually involve some combination of a) weak state institutions; b) a difficult security situation; c) an impaired capital stock, including physical infrastructure; d) an enhanced scarcity of human skills, due both to emigration and disruption of the education system; e) deep social cleavages; and f) a highly uncertain outlook, reflecting both political uncertainty and vulnerability to shocks.

99. Producing sustained economic and social advancement in such situations is inevitably a lengthy process, even if some "quick wins", such as job creation through public works programs or military demobilization, can be obtained. The IMF's engagement strategy with the member needs to be framed within a relatively long time horizon, recognizing the high risk of reversals; the strategy needs to be grounded in a strong understanding of the socio-economic situation;[33] and, given the scale of the needs and the relative weakness of state institutions, engagement needs to proceed in close coordination with other major development partners, including the World Bank.[34]

100. The IMF is committed to strengthening the effectiveness of its work with FCS. This will affect both operational work, focused on short-term economic management and associated lending, and capacity-building, focused on strengthening key state institutions (such as the central bank and tax collection agency) over the medium-term. Capacity-building efforts need to be embedded in an agreed medium-term strategy that is closely coordinated with lead development partners, realistically aligned with local absorption capacity, and endorsed and owned the government. And the delivery of support needs to be tailored to country needs, which will often entail the use of resident advisors or regular repeat visits by experts.

101. Full implementation of this approach will require adjustments within the IMF, including in such areas as HR policies, the level of engagement with key development partners, and the closer integration of area departments into capacity-building support.[35]

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[32] For further discussion, see IMF (2011c) and World Bank (2011).

[33] All Fund engagement with member countries needs to be informed by a good understanding of the socio-economic situation, including the views of key actors and interest groups: in an FCS context, this understanding needs to be substantially deeper if Fund engagement is to be fully effective.

[34] The need for close coordination with the country's main development partners should not be seen as undermining the core relationship for Fund staff—that between the Fund and the national authorities.

[35] See IMF (2015i).

102. The preponderance of FCS member countries are PRGT-eligible, and hence will benefit from the proposed changes in access to IMF resources discussed above. That said, access to IMF resources should not be seen as the optimal form of external support, given that these are concessional loans that will need to be repaid over time. Grants are a more appropriate form of financial assistance to countries that typically face a long road to exiting fragility and achieving sustained strong growth.

Strengthening Domestic Financial Markets

103. The IMF will enhance its support for financial market development in developing countries by a significant increase in targeted TA on financial market deepening, along with support for building effective regulatory, supervisory, risk and crisis management frameworks and enhancing sound public debt management that increases financial sector resilience. It will also operationalize current analytical and policy work (see Sahay and others, 2015) on how best to promote financial market deepening without weakening financial stability.

104. The IMF will explore the scope for developing, in collaboration with the World Bank, a diagnostic product that would help to guide targeted capacity building in financial market development in LICs. Development of such a tool would require external financial support.

Other Initiatives

105. The IMF will strengthen its statistical data dissemination and knowledge sharing by better leveraging its technology. Dissemination of data and technical assistance can be improved by greater use of web-based tools and Open Data Platforms (for example, the enhanced general data dissemination standards (eGDDS)), Massive Open Online Courses (MOOCs), and promotion of peer-to-peer learning in cooperation with training partners in the regions as well as the IMF Institute training curriculum.

106. Small developing states are recognized to have specific development challenges and vulnerability to external shocks, including natural disasters.[36] The IMF, in collaboration with other international institutions, will work with small states as a group, or with regional sub-groups, on developing medium-term policies to achieve sustained growth; the challenges, including those of managing elevated debt levels and weak fiscal situations, are often cross-cutting in nature. IMF teams' country analysis will be modified to incorporate the recurring costs of natural disasters, with policy emphasis being placed on developing economic resilience.

Resource Issues

107. Implementation of these initiatives as a full package will likely require additional financial resources. Internal budgetary space is being generated through efficiency improvements,

[36] See IMF (2013b).

exploiting new technologies and using more cost-effective mechanisms to support capacity-building (such as via the RTACs), and through re-prioritization of current activities. But a substantial and sustained expansion of Fund capacity-building support in areas such as domestic revenue mobilization or financial market development will be feasible only with additional support from bilateral donors.

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Annex. Tackling High Levels of Public Indebtedness

1. **Tackling the burden of high levels of public external debt on developing countries was an important theme at the Monterrey Conference in 2002**, in good part reflecting the difficult situation of highly indebted poor countries (HIPCs) at a point in the time when the HIPC Debt Relief Initiative was only beginning to yield results. The Monterrey Consensus on FfD noted that: "Speedy, effective, and full implementation of the enhanced Initiative, which should be fully financed through additional resources, is critical" (para 49).

2. **The HIPC Initiative is now close to completion, the debt relief provided having been substantially augmented via the Multilateral Debt Relief Initiative (MDRI) in 2005.** 36 of the 39 countries eligible for HIPC have completed the process and received comprehensive external debt relief and public debt levels in low income countries have fallen sharply over the past decade (see Annex Figure 1). But there continues to be a significant number of developing countries where the public debt burden remains substantial—middle income countries (often small states) with long-standing debt problems that did not benefit from HIPC/MDRI, countries that have accumulated significant amounts of debt in recent years or suffered severe output shocks.

3. **The challenges faced in undertaking a debt restructuring have evolved significantly:** the holders of debt are now typically a diverse group of official creditors, private lenders, holders of sovereign bond issues, with domestic financial institutions also playing a significant role in many cases.

4. **This annex looks at how public debt crises can be prevented and, when they occur, at the principles that should guide timely resolution.** Recent trends in public debt levels in developing countries are summarized in Annex Box 1.

Prevention

5. **Sustained sound fiscal management, paying due attention to ensuring medium-term debt sustainability, is the first line of defense in preventing a sovereign debt crisis**. This avoids accumulating dangerous levels of debt in the first place. Diagnostic tools for analyzing the links between fiscal policy and debt sustainability have been strengthened substantially over the past decade, and provide a core input into the regular dialogue on macroeconomic policies (the "Article IV Consultation") between the IMF and member countries and into the design of IMF-supported programs.

6. **The IMF has developed a debt sustainability analysis framework for countries with significant access to international capital markets (market access countries, hence MAC DSA).** The MAC DSA was substantially revamped in 2013, drawing on lessons learned from countries' experiences during the global financial crisis.[1] The new framework provides for a risk-based

[1] See Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries (IMF 2013c).

approach to DSAs (more in-depth analysis where a priori risks to debt sustainability appear greater), a systematic approach to assessing the realism of baseline assumptions, high risk benchmarks for the level of debt burden indicators, and a heat map to summarize and communicate the key risks to debt sustainability in an objective manner. It also focuses on assessing risks to the banking sector, a potentially important contingent liability for the sovereign.

7. The IMF and World Bank have jointly developed a DSA framework for use in low income countries (the LIC DSF), which typically rely on official external concessional financing rather than external private sector funding. This framework was upgraded following a 2012 review that concluded that the approach had worked well in identifying vulnerabilities facing LICs, but needed to increase the attention paid to total public debt, rather than focusing narrowly on external public debt,[2] given the risks associated with rising domestic debt levels in some countries.

8. The use of DSAs as a "reality check" in setting fiscal policy and public sector borrowing plans provides clear signals when fiscal policies pose a threat to medium-term debt sustainability. Part of this reality check requires paying appropriate attention to the adverse shock scenarios embedded in the DSAs, which identify how the debt situation would evolve if the baseline scenario turns out to be overly optimistic. Policy-makers may decide that the medium-term pay-off to their fiscal plans warrants taking some additional risk on the public debt side: DSAs ensure that such decisions are taken with an understanding of the risks to debt sustainability—and, hopefully, encourage policy makers to implement risk mitigation measures (such as managing the maturity profile of debt).

9. The IMF and World Bank have jointly ramped up technical assistance to better support low income countries to manage debt. A joint donor-funded trust fund—the Debt Management Facility (DMF II)—was established in 2014 to finance support for capacity-building with respect to medium term debt management strategies, identifying debt vulnerabilities in a timely manner, and accessing international capital markets in due course.

Crisis Resolution

10. Notwithstanding recent progress in prevention, debt crises still occur and need to be resolved in an efficient manner. Resolving debt crises efficiently requires timely and appropriate resolution that balances the interests of debtors and creditors:

- Delays in resolving a debt crisis are costly to both the debtor and its creditors. For a country cut off from other sources of financing, a drawn-out resolution process creates prolonged hardship for its citizens, with governments forced to ration scarce funds between core public spending and meeting credit obligations. For creditors, delays weaken the national economy, further eroding the recovery they can expect on their claims.

[2] The design and performance of the LIC DSF will be reviewed again in 2016.

- A resolution that places too much of the burden on the debtor (not providing sufficient debt relief) maintains a debt overhang and a drag on growth. Conversely, a framework that places too much of the burden of resolution on the creditors (very large haircuts on their claims) would discourage lending and push up borrowing costs.

11. Efficient resolution of debt crises is a shared responsibility of the international community, with a key role for the IMF, other official creditors, and the private sector:

- First, as a lender of last resort, the IMF has a critical role to play in the crisis resolution process. The IMF's lending policies on whether and how much to lend to a crisis country are a key consideration in a country's decision on whether to seek a restructuring of its debt. If the debt situation is such that viability cannot be restored without a debt restructuring, the IMF's DSA helps identify the amount of debt reduction/financing needed from official and private creditors to restore debt sustainability. In designing its lending policies, the IMF is well positioned to balance the interests of debtor and creditor governments—as both groups are represented on the IMF's Executive Board—and pay due regard to the stability of the international financial system.

- Second, bilateral official creditors have to coordinate on the terms of a debt restructuring to reach agreement in a timely manner. Historically, such coordination was provided in the context of the Paris Club, whose members accounted for most of the official bilateral lending to developing countries. With the emergence of important new official creditors, the share of Paris Club creditors in official bilateral flows has fallen considerably; achieving effective coordination among official creditors could be more challenging in future restructurings.

- Finally, private sector creditors also have an important role to play in resolving debt crises. When a debtor can no longer fully service its debt and a restructuring is required, private creditors need to find mechanisms to reach a common agreement, even though individually they have an incentive to hold out. The introduction of collective action clauses in international sovereign bond contracts since 2003 has constituted an important step to facilitate cooperative outcomes in sovereign debt crises. However, there is scope to further strengthen these clauses.

12. Within its mandate to pursue market-based and contractual approaches to resolving sovereign debt crises, the IMF is promoting reforms in a number of areas. In May 2013, the Executive Board endorsed a work program on sovereign debt that encompassed three areas:[3]

- *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.

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[3] See *Sovereign Debt Restructurings–Recent Developments and Implications for the Fund's Legal and Policy Framework*, IMF 2013d).

- *Framework for engaging with official and private creditors*. IMF staff will shortly commence work aimed at articulating a clearer framework for engaging with the official sector on debt restructuring, especially with regard to non-Paris Club creditors. 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 Executive Board endorsed key features of enhanced collective action and pari passu clauses for international sovereign bond contracts that would limit the influence of holdout creditors in circumstances where a debt restructuring is needed. Several countries have now included clauses consistent with these recommendations in new debt issuances.

Annex Box 1. Trends in Public Debt Levels in Developing Countries

Public debt burdens have eased across developing countries over the past decade, although the experience has differed significantly across income group (Annex Figure 1):[1]

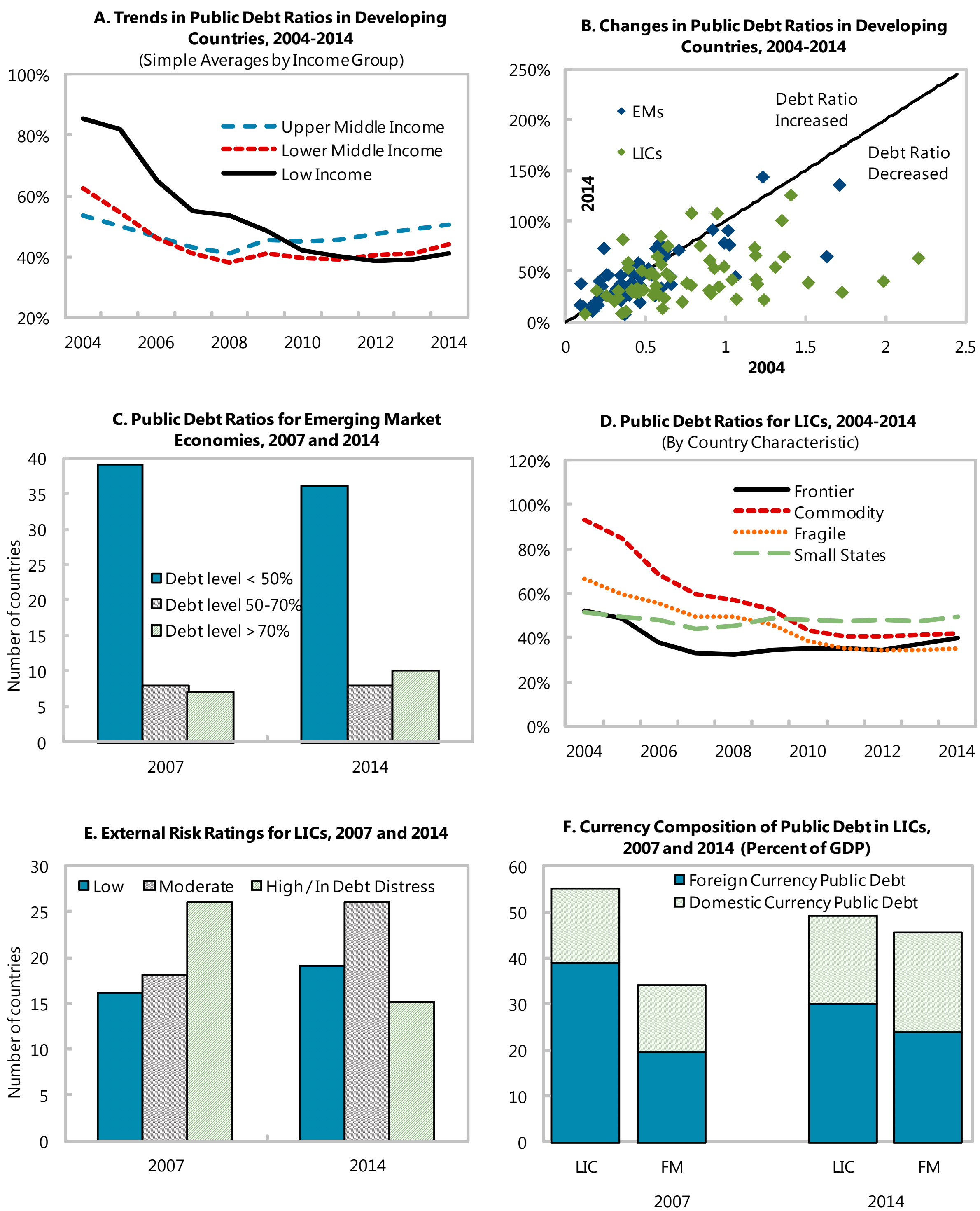
- Among 119 developing countries, 98 recorded improved or broadly stable debt-to-GDP ratios between 2004 and 2014; 21 countries recorded an increase (panel B).
- Among middle income countries, debt–to-GDP ratios typically declined in the run up to the global economic crisis, but increased somewhat in the wake of the crisis, as countries provided fiscal stimulus to support domestic demand.
- For low income countries, debt ratios dropped significantly over the period, with the large declines typically due to provision of external debt relief under HIPC/MDRI.

Looking more closely at the experience of lower income (PRGT-eligible) countries:[2]

- While debt levels have typically fallen markedly over the past decade (panel D), the effects are less-marked for frontier economies, which have been building up debt in recent years. Small states have seen no clear trend in debt burdens over the period, in part reflecting the fact that relatively few were eligible for debt relief under HIPC/MDRI.
- The number of countries classified as being at high risk of/in debt distress has halved over the past seven years, but still account for one-fifth of the total (panel E).[3] The majority of the high risk cases are either small or fragile/conflict-affected states. Debt denominated in domestic currency debt now accounts for close to half of public debt in low income countries, a share that has increased significantly in recent years (panel F). In several frontier market economies, financial deepening has proceeded to the point where non-resident investors are becoming a significant presence in the market for domestic-currency public debt.

1/ Public debt burdens are measured by the size of the debt of the general government as a share of GDP, based on data from the IMF's World Economic Outlook database.
2/We use the term "lower income countries" to refer to the 74 countries eligible for concessional financial support from the IMF's Poverty Reduction and Growth Trust (PRGT). The country sub-groupings are taken from IMF, Macroeconomic Developments in Low-Income Developing Countries, 2014: see appendices I and II.
3/ The risk ratings are based on the joint World Bank/IMF Low-Income Countries' Debt Sustainability Framework.

Annex Figure 1. Public Debt Ratios and Risk Ratings in Developing Countries, 2004-2014[1]



Sources: World Economic Outlook; International Finance Statistics; and IMF staff estimates.
[1]Public debt ratios refer to Public Debt-to-GDP ratios in all figures.

Appendix. Developing Countries and Country Groups[1,2,3,4]

Emerging and Developing Europe (10 countries)	
Albania	FYR Macedonia
Bosnia and Herzegovina*	Montenegro
Bulgaria	Romania
Hungary	Serbia
Kosovo*	Turkey

Emerging and Developing Asia (26 countries)	
Bangladesh	**Nepal**
Bhutan	Palau
Cambodia	**Papua New Guinea**
Fiji	Philippines
Indonesia	Samoa
Kiribati*	**Solomon Islands***
Lao People's Democratic Republic	Sri Lanka
Malaysia	Thailand
Maldives	Timor-Leste*
Marshall Islands*	Tonga
Micronesia*	Tuvalu*
Mongolia	Vanuatu
Myanmar*	**Vietnam**

Sub-Sahara Africa (44 countries)	
Angola*	**Liberia*,****
Benin**	**Madagascar*,****
Botswana	**Malawi*,****
Burkina Faso**	**Mali*,****
Burundi*,**	Mauritius
Cameroon**	**Mozambique****
Cabo Verde	Namibia
Central African Republic*,**	**Niger****
Chad*,**	**Nigeria**
Comoros*,**	**Rwanda****
Congo, Democratic Rep.*,**	**São Tomé and Príncipe*,****
Congo, Republic *,**	**Senegal****
Côte d'Ivoire*,**	Seychelles
Eritrea*,**	**Sierra Leone*,****
Ethiopia**	South Africa
Gabon	**South Sudan***
Gambia**	Swaziland
Ghana**	**Tanzania****
Guinea*,**	**Togo*,****
Guinea-Bissau*,**	**Uganda****
Kenya	**Zambia****
Lesotho	**Zimbabwe***

Middle East (16 Countries)	**Commonwealth of Independent States (11 countries)**
Afghanistan*,**	Armenia
Algeria	Azerbaijan
Djibouti*	Belarus
Egypt	Georgia[4]
Iran	Kazakhstan
Iraq*	**Kyrgyz Republic**
Jordan	**Moldova**
Lebanon	**Tajikistan**
Libya*	Turkmenistan
Mauritania**	Ukraine
Morocco	**Uzbekistan**
Pakistan	
Sudan*,**	
Syrian Arab Republic*	
Tunisia	
Yemen*	

Latin America and the Caribbean (25 countries)	
Argentina	Mexico
Belize	Nicaragua**
Bolivia**	Panama
Brazil	Paraguay
Colombia	Peru
Costa Rica	St. Lucia
Dominica	St. Vincent and the Grenadines
Dominican Republic	Suriname
Ecuador	Venezuela
El Salvador	
Grenada	
Guatemala	
Guyana**	
Haiti*,**	
Honduras**	
Jamaica	

[1]Developing countries here refers to all countries that are not "higher income countries" in the World Bank classification system, a usage adopted here because it is aligned with the meaning of the term in the external debate. Given their systemic size, China and India are excluded from the sample of developing countries.

[2]59 countries in bold typeface are low-income developing countries (LIDC) and 73 countries in regular typeface are other developing countries (Other). The LIDC are countries eligible for IMF's concessional financial assistance with a per capita Gross National Income (measured according to the World Bank's *Atlas* method) in 2011 of below twice the IDA's effective operational cut-off level, and Zimbabwe. 'Other Developing' are the non-LIDC emerging market and developing countries. 37 countries, with an asterisk,'*', included in the list of countries in a post-conflict and fragile situation, are referred to as 'Fragile States', as of May 2015 (IMF Board Paper). Somalia (LIDC & fragile state) is excluded due to insufficient macro data.

[3]38 countries, with two asterisk,'**', signs are in the list of countries that have qualified for, are eligible or potentially eligible and may wish to receive HIPC Initiative Assistance (as of April 2015).

[4]Georgia, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

July 2, 2015

FINANCING FOR DEVELOPMENT: REVISITING THE MONTERREY CONSENSUS—ENHANCING THE FINANCIAL SAFETY NET FOR DEVELOPING COUNTRIES—SUPPLEMENTARY INFORMATION

This supplement provides information on the decisions that were adopted by the Executive Board on July 1, 2015 to enhance access to Fund resources for developing countries. The information contained in this supplement provides an update to the brief discussion on "enhancing policy space and resilience" in paragraph 93 of the main paper.

The IMF legal framework permits members that meet certain income thresholds to be eligible to receive financial assistance on concessional terms from the PRGT (PRGT-eligible countries).[1] Members who do not meet these income thresholds can only be financed on non-concessional terms through the Fund's General Resource Account (GRA).[2]

Among PRGT-eligible countries, there are: a) those that are eligible to receive all financial support from the IMF in the form of loans from the PRGT and b) those that are presumed to receive support in the form of a blend of PRGT and GRA resources ("blenders"). Countries in the first group are either relatively poor or are at high risk of debt distress, and thus particularly vulnerable to shocks.[3]

The decisions taken on July 1 include:[4]

a) *Raise access norms and annual and cumulative normal access limits by 50 percent across the concessional facilities for all PRGT-eligible countries*.[5]

[1] There are currently 73 IMF member countries that are PRGT-eligible.

[2] For those countries that receive financial support on non-concessional terms, the interest rates levied on borrowings from the GRA are typically much lower than the interest rates paid by developing countries on commercial borrowings: the current rate of charge on borrowings from the GRA at normal levels of access is 1.05 percent.

[3] For detail on the rules determining those PRGT-eligible countries that received blended support, see Review of Facilities for Low-Income Countries—Proposals for Implementation and Proposed Decisions.

[4] For a full elaboration of the decisions adopted on July 1 see *Financing for Development: Enhancing the Financial Safety Net for Developing Countries* and *Proposed Decisions*.

[5] Except for the cumulative access limit for the exogenous shocks window of the Rapid Credit Facility which is raised by less than 50 percent.

b) *For PRGT-eligible countries that are "blenders", changing the blending proportions from 1:1 (PRGT/GRA) to 1:2 (PRGT/GRA).*

These measures increase access to Fund resources for all PRGT-eligible countries by 50 percent. This includes an increase in the maximum level of PRGT credit outstanding from 300 percent of quota to 450 percent of quota.

For PRGT-eligible countries that are presumed "blenders", the expanded access for new programs takes the form of additional financing from the GRA: the 50 percent increase in access levels in the PRGT is combined with a shift from one-half to two-thirds in the share of resources provided from the GRA. A Fund-supported program that provides access at the norm would now involve an unchanged amount of resources provided from the PRGT plus a doubling of the amount provided from the GRA. That said, access to PRGT funding over time is expanded because the expansion of the cumulative limit on PRGT access affects both blenders and non-blenders alike.

The reform has the overall effect of shifting the use of (scarce) PRGT resources from the better off/less vulnerable countries to the poorer/more vulnerable countries within the group of PRGT-eligible countries, ensuring better targeting of these resources to most needy.

Decisions taken on July 1, 2015, also: a) increase access to fast-disbursing support, thus benefitting all countries in fragile situations or hit by conflict or natural disasters; and b) increase the concessionality of such support provided to PRGT-eligible countries. Specifically, the decisions are to:

a) Increase access to fast-disbursing support by 50 percent under the RFI (to all member countries) allowing enhanced assistance for countries in fragile situations, hit by conflict, or natural disasters as is done for the RCF (to PRGT-eligible countries);

b) Increase the level of concessionality of such support to PRGT-eligible countries by setting the interest rate on RCF loans at zero percent on a permanent basis.