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THE IMF AND FRAGILE STATES

EVALUATION REPORT **2018**

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BACKGROUND PAPERS

The following Background Papers are available on the IEO website at www.ieo-imf.org.

- BP/18-01/01. The IMF and Fragile States: Eight African Country Cases
- BP/18-01/02. The IMF and Fragile States: Eight Selected Country Cases
- BP/18-01/03. The IMF and Fragile States: Human Resources Issues
- BP/18-01/04. The IMF and Fragile States: Capacity Development Issues
- BP/18-01/05. The IMF and Fragile States: Assessing
Macroeconomic Outcomes
- BP/18-01/06. The IMF and Fragile States: IEO Survey of IMF Staff

The following conventions are used in this publication:

- ▶ An en dash (–) between years or months (for example, 2016–17 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2016/17) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY 2017).
- ▶ “Billion” means a thousand million; “trillion” means a thousand billion.

Some of the documents cited and referenced in this report were not available to the public at the time of publication of this report. Under the current policy on public access to the IMF’s archives, some of these documents will become available three or five years after their issuance. They may be referenced as EBS/YY/NN and SM/YY/NN, where EBS and SM indicate the series and YY indicates the year of issue. Certain other types of documents may become available 20 years after their issuance. For further information, see www.imf.org/external/np/arc/eng/archive.htm.

As used in this evaluation report, the terms “country” and “state” do not in all cases refer to a territorial entity that is a state as understood by international law and practice.



FOREWORD

Helping countries in fragile and conflict-affected situations (FCS) is one of the great challenges facing the international community today. Not only do these countries have enormous needs, but persistent domestic instability has dangerous implications for regional and global stability. With its crisis response and prevention mandate, the IMF has a key role to play in supporting macroeconomic stabilization and building core institutions in these countries, and has been very active over the past two decades through policy advice, financing, and support for capacity development. Notwithstanding these efforts, however, growth in these countries has lagged and progress has often been vulnerable to political and security setbacks, as these countries continue to face deep-seated problems of limited capacity, weak governance and political stresses. The continuing strains in many FCS raise the question of whether the Fund, as well as its international partners, can and should do more to help these countries.

This evaluation finds that the IMF has provided essential services to FCS, playing an important role in which no other institution can take its place, particularly in the period after a country first emerges from conflict. Even though it has provided relatively little direct financing, it has catalyzed donor funding through its support for the sustainable policies and the core institutions needed for macroeconomic stability.

Despite this overall positive assessment, the evaluation concludes that the IMF's overall approach to its FCS work seems conflicted and its impact has fallen short of what could be achieved. Past efforts have often not been sufficiently bold or adequately sustained, and the staff has tended to revert to treating fragile states using IMF-wide norms, rather than as countries needing special attention.

Based on these findings, the report proposes six recommendations focused on building a more robust institutional commitment to FCS work than in the past. These recommendations all received full or qualified support from the Executive Board when it met to discuss the report in March 2018. In supporting the recommendations, the Managing Director and the Executive Board reaffirmed their commitment to the IMF's fragile state members.

I am encouraged by the positive response of the Managing Director and the Executive Board to this report, which indicates their commitment to learn from experience and to align the priorities of the institution to urgent and evolving global circumstances.

Charles Collins

Director, Independent Evaluation Office



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The report was approved by **Charles Collyns**, Director of the IEO.

ABBREVIATIONS

ADB	Asian Development Bank
AE	advanced economy
AfDB	African Development Bank
AfDF	African Development Fund
AFR	African Department (IMF)
AFRITAC	Africa Regional Technical Assistance Center (IMF)
APD	Asia and Pacific Department (IMF)
APR	annual performance review (IMF)
AU	African Union
CBF	Capacity Building Framework (IMF)
CCB	Committee for Capacity Building (IMF)
CCR	Catastrophe Containment and Relief Trust (IMF)
CD	capacity development
CLIC	Canadian Leaders in International Consulting
CPIA	Country Policy and Institutional Assessment (World Bank, ADB, AfDB)
DAC	Development Assistance Committee (OECD)
DRC	Democratic Republic of the Congo
ECF	Extended Credit Facility (IMF)
EFF	Extended Fund Facility (IMF)
EMDCs	emerging market and developing countries
EME	emerging market economy
ENDA	Emergency Natural Disaster Assistance (IMF)
EPCA	Emergency Post-Conflict Assistance (IMF)
ESF	Exogenous Shocks Facility (IMF)
ESF-HAC	Exogenous Shocks Facility-High Access Component (IMF)
ESF-RAC	Exogenous Shocks Facility-Rapid Access Component (IMF)
FAD	Fiscal Affairs Department (IMF)
FCS	countries in fragile and conflict-affected situations
FTE	full-time equivalent (or person-year)
G20	Group of Twenty
GDP	gross domestic product
GRA	General Resources Account (IMF)
HAC	high-access component
HIPC	heavily indebted poor country
HQ	headquarters
HR	human resources
HRD	Human Resources Department (IMF)
HRL	high-risk location
ICD	Institute for Capacity Development (IMF)
IDA	International Development Association (World Bank)
IEG	Independent Evaluation Group (World Bank)
IEO	Independent Evaluation Office (IMF)
IFI	international financial institution
IMF	International Monetary Fund

ABBREVIATIONS *continued*

IMFC	International Monetary and Financial Committee
INCF	International Network on Conflict and Fragility
LEG	Legal Department (IMF)
LIC	low-income country
LICUS	low-income countries under stress (World Bank)
LSE	London School of Economics and Political Science
MCD	Middle East and Central Asia Department (IMF)
MCM	Monetary and Capital Markets Department (IMF)
MDB	multilateral development bank
METAC	Middle East Regional Technical Assistance Center (IMF)
MIC	middle-income country
MONA	Monitoring of Fund Arrangements database (IMF)
NATO	North Atlantic Treaty Organization
NOB	number of observations
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEV	Operations Evaluation Department (AfDB)
PFM	public financial management
PFTAC	Pacific Financial Technical Assistance Center (IMF)
PPP	purchasing power parity
PRGF	Poverty Reduction and Growth Facility (IMF)
PRGT	Poverty Reduction and Growth Trust (IMF)
PSI	Policy Support Instrument (IMF)
RBM	results-based management (IMF)
RCF	Rapid Credit Facility (IMF)
RDB	regional development bank
RFI	Rapid Financing Instrument (IMF)
RMU	Risk Management Unit (IMF)
RSN	regional strategy note (IMF)
RTAC	Regional Technical Assistance Center (IMF)
SBA	Stand-By Arrangement (IMF)
SCF	Standby Credit Facility (IMF)
SDGs	Sustainable Development Goals (UN)
SDR	Special Drawing Right (IMF)
SGN	Staff Guidance Note (IMF)
SMP	staff-monitored program (IMF)
SPC	Structural Performance Criterion (IMF)
SPR	Strategy, Policy, and Review Department (IMF)
STA	Statistics Department (IMF)
TA	technical assistance
TTF	topical trust fund (IMF)
UCT	upper credit tranche (IMF)
UFR	use of Fund resources (IMF)
UN	United Nations

EXECUTIVE SUMMARY

This evaluation assesses the IMF's engagement with countries in fragile and conflict-affected situations (FCS). Helping these countries has been deemed an international priority because of their own great needs and the dangerous implications of persistent fragility for regional and global stability. With its crisis response and prevention mandate, the IMF has a key role to play in these international efforts. In practice, its contribution has been subject to considerable debate, and critics have called on the Fund to increase its engagement.

KEY FINDINGS

The evaluation recognizes the important contributions that the IMF has made in fragile states, including helping to restore macroeconomic stability, build core macroeconomic policy institutions, and catalyze donor support. In these areas, the IMF has provided unique and essential services, playing a critical role in which no other institution can take its place. Though the progress made by many FCS to escape fragility has been disappointingly slow and subject to reversal, it must be recognized that work on fragile states is inherently challenging, given their generally limited capacity, weak governance, and often unstable political and security environment. Moreover, the outcome of any IMF intervention is critically influenced by political, military, and security decisions including by international actors outside the Fund's control. Against these challenges, the IMF on balance has performed its various roles quite effectively, particularly in years soon after countries first emerged from periods of violence and isolation.

Despite this overall positive assessment, the IMF's approach to fragile member states seems conflicted and its impact falls short of what could be achieved. Even though the IMF has declared in several pronouncements that work on FCS would receive priority, it has not consistently made the hard choices necessary to achieve full impact from its engagement. FCS typically require long-term, patient modes of engagement that do not fit well with the



IMF's standard business model. Efforts have been made in the past to adapt IMF policies and practices to FCS needs, but initiatives have not been sufficiently bold or adequately sustained, leaving questions about the credibility of the Fund's commitment in this area.

In particular, the evaluation identified concerns about the following:

The adequacy of existing financing instruments. The IMF's financial toolkit, with its relatively short-term focus, is not inherently well suited to the circumstances of fragile states. FCS find high-quality policies required by Fund-supported programs hard to achieve and sustain, and even interest-free concessional IMF resources must be repaid within ten years. The IMF has been nimble in meeting some particular immediate financial needs, especially where donor support has been strong, but typically financing has had to rely on the standard set of instruments. And though the staff has some flexibility in using these instruments, the application of conditionality seems to have differed little for FCS from that applied to other countries, and the completion rate of IMF-supported programs has been much lower. There also seems to have been a gap between the instruments deployed for rapid support—with limited conditions—and those for more sustained support—with much higher policy standards.

Capacity development in fragile states. For most FCS, capacity development is the area where the IMF can make its largest contribution, especially after initial macroeconomic stabilization is accomplished. IMF technical assistance (TA) faces large obstacles to its effectiveness in fragile states, but its delivery has improved considerably, including through greater on-the-ground follow-up and steps towards integration with surveillance and program work. IMF TA to fragile states has seen a substantial increase but appears in more recent years to have plateaued despite large unmet needs, reflecting concerns about its limited lasting impact in countries with low absorptive capacity and competition from other IMF priorities. Also of concern is whether TA delivery has been followed by the sustained in-country follow-up that is needed to build effective institutions in very challenging circumstances.

The country-specificity of IMF advice and conditionality in fragile states. The 2012 Staff Guidance Note on the IMF's

engagement with FCS provides sensible guidance on the need for flexibility and realism when engaging in fragile states, but in practice the Fund's interdepartmental review process seems to have pushed for too much uniformity across countries, fragile or otherwise, and policy notes and staff reports have often treated fragile states almost like any other country rather than as requiring distinctive treatment.

Collaboration with development partners in fragile states. The need to collaborate with development partners is widely recognized within the IMF and a formal or informal mechanism of information exchange exists in all countries where IMF resident representatives are assigned. Beyond information sharing, however, the experience with collaboration has been mixed, given the differing institutional mandates, priorities, and budget cycles of partners.

Management of human resources (HR). While IMF mission chiefs and resident representatives are generally appreciated as dedicated, resourceful, and effective, the IMF teams working on FCS have often been relatively inexperienced and subject to high turnover. The IMF has had difficulties in attracting experienced staff to FCS assignments, in part because of a widespread perception of a stigma attached to such work—a perception substantiated by slower promotion rates. Despite its labor-intensive nature, work on fragile states has not received additional staff resources, further diminishing its attractiveness as a country assignment. A fundamental change in staff incentives is needed to encourage work on FCS. The IMF's new HR strategy, currently under development, provides an opportunity to introduce deeper changes in institution-wide HR policy and practice to achieve this goal.

Handling of security issues in high-risk locations. The IMF's security policy, with higher thresholds of safety than applied by many development partners and effective travel bans for a number of countries, have raised frustration among the officials of affected countries and tension with partners who continue to operate in countries where the IMF is now physically absent. While the nature of IMF work makes on-the-ground presence somewhat less essential, the Fund's impact is significantly impaired by travel restrictions. The IMF should recognize the limitation on effective engagement stemming from a lack of field presence and look for pragmatic ways to achieve valuable presence on the ground while taking necessary steps—even if highly costly—to minimize the risk exposure of its staff.

RECOMMENDATIONS

The evaluation concludes that for the IMF to increase its impact on FCS, it will need to be prepared to make meaningful adjustments to its approaches for how it engages with these countries on a bolder and more sustained basis than it has in the past. Six broad recommendations are offered. Some but not all of these recommendations would require an increased allocation of the IMF's financial and human resources.

- ▶ **Recommendation 1: *Message of high-level commitment.*** Management and the Executive Board should reinforce that work on fragile states is a top priority for the IMF by issuing a statement of its importance, for IMFC endorsement, to guide the Fund's fragile state work going forward.
- ▶ **Recommendation 2: *Creation of an institutional mechanism.*** Management should give the IMF's work on fragile states greater continuity and prominence by establishing an effective institutional mechanism with the mandate and authority to coordinate and champion such work.
- ▶ **Recommendation 3: *Comprehensive country strategies.*** For work on individual fragile states, the IMF should build on ongoing area department initiatives to develop forward-looking, holistic country strategies that integrate the roles of policy advice, financial support, and capacity building as part of the Article IV surveillance process. These strategies would provide a platform for more actively involving concerned Executive Directors and a more robust framework for collaborating with development partners.
- ▶ **Recommendation 4: *Financial support.*** The IMF should adapt its lending toolkit in ways that could deliver more sustained financial support to fragile states, including for those challenged to meet the requirements of upper-credit-tranche conditionality, and should proactively engage with stakeholders to mobilize broad creditor support for FCS with outstanding external arrears to official creditors, including the IMF.
- ▶ **Recommendation 5: *Capacity development.*** The IMF should take practical steps to increase the impact of its capacity development support to fragile states, including increasing the use of on-the-ground experts, employing realistic impact assessment tools, and making efforts to ensure that adequate financial resources are available for capacity development work in these countries.
- ▶ **Recommendation 6: *HR issues.*** The IMF should take steps to incentivize high-quality and experienced staff to work on individual fragile states, ensure that adequate resources are allocated to support their work, and find pragmatic ways of increasing field presence in high-risk locations while taking necessary security arrangements even at high cost.



INTRODUCTION

This evaluation assesses the IMF's engagement with countries in fragile and conflict-affected situations (hereafter referred to as fragile states or FCS). The role of the IMF in fragile states has been the subject of considerable debate. It is generally recognized that, with its crisis response and prevention mandate, the IMF has a key role to play in international efforts to help these countries, but critics say that it does not sufficiently appreciate the deep-rooted nature of the difficulties such states face or provide financial and technical resources commensurate with their challenges. While many of the issues that demand attention in these countries are outside the IMF's core competence, and the Fund often has to operate in an environment where key decisions including by the international community are made at the political level, there have been recurrent calls for the IMF to increase and enhance its engagement. The evaluation explores these and other relevant issues by reviewing the IMF's overall approaches and how the institution has engaged with a sample of current and former fragile states.¹

State fragility is one of the most urgent global issues of the day and will likely remain so for some time. According to the World Bank, two billion people live in countries affected by fragility, conflict, or violence, and, if the Bank's assumptions hold, the share of the extreme poor living in such countries is expected to rise from 17 percent of the global total currently to almost 50 percent by 2030.² Concerns have been heightened as the rising global incidence of conflict has led to surges of refugees into neighboring countries and as enduring zones of fragility in various parts of the world have become seedbeds of global terrorism. While the need for global support is thus great, weak capacity in most of these countries, compounded by the political instability and security concerns that often accompany fragility, means that the task is daunting.

To be sure, there is no universal definition of state fragility, and there is no fixed list of fragile states. For practical purposes, this evaluation follows the internal approach adopted by the IMF's Strategy, Policy, and Review Department (SPR) to identify FCS, which labels around 20 percent of the IMF's member countries, and about 45 percent of its low-income members, as fragile. But the issues addressed are by no means specific to a particular group of countries. Some countries not on the list may share elements of fragility, and countries on the list in any given year may exit out of fragility while others not on the list may slip into fragility. Irrespective of how the list is compiled, aspects of fragility in a substantial subset of its member countries have posed special challenges to the IMF.

More than a decade has elapsed since the international community launched concerted efforts to improve its engagement with FCS. In April 2007, the ministers and heads of agencies participating in the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) endorsed the "Principles for Good

¹ The evaluation follows similar recent efforts by the evaluation units of other multilateral institutions to assess the effectiveness of their engagement with fragile states (e.g., OPEV, 2012; IEG, 2013, 2016).

² <http://www.worldbank.org/en/topic/fragilityconflictviolence/overview>.

International Engagement in Fragile States and Situations.”³ In November 2011, members of the International Dialogue on Peacebuilding and Statebuilding,⁴ recognizing that “the current ways of working in fragile states need serious improvement,” developed a “New Deal for Engagement in Fragile States.”⁵ In September 2015, the United Nations General Assembly adopted a resolution on the post-2015 development agenda highlighting the special needs of conflict, post-conflict, and the most vulnerable countries and pledging the international community’s support in helping them achieve the Sustainable Development Goals (SDGs).⁶

The IMF itself has repeatedly recognized the special challenges faced by its fragile state members. In October 2007, the Managing Director joined the heads of multilateral development banks in recognizing fragility as “one of the highest priorities of the development community” and agreeing to “deepen [their] efforts” to make their engagement with fragile states more effective, including by adopting “a shared approach to identifying fragility” and, to the extent possible, programming “resources through joint assistance strategies.”⁷ Since 2008, the IMF staff has conducted three reviews of its work on fragile states, with the 2011 review leading to the issuance in the following year of a Staff Guidance Note (SGN) on the IMF’s engagement with fragile states. In 2015, discussing its support for achieving the SDGs, the IMF called it “imperative” that fragile states be “not left behind in the development process” (IMF, 2015f) and declared its commitment to devote “more attention and resources” to FCS work and to enhance the effectiveness of its capacity building work in developing countries (IMF, 2015b).

This evaluation can therefore be considered an assessment of how well the IMF’s work on fragile states has lived up to the Fund’s own commitments. It addresses two aspects of the IMF’s

work: (i) IMF engagement with FCS through three principal activities: surveillance, lending, and capacity development, and (ii) the frameworks and procedures for engagement, both internal to the institution and vis-à-vis cooperation with external stakeholders. The evaluation attempts to establish what has worked well and what has not worked as well, and offers recommendations for addressing identified weaknesses through improving the IMF’s policy and operational work. It recognizes that outcomes of any IMF intervention in fragile states depend on a range of political, military, and security decisions including by international actors that lie well outside its control.

The rest of this report is organized as follows. Chapter 2 poses the evaluation questions and explains the approach followed to answer them. Chapter 3, after discussing the key features of FCS, presents an overview of the IMF’s FCS work, focusing on its engagement through lending and technical assistance. Chapter 4 assesses the effectiveness of the IMF’s various forms of engagement with FCS by considering whether the IMF’s array of lending and non-lending instruments has been adequate to respond to their needs; how effective IMF capacity development work has been in these countries; and whether the IMF’s involvement has been sufficiently tailored to country-specific circumstances. Chapter 5 deals with the frameworks and procedures of IMF involvement with FCS by assessing how well the IMF has collaborated with development partners, how it has managed its human resources for its FCS work, and how it has handled security issues in high-risk locations. Chapter 6 summarizes the major findings from the evaluation and offers recommendations. Detailed information is provided in background papers presenting 16 case studies, an analysis of human-resource and capacity-development issues in the IMF’s FCS work, a statistical analysis of FCS macroeconomic outcomes, and the results of a staff survey.

³ <https://www.oecd.org/dac/conflict-fragility-resilience/docs/38368714.pdf>. The OECD principles highlighted, among other things, the need for “sound political analysis” to “adapt international responses to country and regional context” as well as to “agree on practical coordination mechanisms between international actors.”

⁴ The International Dialogue on Peacebuilding and Statebuilding was officially created in 2008 to develop a set of peacebuilding and state-building objectives and an action plan for effective engagement in fragile states. It involves a group of fragile states (the so-called g7+ group), a group of donor countries and multilateral institutions (the International Network on Conflict and Fragility), and a group of civil society organizations (the Civil Society Platform for Peacebuilding and Statebuilding).

⁵ <https://www.pbsbdialogue.org/en/new-deal/new-deal-principles/>. While the IMF is a member of the International Network on Conflict and Fragility, a constituent group within the International Dialogue, it has not formally subscribed to the New Deal Principles.

⁶ http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E. The SDGs were adopted in September 2015 under the auspices of the United Nations to serve as guiding posts for development until 2030.

⁷ <http://www.iadb.org/en/news/news-releases/2007-10-20/development-banks-commit-to-closer-collaboration-working-in-fragile-situations,4092.html>. The subsequent years saw several multilateral development banks adopt institutional strategies or facilities specially designed for fragile states (e.g., AfDF, 2008; ADB, 2007, 2012; IDA, 2007).

2

EVALUATION QUESTIONS AND METHODOLOGY

To assess the IMF's work on FCS, the evaluation poses the following questions:

The effectiveness of IMF engagement

- ▶ How much impact has the IMF had in FCS?
- ▶ Have the IMF's existing lending and non-lending instruments been adequate to meet the needs of FCS?
- ▶ How effective has IMF capacity development work been in FCS?
- ▶ Has the IMF's engagement been sufficiently tailored to the country-specific circumstances of FCS?

The frameworks and procedures of IMF engagement

- ▶ How well has the IMF collaborated with development partners in FCS?
- ▶ How effectively has the IMF managed its human resources for its work on FCS?
- ▶ How has the IMF handled security issues in high-risk locations?

To answer these questions, the evaluation team gathered evidence from the following sources:

- ▶ Desk reviews of public and internal IMF documents, including Executive Board papers on Fund policies, working group reports, interdepartmental memoranda, and memoranda to IMF management;
- ▶ Statistical analysis of FCS macroeconomic performance;
- ▶ Interviews with current and former IMF staff, including department directors and other senior staff as well as mission chiefs and resident representatives assigned to FCS;
- ▶ A survey of current IMF staff;
- ▶ Interviews with IMF Executive Directors and members of their staff;
- ▶ Interviews with current and former senior government and central bank officials of current and former FCS;
- ▶ Consultations with representatives of development partners, including donor governments and multilateral institutions, academic experts, and civil society representatives.

The evaluation assesses the IMF's overall approaches to its FCS work and the effectiveness of its engagement with individual fragile states. In identifying the universe of current and former fragile states, it relies on the lists of fragile states used by the IMF staff's internal reviews of its

BOX 1. FOCUS COUNTRIES FOR THE EVALUATION

Case study countries (16):

Africa: Angola, Chad, Côte d'Ivoire, Democratic Republic of the Congo, Liberia, Rwanda, Sierra Leone

Asia-Pacific: Cambodia, Myanmar, Timor-Leste

Europe: Bosnia and Herzegovina, Kosovo

Middle East-Central Asia: Afghanistan, Iraq, Somalia

Western Hemisphere: Haiti

Additional focus countries (8):

Central African Republic, Kiribati, Lao PDR, Solomon Islands, South Sudan, Sudan, West Bank and Gaza,¹ Yemen

¹ A territory that is not an independent member of the Fund.

work issued in 2008 and 2015 (IMF, 2008a, 2015c).⁸ As case studies, the evaluation team chose 16 of the 53 countries identified, on the basis of their diversity in geographical distribution and experience as well as the IEO's judgment of the potential to learn from their experience (Box 1). For the case study countries, the evaluation team complemented a desk study of public and internal documents and interviews of relevant IMF staff with interviews of current and former senior government and central bank officials as well as development partners and local country experts (mostly accomplished through site visits but also through teleconferences and group meetings in third countries). In addition, the evaluation team

examined documents, interviewed IMF staff, or interviewed government and central bank officials for eight additional countries whose experience raised particular issues.

To be most relevant in drawing lessons for the future, the evaluation focuses on the period 2011–16, which followed an intensification of IMF efforts in 2011 to improve engagement with FCS. Since historical context often matters in the discussion of state fragility, the evaluation also examines the IMF's country engagements over a longer period where appropriate. Especially in the case of post-conflict states where open conflict ended many years ago, the evaluation assesses how the IMF engaged with the countries in the immediate aftermath of the conflict. The evaluation reflects developments through 2017, while taking care not to offer judgement on current operations.

In conducting this evaluation, the IEO received the full support of IMF staff, who supplied a large volume of internal documents dating back to the early 2000s or even the mid-1990s in some cases. All in all, the evaluation team interviewed more than 200 former and current members of staff, and more than 280 current members of staff participated in the staff survey.⁹ Likewise, the team interviewed more than 200 former and current senior officials of member states that were characterized as fragile at least at some point during 2008–15, as well as more than 150 officials of donor governments and multilateral institutions. In addition, the IEO organized seminars and other outreach events to gather input and views of academics and other experts in Amman, London, and Washington, and interacted with members of the LSE–Oxford Commission on State Fragility, Growth, and Development.

⁸ The IMF's 2008 list was not based on the current approach. It consisted of (i) countries that had appeared on the World Bank's list of low-income countries under stress (LICUS) at least twice during 2000–05; (ii) countries in conflict in any year during 1995–2005; and (iii) countries that had received Emergency Post-Conflict Assistance from the IMF during 1995–2005. The list excluded non-IMF member countries.

⁹ De Las Casas (2018). The overall response rate was 19 percent. The overwhelming majority of survey respondents (i.e., 211 out of 283) had worked on FCS during their IMF careers, a pattern that indicates they were more interested in expressing their views than were their colleagues without FCS experience.

3

OVERVIEW OF THE IMF'S WORK ON FRAGILE STATES

KEY FEATURES OF FRAGILE STATES

The IMF maintains no formal list of fragile states, and it has relied broadly on the approach taken by the World Bank in identifying such countries for internal purposes. First, a low-income country, eligible for International Development Association (IDA) assistance,¹⁰ is considered fragile if the three-year moving average of its Country Policy and Institutional Assessment (CPIA) scores, prepared by the World Bank, is 3.2 or lower.¹¹ Second, and in addition, any country is considered fragile if there has been a United Nations or regional peace-keeping/building operation there during the previous three years or if the CPIA has not been computed because of conflict. The IMF's definition differs from the World Bank's in that it uses the three-year CPIA average rather than the annual score.¹²

The IMF's list is updated about once a year, but only the 2015 list has been made public (see Appendix 1).¹³ The evaluation team used this list, for example, when aggregating numbers to obtain statistics for recent years. When fragile states needed to be identified retroactively year-by-year (for example, when assessing the macroeconomic performance of fragile states as a group, or assessing how a country's fragility has evolved over time), the evaluation team used the World Bank's definition and its CPIA scores to construct a consistent list of fragile states for each year, going back to the year 2000. Despite this definitional variation, for all practical purposes broadly the same countries are identified as fragile over the evaluation period. The overall findings and conclusions of this evaluation are not dependent on the precise definition used.

State fragility often has a regional dimension and tends to be persistent. Many current and former fragile states are found in Africa and the Middle East (Figure 1). The regional concentration of fragile states implies that disorder or conflict in one state can spill over to neighboring countries through migration, refugee flows, or border insecurity. Despite extensive domestic and international efforts, often spanning decades, many fragile states continue to face entrenched obstacles to human and economic development. Of the 60 countries that the World Bank definition would have identified as fragile between 2000 and 2017, 17 remained fragile over the entire 18-year period, and 9 more were still considered fragile in 2017 after having been in that state for a decade or more (Figure 2).¹⁴ At the same time, fragility need not be a permanent feature

¹⁰ IDA is a concessional arm of the World Bank. It provides loans and grants to the world's poorest countries.

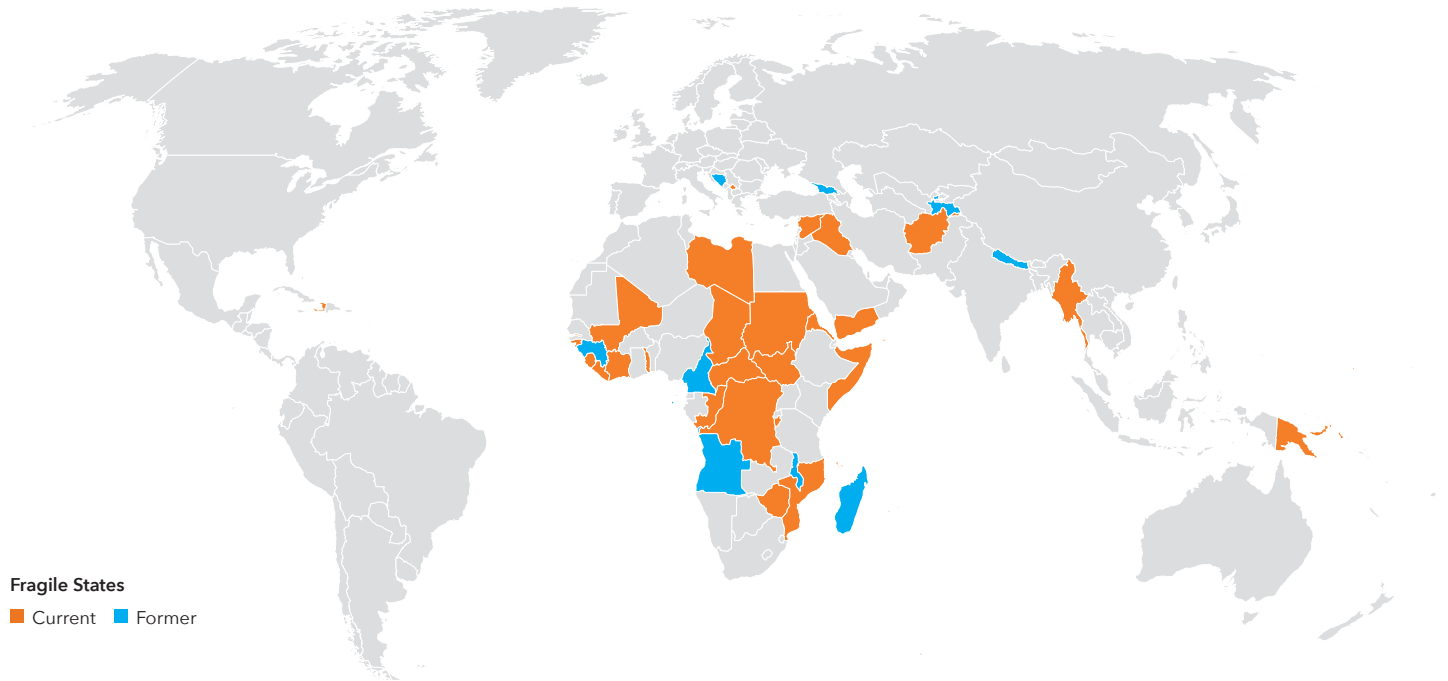
¹¹ A country is assigned an annual CPIA rating from 1 (low) to 6 (high) against a set of 16 criteria in 4 clusters: economic management, structural policies, policies for social inclusion, and public sector management and institutions.

¹² In addition, the World Bank uses a "Harmonized Average," which is an average of its CPIA score and the CPIA score produced by the Asian or African Development Bank for the country concerned. For 2015, the IMF list had 39 fragile states whereas the World Bank list had 35.

¹³ As explained in footnote 8, the 2008 staff review (IMF, 2008a) also included a list of fragile states, but this was not based on the current definition.

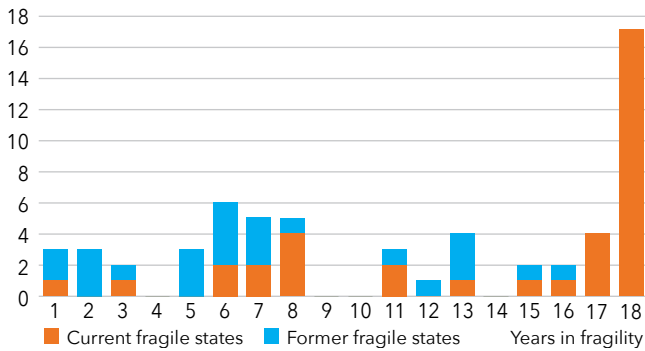
¹⁴ Of these 26 countries, 5 were classified as fragile because of the presence of peacekeeping/building operations.

FIGURE 1. GEOGRAPHICAL DISTRIBUTION OF FRAGILE STATES, 2010–17



Sources: Fragile state designations based on World Bank, Harmonized Lists, FY 2011-18; map adapted from mapchart.net.

FIGURE 2. PERSISTENCE OF STATE FRAGILITY, 2000–17
(Number of countries)



Note: World Bank definition was applied retroactively to 2000.
Sources: IEO estimates based on data from World Bank, AfDB, UN, AU, and NATO.

of any country. As of 2017, 24 of the 60 countries had exited fragility after various lengths of time.¹⁵

A voluminous literature has emerged on the economics and development challenges of countries in fragile and

conflict-affected situations (for bibliographies, see OECD, 2010, 2015, 2016; World Bank, 2011). Every fragile state is unique in its fragility characteristics. Some fragile states are middle-income countries (MICs) though the overwhelming majority are low-income countries (LICs).¹⁶ A few have good administrative capacity though most do not. Nevertheless, the literature suggests, among other things, that fragile states tend to be less diversified in economic structure and more susceptible to shocks, and to experience more volatile aid flows, than the average for their non-fragile peers. In these respects, the challenges faced by fragile states are similar to those faced by small low-income states. But, in addition, fragile states characteristically suffer from political instability, weaker and less inclusive institutions, lack of state legitimacy, and poor governance. Moreover, while corruption is by no means unique to fragile states, various indicators point to a high degree of correlation between fragility and corruption (IMF, 2017d).

Among LICs, fragile states on average have lower standards of living, as reflected in lower GDP per capita; less access to electricity; and higher mortality rates, than their non-fragile

¹⁵ About half of these countries are post-conflict states from which peacekeeping/building operations were withdrawn.

¹⁶ Throughout this report, LICs are defined as those eligible for IMF concessional financing; MICs are those classified by the IMF's *World Economic Outlook* (WEO) as emerging market and developing countries (EMDCs) but excluding LICs.

TABLE 1. STANDARDS OF LIVING IN FRAGILE VS. NON-FRAGILE STATES, 2014
(Low-income countries only)

	VARIABLE	FRAGILE LOW-INCOME STATES (NOB=30)	NON-FRAGILE LOW-INCOME STATES (NOB=33)
Unweighted	GDP per capita (PPP \$)	2,240	4,534
	Access to electricity (%)	42.3	62.3
	Mortality rate (per 1,000)	8.9	7.5
Weighted by population	GDP per capita (PPP \$)	2,311	2,631
	Access to electricity (%)	42.9	44.7
	Mortality rate (per 1,000)	9.1	7.3

Note: Includes only LICs for which data on all three variables were available for 2014; fragile states are those identified by the World Bank definition. NOB=number of observations; PPP=purchasing power parity.
Sources: IEO estimates based on IMF, World Economic Outlook database; World Bank, World Development Indicators.

TABLE 2. KEY ECONOMIC CHARACTERISTICS OF FRAGILE VS. NON-FRAGILE STATES, 2000–16
(Low-income countries only)

	FRAGILE LOW-INCOME STATES	NON-FRAGILE LOW-INCOME STATES
GDP growth (percent)	3.7	4.5
Inflation (percent)	9.6	6.2
External debt (percent GDP)	74.4	55.5
Tax revenue (percent GDP)	12.1	16.1
Current account balance (percent GDP)	-6.1	-9.3
Number of observations	430	599

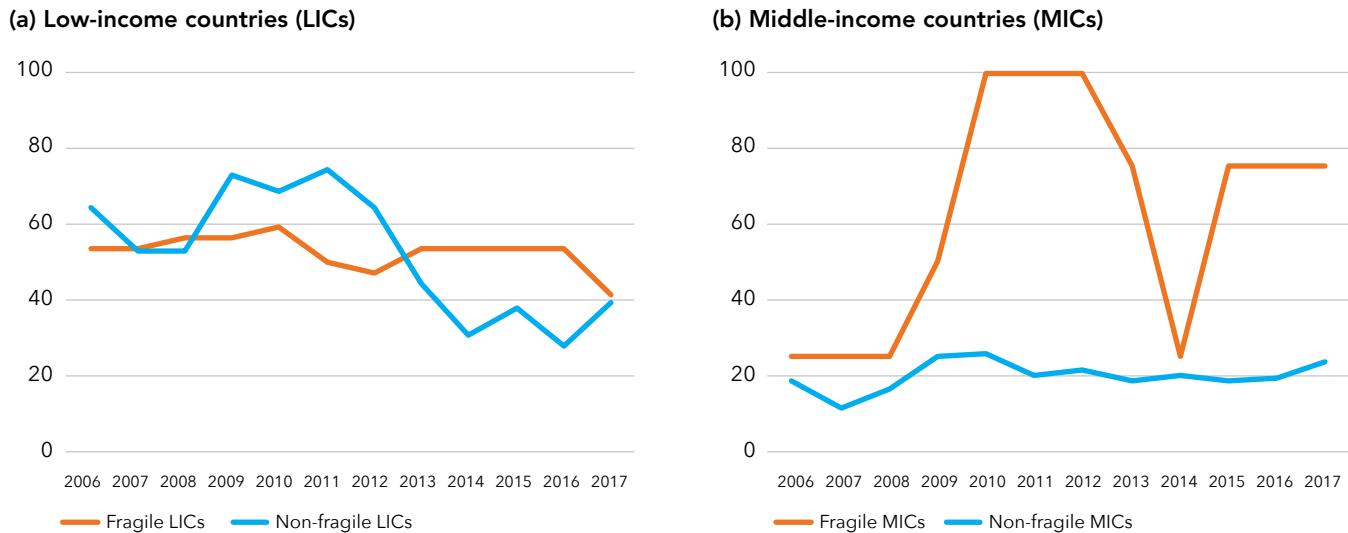
Note: Includes all country-year observations, where all current fragile states are identified by applying the World Bank definition retroactively.
Source: IEO estimates based on IMF, World Economic Outlook database.

peers, although the difference diminishes when weighted by population size (Table 1). Moreover, they tend to display weaker macroeconomic performance (Table 2). During 2000–16, compared to the averages for their non-fragile peers, their average annual real economic growth was 0.8 percentage points lower, inflation was 3.4 percentage points higher, external debt larger by 18.9 percentage points of GDP, and tax revenue lower by 4 percentage points of GDP. Their average current account deficit was smaller by 3.2 percentage points of GDP, pointing to

their more limited access to external financing.¹⁷ Larger output variability is typically identified as a feature of fragile states, but their national income data tend to be poor, making observed larger volatility indistinguishable from the noise inherent in estimates of GDP. However, the use of satellite images of light visible from space for a given area of the earth, as an independent proxy measure of economic activity, confirms that greater fragility (as measured by a lower CPIA score) is associated with greater variability of GDP growth (Kuruc, 2018).

¹⁷ None of these qualitative observations change if the median numbers are used instead of the mean.

FIGURE 3. SHARE OF MEMBERSHIP WITH IMF ARRANGEMENTS, 2006–17: FRAGILE VS. NON-FRAGILE STATES
(In percent of total in each category)



Note: For all arrangements approved or ongoing as of January 1, 2006; fragile states are identified by the 2015 SPR list.
Sources: IEO estimates based on IMF Lending Arrangements; SPR, Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, or after, November 1998.

THE SCALE OF IMF ENGAGEMENT WITH FRAGILE STATES

The IMF engages with member countries through surveillance, lending, and capacity development. Of the three activities, surveillance is obligatory on the part of both the IMF and the member country concerned, while it is only at a member’s request that the IMF provides financial or capacity development support. Because in fragile states the policy advice role of surveillance is highly integrated with other activities, this evaluation primarily focuses on program lending and capacity development rather than on surveillance per se. Fragile states in which the IMF is not involved in program lending or capacity development often do not hold Article IV consultations because of instability and security concerns, as in Libya and Syria (see Appendix 1).

The IMF has provided financing to FCS through various facilities, some of which are dedicated to LICs and others specially designed to provide rapid financing for countries in the wake of conflict or a natural disaster. No specific facility

is dedicated to FCS. Between 2006 and 2017, the incidence of IMF borrowing (including under emergency facilities) by fragile LICs differed little from that by non-fragile LICs (Figure 3a). But among fragile MICs between 2009 and 2017, the incidence of IMF borrowing was significantly higher than that of their non-fragile peers, except in 2014 (Figure 3b). The incidence of countries borrowing under the quick-disbursing, low conditionality Rapid Credit Facility (RCF) was somewhat higher among fragile LICs.¹⁸ Some fragile states including Liberia gained access to Fund resources only after complicated arrears-clearance operations, while others such as Cambodia, Somalia, and Sudan have not had access to Fund resources for many years; long-standing arrears to official creditors (if not to the IMF itself) have limited the IMF’s role in these countries.

Among LICs, access to Fund resources (as a share of a member country’s quota) has typically been considerably lower for FCS than for non-FCS.¹⁹ As a share of the IMF’s total LIC financing under arrangements between 2010 and 2017, fragile states accounted for 22.9 percent in terms of

¹⁸ From its inception in 2010 through 2017, the RCF had 10 FCS and 7 non-FCS LIC borrowers.

¹⁹ In nearly 40 percent of the Extended Credit Facility (ECF)–supported arrangements with fragile states between 2010 and 2016, the access level was 20–40 percent below the applicable norms, while in most ECF arrangements with non-FCS during the same period the access level was on par with the applicable norm. By contrast, in 2017, access levels for FCS arrangements exceeded the applicable norms.

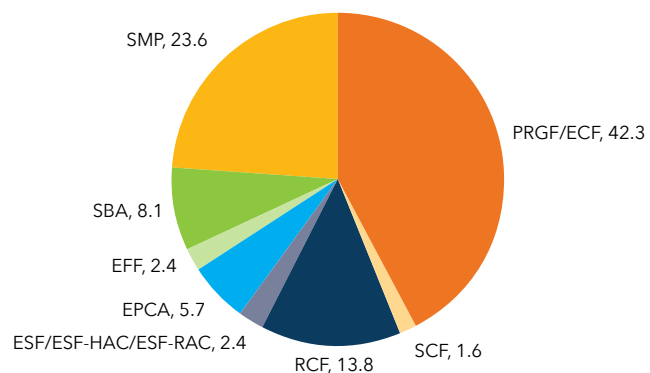
TABLE 3. IMF COMMITMENTS AND DISBURSEMENTS TO FRAGILE VS. NON-FRAGILE STATES, 2010–17
(In billions of SDRs and in percent)

COUNTRY GROUPING		COMMITMENTS (Percent share in each category)	DISBURSEMENTS (Percent share of commitments)
Low-income	Fragile	4.38 (22.9)	3.22 (73.5)
	Non-fragile	14.74 (77.1)	11.50 (78.0)
Middle-income	Fragile	5.58 (7.3)	2.99 (53.6)
	Non-fragile	70.77 (92.7)	16.62 (31.4)

Note: All arrangements approved or ongoing as of January 1, 2010 and ended by December 31, 2017; excludes undrawn precautionary arrangements. Fragile states are identified by the 2015 SPR list.

Sources: IEO estimates based on SPR, Fund Arrangements since 1952; SPR, LIC Arrangements and Instruments Approved on, or after, November 1998; IMF Members' Financial Data by Country.

FIGURE 4. DISTRIBUTION OF FRAGILE STATE ARRANGEMENTS OR INSTRUMENTS BY TYPE, 2006–17
(In percent)



Note: All arrangements approved or ongoing as of January 1, 2006. PRGF/ECF=Poverty Reduction and Growth Facility/Extended Credit Facility; SCF=Standby Credit Facility; RCF=Rapid Credit Facility; SBA=Stand-By Arrangement; EFF=Extended Fund Facility; ESF/ESF-HAC/ESF-RAC=Exogenous Shocks Facility/-High Access Component/-Rapid Access Component; EPCA=Emergency Post-Conflict Assistance; SMP=Staff-Monitored Program. Fragile states are identified by the 2015 SPR list.

Sources: IEO estimates based on SPR, Fund Arrangements since 1952; LIC Arrangements and Instruments Approved.

commitments (or about SDR 4.4 billion) (Table 3). The four MICs that feature in the list of fragile states represented a very small fraction of total IMF lending commitments to MICs (7.3 percent; SDR 5.6 billion). The amount disbursed as a share of total commitments was 73.5 percent for fragile LICs—similar to the 78.0 percent disbursed for non-fragile LICs—and was 53.6 percent for fragile MICs—compared to 31.4 percent for non-fragile MICs.

Over the period 2006–17, roughly one-fifth of the IMF's program engagement in fragile states utilized rapid access facilities that did not require upper-credit-tranche (UCT) conditionality (Figure 4).²⁰ In about a quarter of FCS cases, program engagement took the form of Staff-Monitored Programs (SMPs),²¹ which involve no financing and are typically used to build a track record of policy performance to pave the way for use of Fund resources (UFR). Nearly 60 percent of the FCS programs used concessional facilities dedicated to LICs under what is now known as the Poverty Reduction and Growth Trust (PRGT); these facilities included the Poverty Reduction and Growth Facility (PRGF)/Extended Credit Facility (ECF), the Standby Credit Facility (SCF), and the Rapid Credit Facility (RCF).²² Reforms of the PRGT and other lending facilities,

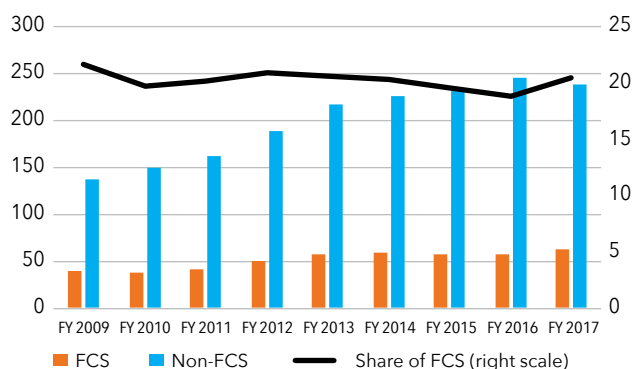
²⁰ UCT refers to access above the first 25 percent of a member's quota; it requires higher standards of conditionality.

²¹ SMPs are approved by IMF management but do not require Executive Board approval. Under an SMP, countries formulate a macroeconomic policy framework to be monitored by staff. In addition, the IMF maintains another non-financing instrument called the Policy Support Instrument (PSI), which functions as a signaling device of good economic performance to facilitate a country's access to external financing. This requires Board approval.

²² In 2009, all concessional facilities were placed under the umbrella of a single trust (PRGT), and streamlined into three: the ECF, the SCF, and the RCF (replacing the Emergency Natural Disaster Assistance (ENDA), Emergency Post-Conflict Assistance (EPCA), and the rapid access component of the Exogenous Shocks Facility) (IMF, 2009a, 2009b, 2009c). In 2015, the Catastrophe Containment and Relief Trust was introduced.

FIGURE 5. IMF TA TO FRAGILE VS. NON-FRAGILE STATES, FY 2009–17

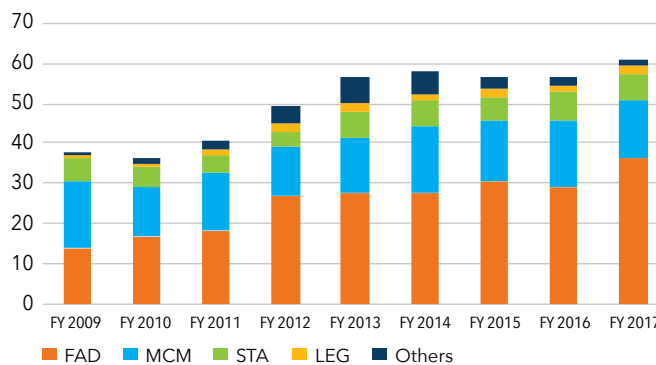
(In person-years of field delivery—left scale; in percent—right scale)



Note: Fragile states are identified by the 2015 SPR list; TA delivered to multiple countries and regional institutions is excluded. Source: IEO estimates based on ICD data.

FIGURE 6. IMF TA TO FRAGILE STATES, BY PROVIDER, FY 2009–17

(In person-years of field delivery)



Note: Fragile states are identified by the 2015 SPR list; TA delivered to multiple countries and regional institutions is excluded; FAD=Fiscal Affairs Department; MCM=Monetary and Capital Markets Department; STA=Statistics Department; LEG=Legal Department. Source: IEO estimates based on ICD data.

undertaken in 2015, had the effect of increasing access for fragile LICs, including by: raising access norms by 50 percent across the concessional facilities for all PRGT-eligible countries; by taking steps to focus concessional financing to support the poorest and most vulnerable PRGT-eligible countries; by increasing access to fast-disbursing support under the RCF and Rapid Financing Instrument (RFI); and by setting the interest rate on RCF loans at zero percent (IMF, 2015b, 2015d).

In the area of capacity development, the IMF increased its technical assistance allocations to FCS from fewer than 40 person-years of field delivery in FY 2009 to more than 60 person-years in FY 2017,²³ although the fragile states' share in the Fund's total TA remained around 20 percent (Figure 5). The IMF's capacity development role in FCS has been most prominent in public finances, including tax administration and public financial management (Kim, 2018b; also IMF, 2017b, 2017c; Gelbard and others, 2015). Over the period FY 2009–17, about half the amount of IMF technical assistance, as measured in person-years, was given by the Fiscal Affairs Department (FAD) (Figure 6). This was followed by the Monetary and Capital Markets Department (MCM), whose TA focused on banking supervision, monetary policy and central bank operations, and currency reform in an early stage of post-conflict reconstruction.

IMF INSTITUTIONAL GUIDANCE ON FCS WORK

Since 2008, the IMF staff has conducted three reviews of its work on fragile states (IMF, 2008a, 2011a, 2015c). Of the three, the 2011 review was a landmark document. It signaled an intensification of efforts to improve engagement with fragile states and led, in the following year, to the issuance of a Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations (IMF, 2012). The Guidance Note highlighted, among other things, the need for FCS work to be informed by (i) attention to political economy context; (ii) the content and pace of reforms that reflect security and social needs as well as capacity constraints; (iii) approaches conducive to sustained engagement; and (iv) close coordination with donors. The Guidance Note also observed that capacity building should be an integral part of the Fund's engagement and (i) be guided by close attention to a country's absorptive capacity; (ii) be aligned with program objectives; (iii) involve country authorities in the preparation of a medium-term plan; and (iv) rely on resident advisors. In these and other documents, the IMF repeatedly recognized the need for special treatment of fragile states (see Appendix 2 for an overview of the IMF's institutional learning on FCS work).

²³ An effective person-year of field delivery is defined as 260–262 working days of staff or expert time.

4

ASSESSING THE EFFECTIVENESS OF IMF ENGAGEMENT

HOW MUCH IMPACT HAS THE IMF HAD IN FRAGILE STATES?

The IMF's role in fragile states, compared to other member countries, has been particularly important in: (i) providing support in early stages of macroeconomic stabilization after a period of conflict or a natural disaster; (ii) providing a macroeconomic framework valuable for coordinating policies within a country as well as for facilitating engagement by international partners; and (iii) helping to build basic policymaking and institutional capacity in the core areas of IMF expertise. In the view of most stakeholders, the IMF has played its role quite effectively in these areas, though concerns remain that its impact may not have reached full potential.

Financing and signaling roles

The IMF's direct financing role was often limited in fragile states, compared to total DAC official development assistance (ODA) (Figure 7). This in part reflects the fact that the IMF is not the cheapest source of concessional financing. Even though the IMF can now lend interest-free from the PRGT, many fragile states have recourse to more concessional sources of donor money, including much longer-term loans and grants.²⁴ Moreover, the IMF's obligation to safeguard its resources has in some cases limited its willingness to increase exposure to fragile states, whose capacity to fulfill an agreed economic program and to service debt is uncertain.²⁵ In some countries (e.g., the Democratic Republic of the Congo, Liberia, Sierra Leone, Somalia) the need to clear IMF arrears before entering a new arrangement delayed IMF financial involvement, although the clearing of arrears was accelerated when there was strong international support to take advantage of an opportunity to cement political change (e.g., Democratic Republic of the Congo, Liberia).²⁶ On occasion, the IMF moved quickly to provide what was effectively grant support after a natural disaster (e.g., following the earthquake in Haiti and the Ebola crisis in West Africa).

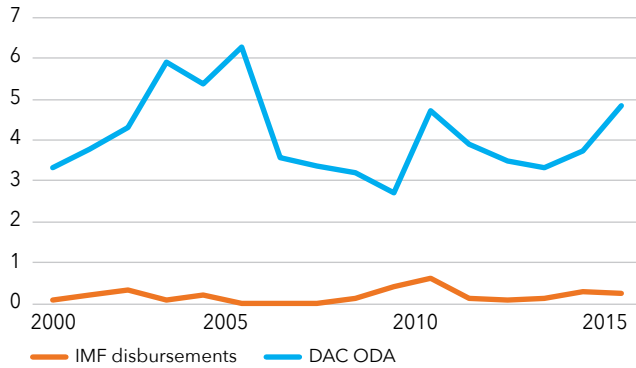
The IMF's main financing role in FCS has been catalytic. Stakeholders who were interviewed for this evaluation broadly agreed that the IMF had played a critical signaling role, providing the donor community with a degree of assurance that a country's public finances were benefiting from IMF guidance and monitoring and that donor financial assistance would be used in a transparent and sustainable macroeconomic framework. Development partners often considered IMF involvement in a country—especially in the context of a financing arrangement—as a *de facto*, if not *de jure*, precondition for their own financial engagement. Given this special role among a country's development partners, the IMF has typically exercised considerable influence with the authorities well beyond the amount of financing it provides, including in situations

²⁴ Currently, interest rates charged by the ECF and RCF under the PRGT are set at zero with a grace period of 5.5 years and a repayment period of up to 10 years. The SCF also carries a zero interest, but its grace and repayment periods are shorter at 4 and 8 years, respectively.

²⁵ As of November 2017, the average outstanding credit balance of 23 FCS borrowers was 20 percent of the access limit under the PRGT's UCT facilities.

²⁶ At present, only Somalia and Sudan remain in protracted arrears to the IMF. The Fund cannot lend to a member in arrears.

FIGURE 7. OFFICIAL FINANCIAL FLOWS TO FRAGILE STATES, 2000–15: IMF DISBURSEMENTS VS. TOTAL DAC ODA
(In percent of FCS GDP)



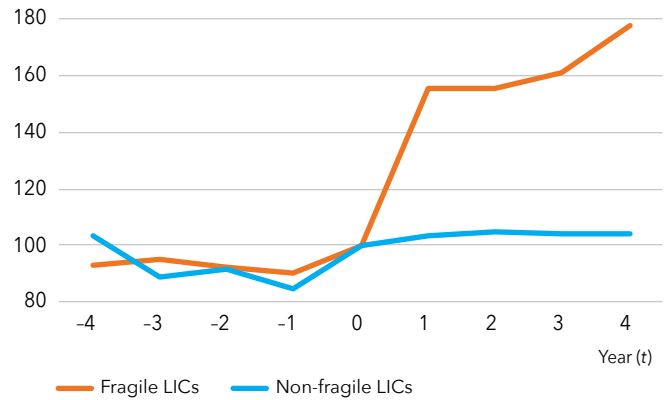
Source: IEO estimates based on IMF and OECD data.

where countries have preferred not to access IMF financing (e.g., Myanmar, Timor Leste).

The IEO’s analysis provides evidence for this catalytic role, showing that an IMF arrangement has typically been associated with a marked increase in donor support to FCS (Kuruc, 2018). Figure 8 depicts, for the period 2000–12, how the volume of total ODA flows to fragile and non-fragile LICs changed following the approval of an IMF arrangement, with or without financing (indicated by $t=0$, where the volume is indexed to 100). In the case of fragile states, the volume rose on average by 60 percent in the first year and remained at that level or higher for three additional years. In non-fragile LICs, no sharp pickup in ODA flows was observed. A similar strong catalytic role of an IMF arrangement was observed for fragile, but not for non-fragile, middle-income countries. While this does not prove that an IMF arrangement necessarily caused donor support to increase, it does suggest that the IMF plays a special coordinating role in the international community’s concerted effort to engage with fragile states.

It is difficult to establish conclusively whether IMF lending to a fragile state had a favorable, growth-enhancing effect, because it is not possible to isolate the impact of IMF intervention from the influence of many other factors, including the confidence effect of a ceasefire, in the case of a

FIGURE 8. THE IMF’S CATALYTIC ROLE IN FRAGILE VS. NON-FRAGILE LICs, 2000–12
(Average ODA Flows Surrounding Approval of IMF Arrangement (index=100 in year $t=0$))



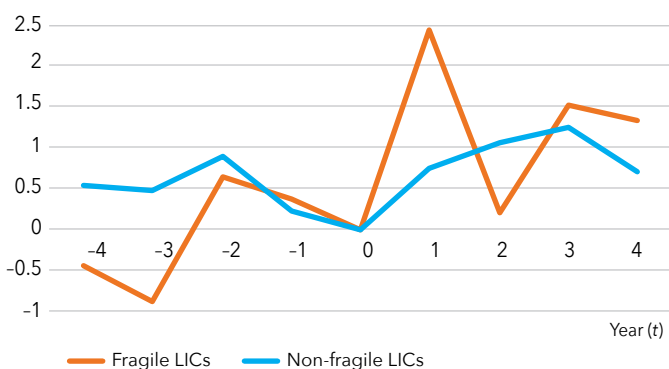
Note: Event-study methodology is used; includes both financing and non-financing arrangements; for details, see Kuruc (2018). Source: IEO estimates based on OECD data.

post-conflict state, or the financial and other contributions of development partners. Nevertheless, evidence does suggest that IMF lending has been associated with an upturn in economic growth in FCS: before/after comparisons of GDP growth during the period 2000–12 indicate that IMF financial support often began at a turning point from a period of decline or stagnation to a strong recovery (Figure 9). In non-FCS, the growth acceleration following IMF lending was much less marked. While causality is not established, these contrasting experiences may reflect the fact that fragile states often approached the IMF following a prolonged and economically damaging conflict, while non-fragile states came to the Fund when they faced a less deep cyclical setback (such as a commodity price downturn).

Many stakeholders noted that even where the IMF did not play a direct financing role, it could still strongly influence FCS outcomes by establishing a framework for macroeconomic stabilization. This could (though did not always) occur through a Staff-Monitored Program (SMP) designed to provide a track record of policy performance that international partners could use as a basis for providing financing (e.g., Myanmar, Somalia). However, interviewees thought that SMPs provided a less effective signal than programs qualifying for UCT conditionality, where the IMF had “skin in the game.” In some countries, the authorities relied heavily on the IMF staff for preparing a macroeconomic framework, including

FIGURE 9. REAL GDP GROWTH IN FRAGILE VS. NON-FRAGILE LICs, 2000–12

(Percentage difference relative to the year ($t=0$) of IMF arrangement approval)



Note: Event-study methodology is used; includes only financing arrangements; for details, see Kuruc (2018).

Source: IEO estimates of GDP growth based on data from Earth Observation Group, National Oceanic and Atmospheric Administration, and Penn World Tables.

preparing forecasts and even formulating a budget; IMF surveillance also provided a set of consistent fiscal and other macroeconomic data for the donor community. Most of those interviewed emphasized that no other institution had the capacity to play this role.

Country officials stressed that in an environment where either the government is fragmented (as in Bosnia and Herzegovina) or its administrative capacity is weak, the IMF often provided a valuable vehicle for interagency coordination. For instance, when a country comes to agreement on a program or completes a program review with the IMF, different branches of the government are compelled to coordinate with each other in terms of budgetary or policy commitments. In those few FCS that had some access to market financing or were attempting to attract foreign direct investment (e.g., Angola, Côte d'Ivoire), the IMF's assessment of the soundness of their economic policies or their medium-term economic outlook played an important signaling role. A number of officials interviewed cared deeply about what IMF staff reports said about their countries, irrespective of whether IMF financing was being sought.

Capacity development role

Country officials stressed that capacity development was the area where the IMF could make its greatest contribution. Many observed that the IMF had played a crucial role in building capacity at the central bank and the ministry of finance, particularly when countries emerged from periods of civil conflict (e.g., introducing new currencies, basic central banking operations, or a budgetary execution and monitoring framework in Afghanistan, Bosnia and Herzegovina, Cambodia, the Democratic Republic of the Congo, Iraq, Liberia, Rwanda, and Timor-Leste). Likewise, most interviewees valued the role the IMF could play as an external advocate in supporting the reformers against stiff domestic political opposition, in such areas as revenue mobilization and banking supervision. At the same time, interviewees generally acknowledged that long-term progress beyond an initial phase could be slow and subject to setbacks, particularly in countries with weak institutional capacity and governance.

Role in governance issues

Officials and experts expressed a range of views on how much the IMF should be involved in tackling governance-related issues. As noted in the previous chapter, many fragile states have deep-seated corruption and related governance problems. To the extent that these are at the root of fragility, many said that the IMF should be more heavily involved in promoting reforms to address them directly, especially in areas of its core competence such as public financial management and banking supervision.²⁷ By contrast, a few warned that aggressively addressing this area, especially at the outset of engagement, could undermine the political capital of authorities who were dependent upon support from all stakeholders. Some expressed concerns about the IMF's capacity to effectively address complex politically sensitive internal situations, and others were reluctant to see the IMF broadening inappropriately the scope of program conditionality.

More broadly, some experts observed that the IMF could only play a limited role in FCS, especially where endemic corruption presents enduring obstacles to reform and leads to aid fatigue, and where security concerns disrupt the continuity and quality of the policy dialogue. These experts argued that because, in their view, the IMF's mandate was not economic development, much less state building, it should wait until a

²⁷ The case study on Afghanistan (Chapter 1, Takagi and others, 2018b) documents how corruption played a role in the Kabul Bank crisis.

TABLE 4. IMF LENDING ARRANGEMENTS COMPLETION, 2010–17: FRAGILE VS. NON-FRAGILE STATES
(In percent of total)

	LOW-INCOME COUNTRIES		MIDDLE-INCOME COUNTRIES		ALL LOW- AND MIDDLE-INCOME COUNTRIES	
	Fragile	Non-fragile	Fragile	Non-fragile	Fragile	Non-fragile
Concluded	30	75	17	57	27	67
Not fully concluded	30	0	33	7	31	3
Cancelled	35	19	0	29	27	23
Off-track	0	6	17	7	4	3
Quickly off-track	5	0	33	0	12	3
Total	100	100	100	100	100	100

Note: All arrangements approved as of January 2010 and ended by end-December 2017, under the ECF, SCF, SBA, and ESF, but excluding undrawn precautionary arrangements and rapid disbursement facilities. “Concluded” means programs for which all scheduled reviews were completed; “off-track” those with no more than two reviews completed; and “quickly off-track” those with no or one review completed. Totals may not add up to 100 because of rounding.

Sources: IEO estimates based on SPR, Fund Arrangements since 1952; Monitoring of Fund Arrangements (MONA) database; IMF Members’ Financial Data by Country; country staff reports.

minimum level of security and capacity was established before it engaged with a country. In contrast, many other experts expressed the view that basic macroeconomic stability was a prerequisite for embarking on a path to economic development and state building; helping these countries achieve medium- and long-term macroeconomic stability, consistent with the Fund’s mandate, would in turn require the building of robust institutions. Therefore, in their view, the IMF must be present in a country, irrespective of the risks involved, as a precondition for the success of attempts to build resilience. Proponents of this view called for the Fund to have a comprehensive forward-looking strategy to engage with a fragile state, working closely with committed international partners.

On balance, this evaluation finds a compelling case for IMF engagement with governance issues from an early stage. However, engagement requires humility and patience, recognizing that there will be setbacks and disappointments. The IMF must also accept that most governance concerns that need to be tackled are in areas outside its core competence and therefore require close collaboration with the government and development partners.²⁸

HAVE THE IMF’S INSTRUMENTS BEEN ADEQUATE TO MEET THE NEEDS OF FRAGILE STATES?

The evaluation team examined whether the IMF’s arsenal of financing and non-financing instruments was adequate to deal with the challenges of post-conflict states. The overwhelming majority of IMF mission chiefs interviewed believed that the existing arsenal was adequate, and a similar view was expressed by 52 percent of the staff members responding to the IEO survey who had worked on fragile states (de Las Casas, 2018). IMF mission chiefs believed that, despite the relatively short-term orientation of IMF instruments, they had been able to adapt, as necessary, by employing different combinations of instruments successively (e.g., use of back-to-back programs) to help achieve desired longer-term objectives. Few of the country authorities interviewed questioned the adequacy of existing instruments, but rather focused most of their concern on the issues of access and conditionality.

To assess whether existing instruments had been tailored effectively to the needs of fragile states, the evaluation team

²⁸ See IMF (2017d) for a fuller discussion of the IMF’s approach to corruption and other governance-related issues.

TABLE 5. CONDITIONALITY IN FRAGILE VS. NON-FRAGILE STATE ARRANGEMENTS, 2006–17
(Average number of conditions per completed review)

TYPE OF CONDITIONS	2006–09		2010–13		2014–16		2017 (preliminary)	
	Fragile ¹	Non-fragile	Fragile ¹	Non-fragile	Fragile ¹	Non-fragile	Fragile ¹	Non-fragile
Low-income countries								
Total conditions	18.9	14.9	18.6	15.3	18.8	19.1	24.1	20.5
Of which: Performance criteria	7.9	7.1	7.9	6.7	8.0	6.2	11.2	8.0
Structural benchmarks ²	7.5	5.6	6.2	4.8	6.0	6.9	4.1	1.9
Others	3.5	2.2	4.5	3.8	4.8	6.0	8.8	10.6
Middle-income countries								
Total conditions	18.9	19.1	20.7	13.8	23.7	18.4	35.3	18.8
Of which: Performance criteria	10.9	0.2	10.9	7.0	11.7	6.8	10.0	7.7
Structural benchmarks ²	6.7	6.8	6.9	4.3	4.0	6.3	3.5	3.8
Others	1.3	12.1	2.9	2.5	8.0	5.3	21.8	7.3

Source: IEO estimates based on Monitoring of Fund Arrangements (MONA) database.

¹Fragile states are identified by the 2015 SPR list.

²Includes structural performance criteria through 2009.

compared lending arrangement completion rates and levels of conditionality in FCS and non-FCS programs. Over the period 2010–17, only 27 percent of the IMF lending arrangements with all fragile states were fully completed (30 percent of those with fragile LICs and 17 percent of those with fragile MICs) (Table 4). The completion rate for all non-fragile countries was much higher, at 67 percent (75 percent of the arrangements with non-fragile LICs and 57 percent of those with non-fragile MICs). Among fragile MICs, the share of programs that went off track quickly (after no or only one review) was 33 percent, whereas no program went off track quickly for non-fragile MICs.

What accounts for these differences in program completion rates? It is difficult to distinguish between two alternative explanations: (i) the IMF was prepared to take more risks up-front in approving arrangements for fragile states even though the chances for successful completion were lower; or (ii) the programs were not sufficiently tailored to the specific

circumstances of fragile states, such as limited implementation capacity, divisive politics, or security challenges.

Some insight into the issue of whether IMF-supported programs have been sufficiently tailored to the needs of fragile states may be gained by looking at the number of program conditions. By this metric, the conditionality applied to FCS was not particularly different from that applied to non-FCS. From 2006 to 2017, the number of conditions (including prior actions, quantitative performance criteria, structural performance criteria, and structural benchmarks) was generally higher for fragile than for non-fragile states (Table 5), and this tendency was observed even after 2010, following the Fund's 2009 decision to terminate the use of structural performance criteria in all IMF-supported programs. While the number of conditions does not necessarily capture the intensity of conditionality, this observation is nevertheless consistent with the complaints that were often expressed by the authorities interviewed, namely that the IMF's UCT conditionality was too

demanding and did not take adequate account of their countries' more limited implementation capacity.

Although the 2012 Staff Guidance Note suggests that setting fewer conditions would be appropriate in the context of UCT conditionality (e.g., “a well-tailored pace of macroeconomic adjustment;” and “a strictly prioritized, gradual agenda of key structural reforms”), the IEO detected tensions within the IMF staff concerning the right balance between the number of conditions and the willingness to grant waivers when conditions are not met. Many in review departments stated that they were open to the idea of setting fewer conditions, but they were less willing to allow waivers because doing so would undercut implementation incentives.²⁹ Some of them considered that by setting fewer conditions or being more prepared to provide waivers, the Fund could undermine the signaling role of programs involving UCT conditionality, with potential adverse consequences for non-FCS users of Fund resources. In this context, former senior IMF staff members, among others, noted that UCT conditionality was in fact quite capable of accommodating the circumstances of fragile states, while pointing to the importance of combining fewer conditions with strategic waivers.

Most area department staff members interviewed considered the existing instruments to be adequate in principle, although some expressed concern that they were pressed to include more conditions than needed by reviewers or that the policy on waivers was applied just as strictly for FCS as for non-FCS. Some stated that tailoring existing instruments to the realities of fragile states would not be equivalent to having instruments that were specifically tailored to the needs of fragile states. Given that program reviews are subject to the IMF's discretion, neither the borrower nor the donor community has the assurance that a country will maintain an uninterrupted IMF program engagement.

A number of staff members pointed to a gap between the low-conditionality emergency financing facilities (RCF/RFI) and the more stringent UCT-conditionality arrangements. This gap could be a problem, given fragile states' susceptibility to shocks and associated need for quick-disbursing support as well as the challenges these countries face to implement policies consistent with UCT conditionality. In the 2008 FCS work review, the IMF staff observed that, given the short-term focus of the available initial instruments (including SMPs), the transition to EFF/ECF arrangements was judged in some cases to have been “premature” (IMF, 2008a). This judgment became the basis for a staff proposal for a new arrangement dedicated to fragile states. The proposal was rejected by the Board,³⁰ but the IMF has since sought to enhance its rapid access/low conditionality facilities. However, while most drawings under the RCF were at the annual access limits, actual use of the RCF has been well below the cumulative limit.³¹ Use of an SMP in parallel with a drawing under the RCF has also been limited.

Officials' concerns about the IMF's existing instruments related to access and conditionality.³² Here, types of fragile states need to be distinguished. On the one hand, countries in early phases of post-conflict reconstruction have typically enjoyed considerable goodwill from the international community, and therefore the availability of financing has not usually been an immediate concern except in difficult arrears cases. On the other hand, countries in a prolonged state of fragility have viewed the IMF as one of the few available sources of concessional financing. Many officials from such countries noted that their borrowing needs were great, given the pressures to invest in health services, education, and infrastructure, as well as to meet pressing security and refugee needs. They would like to see access increased, even though they recognize that the IMF is not a primary source

²⁹ The review process, in which the successive drafts of a policy note or staff report are subjected to comment and scrutiny by various departments, ensures that IMF policies are uniformly applied across the institution and that quality is maintained regardless of who is originating the work. SPR plays a critical role in this process by clearing all documents for management approval.

³⁰ According to the Acting Chair's summing up of the Board discussion, while “many” directors saw merit in the proposal for a new arrangement (termed the “Economic Recovery Assistance Program”), designed to allow a medium-term, systematic, and graduated IMF engagement, “a number of other Directors questioned the need for a separate financial instrument for fragile states,” noting that “financing for development should be left to institutions with developmental mandates.” International Monetary Fund, BUFF/08/42, March 31, 2008.

³¹ As of November 2017, the average outstanding credit balance of ten FCS borrowers under the RCF was 22 percent of quota, compared to the cumulative access limit of 75 percent.

³² Since 2015, access under the RCF has normally been limited to 18.75 percent of quota annually and 75 percent of quota cumulatively, but the annual limit is increased to 37.5 percent for the exogenous shocks window and 60 percent for the large natural disaster window. Access under the RFI is limited to 37.5 percent of quota annually and 75 percent of quota cumulatively, while normal access under the ECF is 75 percent of quota annually and 225 percent of quota cumulatively. See IMF (2017e).

of development financing. And they noted the importance of flexibility in applying conditionality, particularly in the face of shocks that could generate pressing spending needs—including in the area of security—that could run against overall spending limits.

At the same time, both officials and staff interviewed recognized that greater access implies increased indebtedness on the part of FCS borrowers and could also mean greater credit risk for the Fund. IMF financing, even at concessional terms, increases a country's debt burden, which implies that the maturity of IMF financing may also need to be lengthened if a high level of concessionality is to be maintained. It is not obvious that any fragile state should be borrowing significantly more from any source when its ability to pay is uncertain and given the long process required to build resilience through institution building. Clearly, grants would be the ideal form of financial assistance to fragile LICs (IMF, 2015e), but the IMF has almost no capacity to provide them. Even its capacity to lend at zero interest under the PRGT is constrained by the limited availability of resources.

IEO interviews with staff, officials, and other stakeholders suggested several ways forward, including for the IMF to: (i) advocate that other donors provide increased grants to FCS; (ii) seek to mobilize grant resources for its own use;³³ (iii) introduce a dedicated facility for FCS that would lengthen the maturity of IMF financing and require less stringent conditionality; and (iv) find ways to increase access under the existing PRGT facilities, for example by raising annual access limits under the RCF,³⁴ or by allowing for a short UCT arrangement as a bridge to a possible ECF arrangement (e.g., by not requiring that a member achieve a sustainable macroeconomic position in two years or less, as currently required under the SCF).

The last option of adapting existing PRGT facilities would seem to be the most practicable, if not the best, and could be advanced in the context of the current quinquennial review of LIC facilities that is now underway. Interviews with representatives of donor governments suggest little support for the IMF providing grants to FCS, not viewing development financing as the Fund's role. The idea of a dedicated facility for FCS would quickly run into issues of how to determine

which countries would be eligible and how to raise resources for such a facility; uniformity of treatment would rule out using not only General Resources Account (GRA) but also PRGT resources without rewriting the terms of the Trust. Nevertheless, irrespective of the solution, special treatment for fragile states necessarily implies increased access to resources because, at a minimum, softer conditionality means a slower pace of adjustment and implementation of structural reforms and hence a need for longer-term financial engagement.

HOW EFFECTIVE HAS IMF CAPACITY DEVELOPMENT WORK BEEN IN FRAGILE STATES?

The IMF has rightly highlighted its capacity development work as the “front and center” of its engagement with FCS (IMF, 2015b), because weak institutions are at the root of fragility. The severe lack of capacity in many fragile states implies large potential gains from IMF technical assistance, including in the building of inclusive, effective institutions. At the same time, the lack of institutional capacity also means that the ability to absorb and implement TA is generally limited. There are wide variations across countries in national ownership, and hence in the authorities' willingness to implement TA recommendations, and in institutional continuity.

The effectiveness and impact of IMF TA depends crucially not just on the quantity of TA but also on other factors, including whether the advice pays sufficient attention to the political and institutional context, the manner in which TA is delivered, whether there is a sustained commitment from the country itself, and how well the Fund's TA is coordinated with that provided by development partners. Most interviewees felt that IMF TA was generally well tailored to country circumstances, although the Fund sometimes showed a tendency to provide “best practice advice” rather than advice suited to the country's institutional capacity, which could often be best obtained by learning from experience in similar countries in the region.

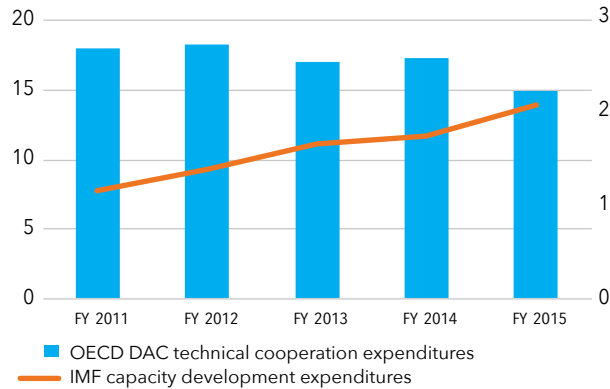
Coordination with partners is especially important because the IMF is a relatively minor player in the overall provision of TA to fragile states. While the IMF's share in the total

³³ One prominent external expert stressed the importance of tying the provision of grants to meeting conditions within the context of an IMF-supported program. To implement such a proposal, a trust fund would need to be established to allow the IMF to provide grants. Such trust funds were established following the Haitian earthquake and the Ebola crisis that affected three West African countries.

³⁴ Such an approach is consistent with the Staff Guidance Note, which encourages the use of the RCF as facilitating “sustained engagement, avoiding a ‘stop-and-go’ pattern that might result from targeting overambitious policies under a UCT arrangement.”

FIGURE 10. CAPACITY DEVELOPMENT EXPENDITURES ON FCS: OECD DAC TOTAL VS. IMF, FY 2011–15

(In billions of U.S. dollars—left scale; in percent of OECD DAC—right scale)



Note: Fragile states are identified by the 2015 SPR list.
Source: IEO estimates based on ICD data.

technical cooperation expenditures by OECD-DAC countries for fragile states has increased every year from FY 2011, it still made up only around 2 percent in FY 2015 (Figure 10). The IMF’s share is larger in the areas of its core competence, but even there the IMF must rely on other donors for implementation support (Kim, 2018b).

IMF TA in post-conflict states was particularly effective during the initial institution-building phase. Officials in almost every post-conflict state the IEO team interviewed had a highly positive view of the Fund’s early contribution to building capacity in areas such as revenue collection, public expenditure control, central banking, currency reform, and statistics (see, for example, the case studies on Afghanistan, Bosnia and Herzegovina, and Timor-Leste). In these areas, the IMF was uniquely qualified to support the design of core macroeconomic institutions when much of the capacity had been lost or destroyed during conflict (see Gupta and others, 2005, for a review of the IMF’s effort to help rebuild fiscal institutions in post-conflict countries).

Evidence is more mixed on the effectiveness of IMF TA when a country is in a prolonged state of fragility. A recent study prepared by the Fiscal Affairs Department finds some evidence of improved revenue and expenditure management performance in fragile states receiving IMF TA, but the

impact seems to have been quite small (IMF, 2017b). A senior official of a fragile state, explaining why the IMF’s TA work to raise the tax-to-GDP ratio in his country had had limited impact, highlighted the unwillingness of the public to provide resources to a government that was not perceived to serve their needs. In his view, IMF TA needed to be accompanied by measures to enhance the legitimacy of the state—an issue going well beyond the IMF’s expertise.

In interviews with the IEO, many senior country officials and IMF mission chiefs stated that, in their view, the IMF’s TA often tended to be better than that offered in similar areas by other donors. Consistent with this view, representatives of development partners pointed to the general strengths of central banks and of macroeconomic data—where the IMF has provided quite extensive technical assistance—compared to other types of institutions or areas of statistics, in many fragile states.

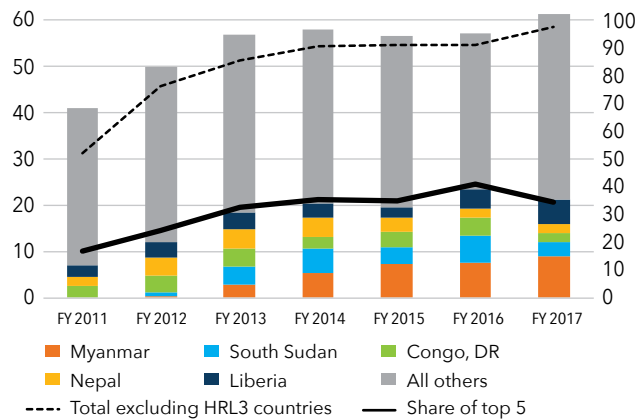
While judgements as to effectiveness varied, a clear message emerged from the interviews that the IMF’s TA delivery had improved in recent years. Many noted that the IMF’s general mode of operation in earlier years had typically been to send a team of technical experts to the field for a brief period, prepare a report outlining what was needed, and leave a copy with the authorities. This approach was particularly ineffective for fragile states. Often, especially in countries with severe capacity constraints, the report would sit in a desk drawer and little follow-up would take place. In more recent years, IMF TA has become more hands-on, with deployment of long-term resident experts and, increasingly, experts assigned from the Fund’s regional technical assistance centers (RTACs).³⁵ Most officials interviewed expressed a clear preference for resident experts as a source of easily accessed advice and support, while regional experts (though not a perfect substitute for “on-the-ground” assistance) were also seen as helpful in translating best-practice recommendations into specific country contexts.

Also showing improvement is the integration of TA with surveillance and program work. IMF country teams have made conscientious efforts in the past few years to integrate their policy advice in surveillance and program work with the technical assistance provided by functional departments. Some of these efforts are aided by the preparation of regional strategy

³⁵ At present, the IMF operates a network of 15 regional technical assistance centers located in the Africa, Asia-Pacific, Europe/Central Asia, Middle East, and Western Hemisphere regions. Their activities are funded by member and host countries, external development partners, and the IMF. See Kim (2018b).

FIGURE 11. IMF TA TO FRAGILE STATES, BY COUNTRY, FY 2011–17

(In person-years of field delivery—left scale; in percent of total—right scale)



Note: Fragile states are identified by the 2015 SPR list. The dotted line represents the volume of TA in person-years to all fragile states whose security risk rating by IMF Security Services was never HRL3, the highest risk category, at any time during 2014–16. TA delivered to multiple countries and regional institutions is excluded. Source: IEO estimates based on ICD data.

notes (RSNs) that have become routine, with the greatest value achieved by the specific country strategy notes that are now prepared for many countries. The African Department (AFR) is implementing a Capacity Building Framework on a pilot basis in four countries, mapping capacity development needs to TA delivery by functional departments and closely involving the authorities of the countries concerned, so as to motivate greater commitment. Likewise, the Asia Pacific Department has been preparing a three-year program for each fragile state to align surveillance with technical assistance, with the participation of TA departments and inputs from country authorities. More recently, the Middle East and Central Asia Department launched a similar initiative.

Nevertheless, there remains room for improvement in this area by applying best practice more consistently across departments. IEO analysis of a sample of staff reports for Article IV consultations with current and former fragile states reveals that TA-related issues were rarely discussed in the main body (except for a pro forma summary of recent TA missions), so the reports yielded little sense of TA impact or the views of TA departments, much less the IMF’s capacity development strategy. This omission limited the role concerned Executive Directors could play, for instance in facilitating coordination with bilateral TA providers. AFR has shown an encouraging way forward. Going beyond the pilots under the Capacity

Building Framework, the department is now requiring all country reports to include a dedicated section on capacity development activities in the main body and an appendix summarizing the country strategy.

Senior fragile state officials and aid experts expressed ongoing concerns about whether IMF TA was reaching its full potential. For example, in countries where implementation capacity is lacking, there is a large unmet demand for resident technical advisors—a finding that echoes previous IMF staff reviews (e.g., IMF, 2015c) and the view of 64 percent of the IEO staff survey respondents (de Las Casas, 2018). Another concern is that high security risk countries receive far less TA support on the ground, given constraints on staff travel, even though they may continue to receive support from IMF staff in neighboring countries. The authorities regarded out-of-the-country capacity development activities as much less effective and even potentially counterproductive: distance limited the number of officials who could be involved, thereby limiting the support received by officials as a team, while taking key officials out of the country for a period of time was seen as highly disruptive to the day-to-day functioning of a government.

Notwithstanding the Fund’s stated priority given to fragile states and a buildup in TA over FY 2011–13, IMF TA to such countries as a group has plateaued in recent years (see Figure 5). Moreover, it has been concentrated in a handful of countries. In FY 2017, for example, the top five recipients accounted for 35 percent of all IMF TA given to FCS in terms of person-years of field delivery (Figure 11). Myanmar and South Sudan have been particularly large recent recipients, though with very different experiences (Box 2). The IMF’s 2016 internal Risk Report, after noting the concentration of TA in a few countries, remarked: “Inflexibilities in internal prioritization processes, including the management of the resource allocation process and the competing demand and deployment of TA staff relative to donor funded projects, may be constraining responsiveness (IMF, 2016b).”

In understanding these trends, it is relevant to appreciate the role of demand versus supply in the allocation of TA resources in the IMF. In principle, all TA is demand-driven, given the requirement that support be requested by the government concerned. As the costs are not charged to the recipients, few governments have refused to accept free TA and most have usually been happy to receive more. But because the IMF’s TA resources are limited, supply factors play a critical role (Kim, 2018b). A careful internal

BOX 2. MYANMAR AND SOUTH SUDAN: CONTRASTING EXPERIENCE WITH IMF TA

Myanmar and South Sudan have been the two largest recipients of IMF TA in recent years, accounting for about 10 and 8 percent, respectively, of all TA provided to fragile states between FY 2013 and FY 2016. When they engaged with the international community, both countries faced enormous needs to build state capacity, the first as a nation emerging from decades of isolation and the second as a newly independent nation. When the IMF intensified its engagement with these countries in 2012, it placed capacity development at the center of its work, heavily funded by external donors and closely coordinated with development partners. The program of technical assistance, in both cases, was anchored within the framework of a Staff-Monitored Program.

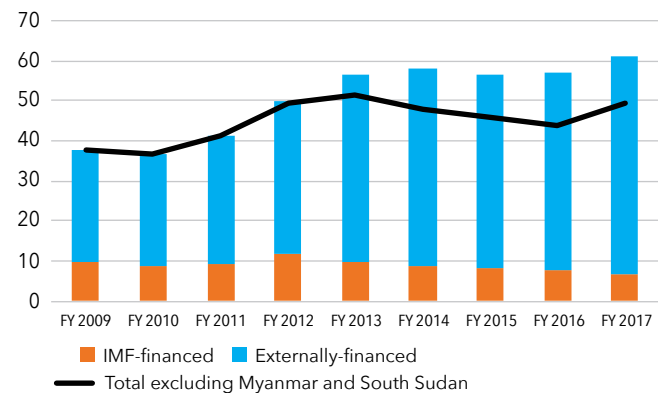
In Myanmar, the overriding objective of IMF TA was to help the country's transition to a market economy, focusing on building fiscal and monetary institutions, including the improvement of public financial management systems and the adoption of a floating exchange rate regime, and macroeconomic statistics. In South Sudan, a unique feature of the IMF's technical assistance program was the establishment of a Trust Fund for Capacity Building in South Sudan, to which the European Union, Norway, and the United Kingdom contributed. The large-scale three-year program, coordinated with the World Bank, the African Development Bank, the United States, and other TA providers, sought to build capacity in central banking, macroeconomic analysis and statistics, tax administration, and public financial management, including the management of oil revenue.

Outcomes could not be more different between the two countries. Myanmar has entered a phase of strong economic growth amid relative political stability (despite lingering ethnic tension), allowing the country to absorb TA and continue to develop human and institutional capacity. In contrast, South Sudan experienced the breakout of a civil war in December 2013. Missions to the country were suspended during a good portion of 2014 and, after a resumption in October 2014, have been suspended again since June 2016, with only limited work taking place outside the country. Recognizing the lack of absorptive capacity and in view of the security situation, the Trust Fund's steering committee agreed in 2015 to a scaling down of TA activities in South Sudan. The volume of TA to South Sudan declined sharply (by nearly three person-years) in FY 2017.

process is followed to determine the allocation of resources, taking into account the assessment of country needs and the effectiveness of TA work. On occasion, some TA has been proposed to the authorities on the basis of resource availability.³⁶

IMF staff members involved in TA administration and delivery emphasized the strong efforts that had been made to build up TA to fragile states, and suggested that the recent plateauing of TA provided to FCS mainly reflected concerns about the low absorptive capacity of fragile states, as reflected in a lack of progress in implementing TA recommendations, set against competing priorities.³⁷ Under these circumstances, they added, the apparent plateauing only suggests that the volume of TA to fragile states has reached roughly the capacity limit. A tightening of the travel rules that followed the tragic killing of an IMF resident representative in Afghanistan in 2014 was also highlighted, although the volume of TA has not

FIGURE 12. IMF TA TO FRAGILE STATES, BY FUNDING SOURCE, FY 2009–17
(In person-years of field delivery)



Note: Fragile states are identified by the 2015 SPR list; TA delivered to multiple countries and regional institutions is excluded.
Source: IEO estimates based on ICD data.

³⁶ The IEO learned from various interviewees about cases in which multiple TA missions had visited a country towards the end of an IMF fiscal year, overwhelming the capacity of the country to receive them. As another example, a sophisticated financial sector mission was suggested to a country where there was no financial sector to speak of.

³⁷ For example, analytical support to the Group of Twenty is provided as technical assistance.

BOX 3. EXTERNAL EVALUATIONS OF DONOR-FINANCED TA ACTIVITIES

External evaluations have been conducted for the activities of RTACs, TA activities financed by multi-donor topical trust funds, and TA projects financed by some bilateral donors. The IEO reviewed twelve of these reports.¹ They vary widely in quality and do not generally address the issues of effectiveness or impact directly. Given their donor-mandated nature, their focus appears to be more on accountability than on learning.

The IEO's analysis identified the following issues as recurring challenges to the effectiveness of IMF TA in LICs and lower MICs, including some fragile states:

- ▶ Limited access of resident experts to policymakers;
- ▶ Limited coordination among TA providers;
- ▶ Lack of absorptive capacity;
- ▶ Lack of follow-up;
- ▶ Difficulty of recruiting qualified regional experts;
- ▶ Frequent change of government and reversal of reforms;
- ▶ High turnover of officials who leave civil service for higher paying jobs;
- ▶ Corruption and lack of commitment to reforms;
- ▶ Low national ownership.

For fragile states,² CLIC (2015) additionally highlighted the need to:

- ▶ Be on the ground even in difficult security environments to coordinate with partners;
- ▶ Combine technical support with organizational development to ensure sustainability.

¹ Murray and others (2009); Murray, Abrams, and Vaai (2009); Jones and others (2009); Global Partnerships (2011); Chatterji and others (2013); Woodbridge and others (2013); Certan and others (2014); CLIC (2015); Consulting Base (2015, 2016); DevTech Systems (2015); Watson and others (2015).

² This evaluation covered public financial management, tax administration, and financial sector reforms in six fragile states: Afghanistan, Iraq, Libya, Sudan, West Bank and Gaza, and Yemen.

increased much even for those fragile states where security risk was less of a concern (see the dotted line in Figure 11).³⁸

The IMF has relied heavily on external funding for TA to FCS in view of a binding internal budget constraint. As much as 75–89 percent of IMF TA to fragile states has been externally funded in recent years (Figure 12). Reliance on external funding could potentially limit the flexibility of IMF TA delivery, to

the extent that external funding is often earmarked for certain purposes. For example, when external funds are administered through country-specific trust funds (as in Somalia and South Sudan), the manner of TA delivery is strictly prescribed; if the security situation prevents TA being delivered to the designated country, the funds remain unused.³⁹ As a matter of practice, moreover, the IMF has sought to limit the overall TA budget in order to maintain the quality of its TA. As the IMF does not

³⁸ It is instructive in this context to note that the volume of TA to South Sudan remained significant despite the suspension of mission travel to that country (the IMF security risk rating for South Sudan was HRL2). See Table 7.

³⁹ IMF staff does not share the view that the lack of flexibility in external funding has adversely affected the volume of TA to fragile states. Rather, rising external funding has allowed total TA volume to expand in the environment of a tightening internal budget constraint.

outsource the delivery of TA to third parties, the limited ability to hire backstop staff potentially could also place an additional constraint on the amount of TA it can deliver (Kim, 2018b).

Is there solid evidence that TA to countries in a prolonged state of fragility is less effective than TA to non-fragile states? Although a systematic attempt by the IMF staff to assess the impact of IMF TA is just getting underway (e.g., IMF, 2017c), some information is available from periodic external evaluations of donor-funded TA projects prepared by private consultants (Box 3, p. 25). Two of these evaluations assessed the effectiveness of IMF TA in FCS and non-FCS during 2011–14 and yielded mixed assessments (Consulting Base, 2015; DevTech Systems, 2015).⁴⁰ The lack of strong evidence may mean that FCS and non-FCS at comparable stages of development face similar obstacles to IMF TA-driven structural reforms.

With the just-launched results-based management (RBM) framework for technical assistance, which is designed to “monitor the actual outcomes that the Fund hopes member countries will achieve” with the use of objective indicators and a rating system (IMF, 2017a), it is expected that impact assessment will become a routine part of IMF capacity development work.

However, some stakeholders expressed concerns that the otherwise welcome emphasis on accountability could potentially work against the interests of fragile states where weak implementation capacity militates against achieving quick impact. A decision by the IMF to pull out in the face of setbacks must be carefully weighed in a strategic context, preferably in consultation with development partners. Some senior country officials said that the recent increase in emphasis on accountability had made them reluctant to request TA from the IMF, because they were unsure of their ability to produce results within a short period of time; they had often been irritated by IMF staff repeatedly asking them about the impact of IMF TA, which in their view could only be assessed over the medium term. Thus, it is important to be realistic in the application of RBM to fragile states, so that achievable goals are set with an appropriate time horizon.

HAS THE IMF'S ENGAGEMENT BEEN SUFFICIENTLY TAILORED TO COUNTRY-SPECIFIC CIRCUMSTANCES?

The need to tailor policy advice or conditionality to country circumstances, important for any country, assumes even greater importance for fragile states. This is well recognized within the IMF. In 2015, the IMF committed to providing “more tailored policy advice that is sufficiently attuned to the political economy circumstances and flexible to adapting to the realities on the ground” and to enhancing its “policy analysis and advice to address the challenges of fragile states” (IMF, 2015f). Implicit in the need for political economy analysis is the recognition that, while weak governance and corruption are the key elements of fragility that need to be tackled, it is a complex matter to determine the appropriate pace and sequence of reforms in a specific country context.

The evaluation team sought to identify recurring issues or patterns in the IMF's surveillance or conditionality that might deserve attention. Views differed widely even among officials and experts within the same country as to what constituted the best approach under a given circumstance. In general, incumbent officials tended to argue that the IMF should be “more realistic” in policy advice or “softer” on conditionality, while many former officials or those in the opposition typically supported a tougher IMF stance. Opinions also varied among donors on the ground and representatives of civil society. Some interviewees called for the IMF to be more understanding of local conditions, while others suggested that the IMF had been too “soft” on structural conditionality, especially when governance issues were involved, and that it had missed opportunities to apply its substantial leverage with the authorities.

Among the most frequently discussed policy issues was how to reduce costly fuel subsidies. In almost all the country cases reviewed for this evaluation, this issue arose in the context of engagement with the IMF. Many incumbent officials indicated that the IMF had pushed them too hard, not recognizing the political and social implications of lifting subsidies on fuels, but other informed observers said that the authorities' arguments were largely self-serving. On occasions, a rapid pace of reform backfired even if it may

⁴⁰ Consulting Base (2015), rating the “overall effectiveness” of IMF TA in tax policy and administration on a scale of 1–4, gave average scores of 2.5 for 5 countries classified by the World Bank as fragile at any time during 2011–14 and 3.4 for 3 countries never classified as such during the same period. DevTech Systems (2015), likewise rating the “overall performance” of IMF TA on managing natural resource wealth on a scale of 1–7, gave average scores of 4.7 for 6 countries classified by the World Bank as fragile at any time during 2011–14 and 4.5 for 10 countries not classified as such during the same period. See Kim (2018b).

BOX 4. YEMEN: FUEL SUBSIDY REFORM

Fuel price increases in 2014 are sometimes seen as having precipitated Yemen's descent into civil war, and the IMF has been blamed for pushing too hard on subsidy reform without appreciating the risks. The story is more complex. The IMF's internal documents show that the staff had preferred a more gradual approach, coupled with a communications strategy to highlight the mitigating social spending measures being taken. But the government's more abrupt action in July 2014 was effectively forced by events.

The need for subsidy reform in Yemen had been well recognized for many years, and several attempts had already been made to tackle the issue, including in the ECF-supported program that was approved in 2010 (IMF, 2013a). In early 2014, the IMF sought to negotiate a new ECF-supported program that included a fiscal adjustment of 2.5–3.0 percent of GDP in 2014, coupled with a substantial reduction in fuel subsidies—which in 2013 accounted for about 7 percent of GDP, nearly 60 percent of the country's hydrocarbon revenue, and more than 20 percent of total public expenditures. The idea was to phase in the price increases gradually and use the fiscal space created from cutting the subsidies to increase quality investment spending and targeted social transfers.

Given the political and social sensitivity, the authorities remained reluctant as they negotiated a new program. However, the situation changed when attacks on oil facilities cut production, fuel shortages led to extensive black-market activity, and the decline in oil revenue put further pressure on the already deteriorating fiscal deficit. In July, the cash-strapped government raised fuel prices by a full 50 percent, with little indication of how social spending would be increased to protect the poor and vulnerable. The fuel price increase became a rallying point for the rebel movement to organize mass protests, which were a tipping point in the escalation of the Yemeni civil war (Ghobari, 2014; Robins-Early, 2015).

Even with the benefit of hindsight, it is difficult to know if there was a viable alternative. A former Yemeni official, an independent expert, and officials in the region stated that, given the unsettled political climate at the time, the subsidy reform should not have been attempted. But to maintain the existing level of subsidies (costing the government roughly \$10 million a day) would have required much more budgetary support than the donors were willing to provide. Given the precarious state of public finances, the fuel subsidies were clearly not sustainable. The rebel movement, after taking over the government in the capital city of Sanaa in 2015, totally removed the subsidies (Al-Shamahi, 2015). One informed commentary stated that the government should have done more to “develop political consensus around this reality” and to “prepare the public for the inevitable” (Greenfield and Milbert, 2014).

have been a sound course of action on technical grounds and difficult to avoid, as was the case in Yemen (Box 4).

Another recurring topic, particularly in the context of an IMF-supported program, concerned the limit typically placed on external borrowing. A number of officials complained that borrowing limits had been too tight in view of the enormous needs for investment in basic infrastructure such as roads, power plants, schools, and hospitals—investment that they saw as essential to accelerate growth and promote social spending and hence to underpin lasting economic (and political) stabilization. Clearly, there are difficult trade-offs. Debt sustainability is an important consideration, given that many fragile states have received debt relief under the Heavily-Indebted Poor Countries

(HIPC) Initiative (see Appendix 1).⁴¹ IMF staff has developed various analytical tools to assess the growth, fiscal, and debt sustainability impacts of investment strategies (e.g., Buffie and others, 2012; Melina and others, 2014; IMF, 2015e; 2015f). Country teams have used these and other analytical tools for a number of countries in recent years, but such analysis has informed practical policy advice in the context of the Article IV process only in a handful of fragile states (e.g., Chad, 2013; Liberia, 2012; Myanmar, 2014; Timor-Leste, 2017; Togo, 2011).

The above topics illustrate the perceived tensions that can arise between development and macroeconomic stabilization objectives as well as the heightened role of socio-political factors in fragile states. Other such topics were: (i) the

⁴¹ The HIPC Initiative, launched in 1996 by the IMF and the World Bank, involves two steps for countries seeking debt relief: (i) meeting certain conditions to become eligible (Decision Point) and (ii) showing progress under the agreed framework, including an IMF-supported program (Completion Point). For details, see <http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative>.

appropriate build-up of official foreign exchange reserves (e.g., the Democratic Republic of the Congo, Liberia), with implications for exchange rate management and hence the domestic prices of key sensitive commodities; and (ii) involvement by the central bank in lending schemes to the private sector, as in Liberia, where the IMF staff objected to such a scheme on the grounds, inter alia, of the risks involved, but the central bank staff argued that, in a fragile state like theirs, what might be viewed as “unorthodox” monetary policy measures were required to address a shortage of funding available through conventional channels.

The 2011 staff review of IMF work on FCS concluded that “the forms of engagement [might] not have sufficiently taken into account the specific characteristics of fragile situations” (IMF, 2011a). This evaluation’s finding is that the evidence is mixed and inconclusive. For example, several case studies, including Chad and Côte d’Ivoire, found that the issue of corruption was candidly discussed in internal documents and staff reports. For Chad, the issue of military spending was extensively discussed by the staff from 2006, when the country’s oil resources began to flow.⁴² For Côte d’Ivoire, the 2011 Article IV consultation noted the positive role of the armed and paramilitary forces in combating smuggling, fraud, and border insecurity, and thereby boosting economic recovery. But these discussions of security spending were atypical of the IMF’s policy dialogue with FCS authorities, and in several cases corruption was hardly mentioned (see also IMF, 2017d for a similar finding). It is difficult to determine whether the difference reflected uneven attention to similar problems of critical importance, or the different degrees of importance of corruption or military spending in different countries.

Area department staff members interviewed observed that their efforts to incorporate greater country specificity in their policy advice or conditionality were occasionally undermined by the Fund’s interdepartmental review process. In their view, the process imposed too much uniformity (e.g., in terms of data requirements, analysis, topic coverage, or even table format)

where more differentiated treatment would have been warranted. Others complained that the review process gave too much weight to the consistency of numbers, and not enough to the quality of policies being discussed. Some more junior staff members felt that they would be risking their professional reputation if their policy advice or prescriptions were perceived as “too weak,” given the culture of the institution where, in the case of a program, the ability to negotiate tough conditionality measures is prized. Similarly, when asked by the IEO staff survey why the principles advocated in the Staff Guidance Note had not been applied in specific instances, 39 percent of respondents attributed the failure to an “IMF culture that places value on best international practice,” while 61 percent of them attributed it to “pressure from review departments.” Staff often perceived SPR reviewers as not understanding the specific circumstances of the country. In turn, the reviewers sometimes considered mission chiefs “too accommodating” on the pace and scope of reforms and often failing to make a sufficient case for differentiated treatment based on a well-grounded explanation of the sources of fragility.⁴³ There is no way of knowing which side was right in any given circumstance without fully investigating the specific merits of each position.

As a general proposition, some staff members suggested to the IEO that a possible key to resolving such conflicts between country teams and review departments would be to follow more rigorously and uniformly the injunction in the Staff Guidance Note stipulating that policy notes “should explicitly address the nature of fragility, including... political and social context” and should include “a brief discussion of the overall strategy that would help the country transition out of fragility” (IMF, 2012). In practice, many policy notes (as well as staff reports) on FCS seem to have treated these countries almost like any other country, in a “pedestrian” way, as characterized by a former senior IMF staff member, focusing almost exclusively on headline macroeconomic trends and paying little attention to underlying institutional issues.⁴⁴

⁴² Staff highlighted the risk that the Chadian authorities, in a security-challenged region, might be tempted to use the oil revenue to boost military spending, and suggested that military spending be benchmarked to non-oil GDP; a quantitative performance criterion on wage spending included the military.

⁴³ In some cases, senior staff mentioned that mission chiefs could be “more ambitious” than SPR reviewers in responding to requests from reform-minded authorities wishing to bolster their agenda.

⁴⁴ In discussing this issue, some staff members pointed to the constraints imposed by limits on the length of staff reports. Arguably, some of the more mechanical and detailed elements of program content could be delegated to annexes, where there are no page limits, leaving more scope for the body of the report to concentrate on a fuller development of the overall strategy.



ASSESSING THE FRAMEWORKS AND PROCEDURES OF IMF ENGAGEMENT

HOW WELL HAS THE IMF COLLABORATED WITH DEVELOPMENT PARTNERS?

The need for collaboration and coordination among development partners in FCS work is well recognized throughout the international donor community; it was highlighted by both the 2007 OECD Principles and the 2011 New Deal Principles. Given the limited capacity of many fragile states, all bilateral donors and multilateral agencies need to collaborate and coordinate, but the need is particularly relevant for the IMF, which is a relatively minor player both as a source of financing and as a provider of technical assistance. Moreover, cooperation to form a unified position can in some instances be the most effective way of engaging with FCS over the highly politically charged issues of corruption and governance-related institutional reform. Among the interviewees for this evaluation, virtually every mission chief or resident representative assigned to a fragile state was keenly aware of the need to collaborate with development partners in order to increase the effectiveness of IMF engagement.

Collaboration occurs at multiple levels—on the ground, at headquarters, and at the institutional or global level. Wherever a resident representative is assigned,⁴⁵ a good deal of collaboration takes place on the ground, at least in the area of information exchange. In these countries, IMF resident representatives meet regularly with the local representatives of other multilateral institutions and bilateral donors, and in almost all cases there exists a formal or informal mechanism of information exchange, with or without host government involvement. The IMF is regularly invited to brief development partners whenever a mission visits the country. Where a resident representative cannot be located in the country (for example, for security reasons), some form of collaboration takes place in a third location or at headquarters, but this modality can be challenging because the operational staffs of multilateral development banks (MDBs) and bilateral donors are more likely than the IMF to be “on the ground” in the country. Information exchanges with World Bank staff, both on the ground and at headquarters, are particularly close, but exchanges with the staffs of regional development banks (RDBs) and bilateral donor agencies are much less so. While this is understandable in view of the fact that these agencies are primarily involved in sector work outside the core competence of the IMF, there is still scope for strengthening cooperation with RDBs and donor agencies in FCS.

Beyond information exchange, the depth of collaboration among development partners is quite varied. Collaboration typically works better where the host government’s capacity is well developed, allowing the government to identify needs and set priorities, help to coordinate donors, and request specific assistance from development partners as it sees fit.⁴⁶ In the many fragile states that lack these

⁴⁵ All but six countries on the 2015 fragile states list currently have an IMF resident representative or a regional representative (see Appendix 1).

⁴⁶ Even in a low-capacity country, effective collaboration can still take place when the head of a ministry or an agency is an exceptionally qualified person. In such instances, collaboration often ceases to be effective once the person leaves the office.

conditions, the question is how to coordinate technical and financial assistance among partners so that the needed support can be given without duplicating efforts, crossing purposes, or overwhelming the authorities' limited capacity. The evaluation found a fair amount of duplication and wasted effort in the delivery of TA, where both IMF teams and teams from other agencies were involved in the areas of public finance and financial sector regulation; in one instance, ineffective coordination led to a serious oversight in financial supervision.⁴⁷ In the IEO staff survey, 59 percent of the respondents considered that coordination with partners on the delivery of TA was either strong or adequate, while 30 percent considered it weak (de Las Casas, 2018).

Ideally, effective collaboration on TA delivery involves broad agreement among development partners on the objectives, tasks, and responsibilities of each provider, but such collaboration has been rare in fragile states. The exceptions are, perhaps, instances of collaboration at an immediate post-conflict stage,⁴⁸ and to a lesser extent, in the case of multi-donor topical trust funds (TTF), in which IMF TA is supported by several donors.⁴⁹ Often medium-term development plans are drawn up, but they lack the requisite details and are therefore insufficient to guide collaboration.

To be sure, effective collaboration is difficult. First, it is often not clear which donor should assume the leadership or coordinating role in a country. In the view of most stakeholders, the IMF is not the right organization to play that role, given its limited mandate, except perhaps in capacity building in the areas of its core competence. Second, development partners have different budget cycles and planning horizons. Third, each donor has its own mandate and agenda. For these reasons, collaboration and coordination have rarely gone much beyond information sharing, and donors have continued to work separately even though in principle they have agreed to work together.⁵⁰

Much of the collaboration that takes place on the ground depends on good personal relationships, and IMF resident

representatives typically play a critical role in the process. It needs to be emphasized that given the unique individual circumstances of each country, no general rules can be designed at headquarters to apply to all countries. This makes it important to assign staff members qualified in terms of experience, technical competence, and diplomatic skills as resident representatives to a fragile state. Country officials were by and large pleased with the collaborative skills of IMF resident representatives assigned to their countries.

Outreach can be an important part of broader cooperation efforts on the ground. Observers in a number of fragile states (e.g., the Democratic Republic of the Congo, Haiti) urged that the IMF staff including mission chiefs be prepared, with the support of the authorities, to play a more active role in communicating with parliament, the media, and civil society. In a fragile state where political power is contested, such outreach efforts may need to be conducted despite some reluctance on the part of the authorities, requiring the staff to exercise great care and sensitivity, possibly in consultation with development partners. The role of the IMF—and especially how its mandate differs from those of other external partners—is often quite poorly understood outside of a small circle within the government. Greater outreach by the IMF could help build a consensus among stakeholders as to needed actions. Again, such activities, apart from demanding additional time, require seasoned and experienced staff with appropriate tact and diplomatic skills.

Some donor representatives expressed concern that collaboration was hindered because communication with the IMF tended to be one-way and not sufficiently interactive; the IMF would brief them on the outcome of negotiations but showed less interest in an open discussion of strategy. These representatives thought that there was much more they could do to assist the IMF—for example, in identifying sources of political resistance to reforms, advising on realistic structural reforms, and, in the

⁴⁷ See Afghanistan case study on the Kabul Bank crisis (Chapter 1 in Takagi and others, 2018b).

⁴⁸ In Afghanistan, for example, steering committees among donors were created, with the appointment of a high-level independent project manager, to coordinate donor efforts. In Bosnia and Herzegovina, the IMF played a leading role in developing the overall strategy for rebuilding fiscal institutions, with a substantial amount of support provided for implementation by major bilateral donors (Gupta and others, 2005). In Timor-Leste, the responsibility to manage a multi-donor trust fund for development purposes was given to the World Bank and the Asian Development Bank.

⁴⁹ Each TTF involves a steering committee that meets regularly where IMF staff provides an update of the progress being made and consensus decisions are made. However, this does not solve the problem of coordination between TTF-funded IMF TA and TA provided by other agencies in similar areas.

⁵⁰ For example, in October 2007, the IMF and MDBs reached understanding that they would agree “on country-level division of labor” in technical assistance. See <http://www.iadb.org/en/news/news-releases/2007-10-20/development-banks-commit-to-closer-collaboration-working-in-fragile-situations,4092.html>.

case of bilateral donors, mobilizing the political connections of their ambassadors in pushing for reforms. Part of the reluctance of the IMF staff to engage fully with development partners reflects the privileged access the IMF enjoys to confidential information, and the caution with which the IMF staff handles that information. Some suggested to the IEO that such reluctance stemmed from the centralized nature of the IMF's decision-making process. Resident representatives or mission chiefs may hold back from giving their candid views, which might subsequently be overruled by their superiors in Washington. A solution to this problem must involve having on the ground sufficiently senior staff with independence and judgement.

Although most collaboration takes place on the ground, a framework for effective collaboration at a higher level may be necessary at times when global or regional strategies are being developed for a country, when fundamental differences in priorities and budget cycles need to be reconciled at the institutional level, or when a significant increase in donor support is being sought. Despite the rhetoric to that effect repeated over the past decade, the international community has not yet firmly established a robust mechanism of cooperation in FCS. Whatever the faults of the existing architecture, the International Network on Conflict and Fragility is the only forum in which issues of collaboration and cooperation among development partners are routinely discussed at the general level, but the IMF has withdrawn as an active participant, considering the forum to be of little operational value.

Part of the reason for this outcome is that the Fund has no dedicated unit to liaise with development partners on fragile state issues at the institutional level. Instead, a handful of senior staff has from time to time taken on related tasks. These individuals may well develop personal interest in the topic, but when they retire or move to another assignment, institutional contact or memory may be jeopardized.

HOW HAS THE IMF MANAGED ITS HUMAN RESOURCES FOR FRAGILE STATE WORK?

The quality of staff working on FCS, especially economist staff at the grade levels of A11–A15 and B1–B3 who perform the bulk of operational work,⁵¹ is crucial in determining

the quality of support the IMF provides to FCS and hence the effectiveness of its engagement. Senior country officials interviewed for the evaluation generally gave high marks for the caliber of the IMF mission chiefs and resident representatives assigned to their countries. These staff members were typically regarded as dedicated, resourceful, and sensitive to country-specific conditions. Some concerns were expressed about the lack of interpersonal or diplomatic skills displayed by a distinct minority of them, but never about their technical competence. By contrast, serious complaints were uniformly expressed about the high turnover of mission teams and a lack of experience and country-specific knowledge of team members. Two aspects of the IMF's human resources (HR) policy merit further discussion in this context: (i) deployment of staff resources to individual fragile states; and (ii) staff incentives to work on these countries.

In discussing these aspects of the IMF's HR policy and practice, the diversity of countries and country experiences represented by FCS work at the IMF must be kept in mind. Some fragile states are small states, whose economies are not diversified (e.g., Kiribati, Solomon Islands), while others are larger economies with appreciable complexity (e.g., Angola, the Democratic Republic of the Congo). Yet other fragile states might be just emerging from conflict and receiving a lot of attention from the international community at the highest political level (e.g., Afghanistan and Iraq in the early 2000s; Bosnia and Herzegovina in the late 1990s). Many FCS have IMF lending arrangements, requiring close engagement, while others have less close involvement centered on Article IV surveillance.

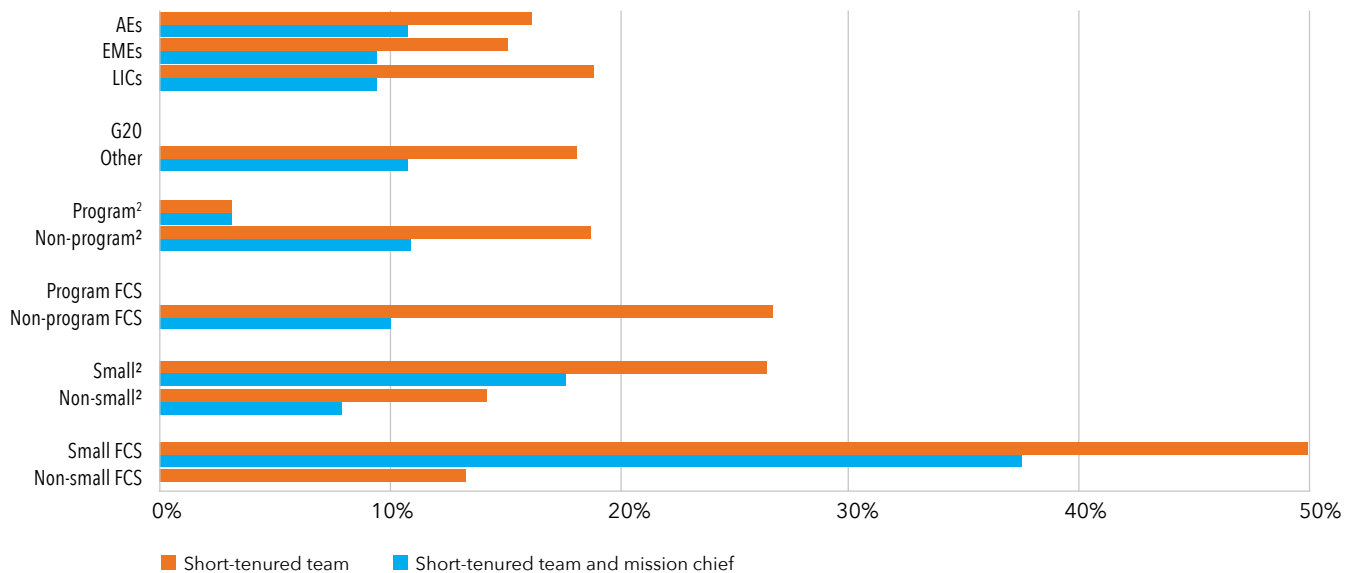
It has been the practice of IMF area departments to assign senior (B-level) staff to head missions to higher-profile fragile states and more junior (A14/A15) staff to lower-profile fragile states, but most mission chief positions are currently staffed at the A15 level.⁵² Staff incentives clearly differ between high-profile and lower-profile fragile states, while security considerations can also be an important factor.

⁵¹ Within the IMF, the B1–B5 designations are for senior managerial staff, while the A11–A15 designations are for other professional staff; B5 (department director) and B4 (deputy director) are the designations for senior supervisors.

⁵² At the end of 2017, work on 10 of the 39 countries on the fragile states list was led at the B level, 25 at A15, and 4 at A14 (see Appendix 1). For economist careers in area departments and most functional departments, A14 refers to senior economist, A15 to deputy division chief, and B1 to division chief/advisor.

FIGURE 13. SHORT-TENURED TEAMS, END-FY 2016¹

(In percent of total in each category)



Source: IEO estimates based on HRD/RMU data.

¹Percentage refers to the share of IMF country teams with less than one year of experience on the current assignment (top or orange bar for members only; bottom or blue bar for both members and mission chiefs); fragile states are identified by the 2015 SPR list. AE = advanced economy; EME = emerging market economy.

²For comparison purposes, fragile states are excluded.

Deployment of staff resources

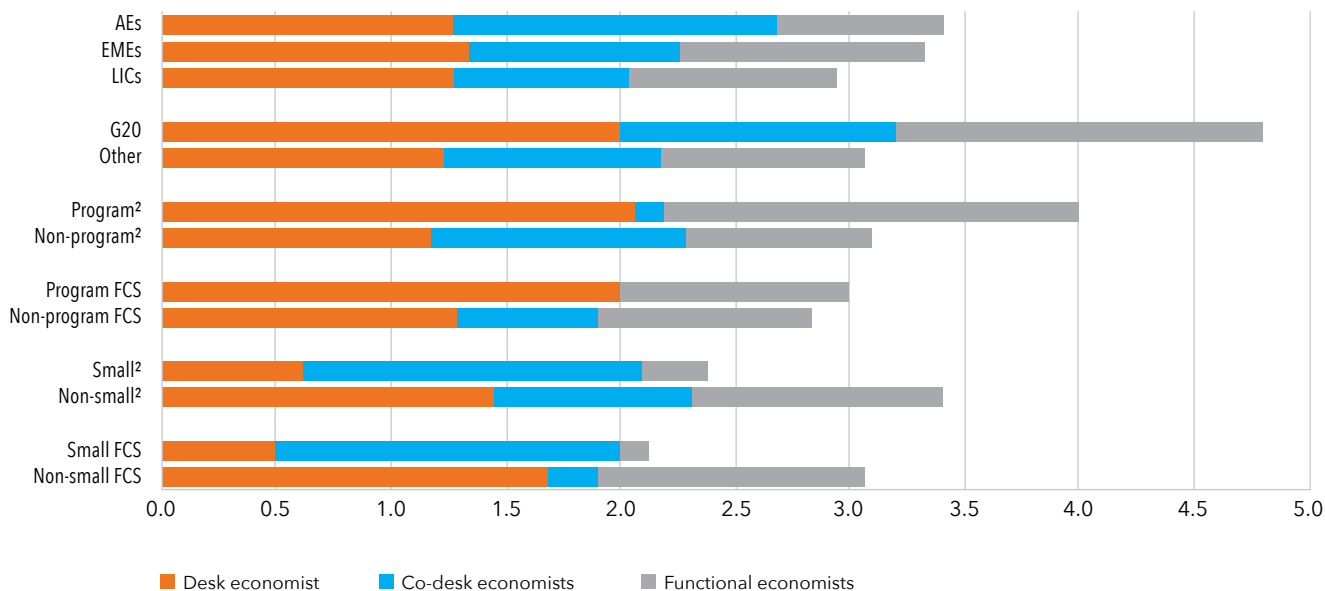
High staff turnover on country assignments has been a long-standing issue within the IMF and is not unique to fragile states (Kim, 2018a; see also IEO, 2002; IMF, 2016b).⁵³ Even so, it is arguably more problematic for countries with weak capacity. For example, a senior official of a fragile state complained to the IEO that a new junior economist in the Economist Program was assigned to his country every year to work on multiple complex fiscal issues,⁵⁴ which in his view should have required the work of two experienced economists; another official described what he had to do every year to teach the new IMF staff as “reverse TA.” The problem seems particularly severe in small FCS, where 50 percent of teams at the end of FY 2016 were “short-tenured” (i.e. had been in the current assignment for less than one year), compared to 27 percent for small non-fragile states (Figure 13).

Another deployment issue relates to the resources provided to different country missions. The poor data quality, weak implementation capacity, quickly shifting local conditions, and the greater need to consider the political economy context make FCS work particularly labor-intensive. In the IEO staff survey, 79 percent of respondents who had worked on fragile states agreed or strongly agreed that FCS work was time-consuming; 52 percent considered the work to be “frustrating” (de Las Casas, 2018). Some mission chiefs who were interviewed told the IEO that they had to construct their own price indices; others had to engage with military generals or rebel leaders with limited economic background as part of their mission work; others noted that, back in Washington, they constantly received telephone calls from the authorities even on weekends. Twenty-three percent of the IEO staff survey respondents who did not want to accept another FCS assignment listed intensity of work as the reason.

⁵³ The IMF’s general staffing policy is to aim for a three-year tenure in country assignments in area departments. The target length for FCS assignments has been shortened to two years in AFR and MCD in view of the hardships that can be involved in missions to these countries. See the next subsection.

⁵⁴ The Economist Program is an entry-level recruitment scheme in which economists under the age of 33 are hired typically out of graduate school.

FIGURE 14. SIZE OF COUNTRY TEAMS BY TYPE OF COUNTRY, END-FY 2016¹
(Full-time equivalents)



Source: IEO estimates based on HRD/RMU data.

¹Fragile states are identified by the 2015 SPR list; AE = advanced economy; EME = emerging market economy.

²For comparison purposes, fragile states are excluded.

Given the work intensity involved, one might think that more staff resources should be devoted to work on fragile states, not only to minimize the workload of staff for work/life balance purposes but also to make FCS work a more attractive assignment. In practice, this has not been the case. As of the end of FY 2016, non-small fragile states were allocated on average about three full-time staff equivalents (FTEs) of resources per country, compared, for example, to the average of nearly five FTEs of staff resources allocated to G20 countries or the average of four FTEs for all non-fragile program countries (Figure 14). Looking at program cases only, FCS teams received an average of three FTEs, compared to a Fund-wide average of four. Thus, it is not apparent that fragility, and the intensity of work it implies, received specially favorable consideration in resource allocation.

Staff incentives to work on fragile states

The IMF has experienced long-standing difficulties in attracting experienced economists to work on FCS. Since

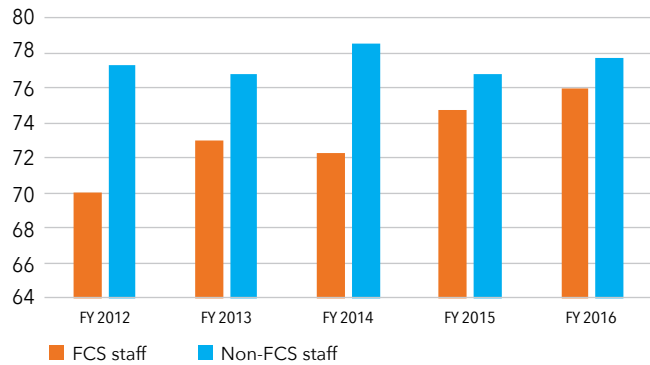
mission chief positions, especially at the A15 level, are hard to come by and are a stepping stone to promotion, area departments generally have not found it difficult to recruit capable experienced staff at the mission chief level in recent years.⁵⁵ Likewise, recruiting TA experts to work on FCS is reportedly less difficult since working on challenging FCS issues is seen as professionally rewarding. But recruitment of desk economists and other country mission members, including from functional departments, has posed much greater difficulties, depending on the type of country involved. As a result, FCS missions have been routinely staffed with those in the Economist Program, external mid-career economist hires,⁵⁶ and even research assistants. Without questioning the innate competence of such staff, their lack of IMF experience diminishes the quality of support the institution can provide to fragile states while increasing the workload of mission chiefs, who can be required to do the work normally performed by other mission team members.

⁵⁵ A single A15-level mission chief vacancy can attract dozens of A14 applicants.

⁵⁶ Fragile state vacancies have thus become a frequent point of entry for mid-career economists seeking positions in the IMF.

FIGURE 15. CURRENT-YEAR AND PAST-YEAR AVERAGE PERFORMANCE RATINGS OF A13-LEVEL FCS AND NON-FCS STAFF, END-FY 2016

(APR rating: "Outstanding" = 100; "Superior" = 85; and "Effective" = 70)



Note: FCS staff identified as of end-FY 2016; fragile states are identified by the 2015 SPR list.

Source: IEO estimates based on HRD data.

The staff offered several reasons to explain why it is so difficult to recruit experienced staff members to work on some FCS. First, most IMF economists have advanced degrees in macroeconomics or finance, with comparatively less interest in development issues. Second, given their professional background, many of them do not find it intellectually interesting or challenging to work on FCS where economic diversity is limited, quality data are not available, or financial markets are not well developed. Third, there is a tendency within the IMF to consider that the mark of a good economist is an ability do analytical work on complex economies, with less attention paid to the ability to make a difference to countries' policymaking on the ground. Fourth, conditions in FCS can be personally risky, even dangerous, and typically less comfortable than in other IMF assignments, while workloads and travel requirements are often heavy, as noted above. Fifth, while the potential impact of FCS work can be high, the risks of setbacks are also substantial.

On top of these factors, the great majority of staff members interviewed by the IEO emphasized that fragile state work had developed a certain stigma. Country assignments in the

IMF are heavily affected by personal preferences: when a position becomes open, it is advertised and then filled through a competitive process. In this environment, there is a natural tendency for high performers to gravitate toward working on large or advanced economies and away from small or fragile states. The IMF's HR data confirm that FCS positions have attracted far fewer applicants than have other positions (Kim, 2018a; IMF, 2016b). Moreover, staff members assigned to work on FCS, especially at the A13 level, on average have received a lower than average rating on their annual performance review (APR) during the preceding four years (Figure 15). This may in part reflect the larger share of recent mid-career hires at the A13 level assigned to work on FCS. In contrast, the difference in performance rating between FCS and non-FCS economists is not as pronounced at the A14 or A15 level (Kim, 2018a).⁵⁷

The widely-held perception that assignments to FCS are not career-enhancing and may even be detrimental to one's career is well reflected in the IEO survey of staff. Forty-eight percent of the respondents who had worked on FCS thought that FCS work was considerably or moderately negative for their career and remuneration, and 78 percent thought that such work was strongly or moderately undervalued. Among those who did not want to accept another FCS assignment, 56 percent and 35 percent listed negative promotion impact and stigma, respectively, as the reasons (de Las Casas, 2018).

These perceptions are reinforced by personnel data on economist promotions from A14 to A15 and from A15 to B1 (Table 6). From FY 2011 to FY 2017, on average only 2.4 percent of FCS economists were promoted from A14 to A15 per year, compared to the average of 8.8 percent for non-FCS economists; this translates to eleven economist promotions (out of 439 economists) over the entire seven-year period (Kim, 2018a).⁵⁸ For promotions from A15 to B1, the comparable numbers were 3.1 percent and 7.1 percent, respectively. As a related, but separate, matter, the fact that most missions to fragile states have been headed by A15 economists adds to the adverse incentives of junior staff members who value working with senior staff as career-enhancing.

⁵⁷ For the purposes of this analysis, a staff member is considered to have worked on a fragile state if he or she had spent at least 30 percent of total working hours on such a country during a given year.

⁵⁸ Of the 11 promotions, AFR accounted for 4.

TABLE 6. PROMOTIONS OF ECONOMISTS WORKING ON FRAGILE VS. NON-FRAGILE STATES, FY 2011–17
(In percent of total within each grade)

PROMOTION FROM A14 TO A15 (All economists)		PROMOTION FROM A15 TO B1 (Area department economists only) ¹	
Fragile states ²	Non-fragile states	Fragile states ²	Non-fragile states
2.4	8.8	3.1	7.1

Source: IEO estimates based on HRD data.

¹Almost all A15 economists with fragile-state assignments are in area departments.

²Fragile states are identified by the 2015 SPR list.

These HR issues, and the need to incentivize staff to work on FCS, have certainly been recognized by the IMF for some time. In 2013, IMF management requested the staff to develop a proposal to increase staff incentives for FCS work. In the absence of a Fund-wide solution, in 2014, AFR and MCD put in place incentive schemes at the departmental level, reducing the expected length of a country assignment from three to two years (though it goes against the need to reduce staff turnover), enhancing opportunities for follow-up non-FCS assignments, ensuring an equitable distribution of APR ratings, and providing additional compensatory leave for mission travel. They also introduced expectations of two years of prior FCS/LIC work for promotion to a B1 position within their departments (IMF, 2014b).

Another IMF-wide attempt was made to tackle the issue in 2015. A staff working group proposed the following measures, among others (Fennell, 2015; IMF, 2015a):

- ▶ The A12–A14 economist competency framework to include the need for diverse work experiences across all country types;
- ▶ Staff to be guided towards a two-year assignment on FCS/LIC/high-risk locations (HRL);
- ▶ Staff to be automatically shortlisted when applying to same-level positions following their FCS/HRL assignment;
- ▶ A15 mission chiefs to be required to have two years of prior work experience on FCS/LIC/HRL;
- ▶ The [Promotion] Review Committee and the Senior [Promotion] Review Committee to signal the importance of FCS/LIC/HRL work in promotion decisions.

However, a proposal by AFR and MCD for a non-pensionable 5 percent salary adjustment for staff working on FCS did not become part of the working group proposals.

In the event, none of these proposals was formally adopted at the institutional level, although diversity of experience has recently begun to receive more emphasis from the promotion review committees, and apparently in some cases staff members have been explicitly held back from promotion for lack of FCS or LIC experience. However, some of the IEO's interviewees who had recently been involved with the Senior Review Committee observed that concern about diversity of experience was applied more forcefully in promotion decisions to candidates without advanced or emerging market economy experience.

While AFR and MCD have made some improvements in the way FCS work is rewarded, there is a limit to what individual area departments can do without a consistent IMF-wide approach. Senior area department officials and mission chiefs for fragile states indicated to the IEO that they still experienced recruitment difficulties to staff missions to FCS; the difficulty is multiplied for Francophone African countries, where there is a need for additional language proficiency.

To be sure, partner institutions also experience problems with staffing work on fragile states, but these have been addressed more effectively based on interviews with officials from these agencies. One important difference is that development banks and aid agencies have a different internal culture and HR systems that place much greater value on development work and “making a real difference on the ground,” as one interviewee put it. At such institutions, FCS experience is often a route to boosting one's reputation and ultimately the chances for promotion. Such institutions have also been less shy about

introducing direct financial incentives and more explicit links between FCS work and attractive future assignments and promotion opportunities (Kim, 2018a).

Stakeholders expressed a range of views as to what additional steps the IMF could take to incentivize staff to work on FCS. Many representatives of donors—mostly national governments or aid agencies—considered that institutional priorities should play a bigger role in decisions on country assignments. Within the IMF, some urged a more “interventionist” approach involving, for example, more explicit promotion-related incentives, while others argued that, while the staff could be encouraged to work on FCS, it would not serve the Fund’s interests to require everyone to do so, given the different strengths and aptitudes each person brings to the institution. Rather, the type of people needed were those professionals who valued FCS work for its own merits, and not those who were being forced to do such work against their will. Yet others suggested that the IMF did not have the right kind of talent and should therefore broaden its recruitment practices to hire individuals with a skill set suitable for this type of work.

The IMF’s current HR strategy review seeks, *inter alia*, to find a way to provide greater incentives for working on FCS, including by setting clear expectations that an FCS assignment would be viewed as an important component of a fungible macroeconomist career path. At this point, it is not clear what the new strategy will involve or how effective it will be. It seems that meaningful change will likely require a fundamental change in IMF HR policy towards FCS work, involving some combination of judiciously increasing the influence of institutional needs on country assignments, providing greater financial and non-financial incentives, and paying more attention to hiring individuals with aptitude for and interest in FCS work.

HOW HAS THE IMF HANDLED SECURITY ISSUES IN HIGH-RISK LOCATIONS?

The safety of staff must be an overriding interest of any organization. The IMF has been for many years upgrading its security apparatus for enhancing the safety of its staff in high-risk locations (HRLs). Despite these efforts, Wabel

Abdallah, the IMF’s Resident Representative in Kabul, lost his life on January 17, 2014, becoming the first IMF staff member to be killed by an act of violence in the line of duty. This tragic incident led to the formation of an interdepartmental working group to review IMF operations in HRLs. Many of its recommendations form the core part of the IMF’s current security policy governing staff traveling to or working in HRLs (IMF, 2014a).

Under the existing policy, the “residual” security risk of all IMF member countries is assessed by IMF Security Services, based on intelligence gathered from various sources and in consultation with area departments.⁵⁹ A committee chaired by a deputy managing director meets periodically to review country risk classifications. The countries assessed to be “high risk” are classified into three risk categories: HRL1 (Lower Residual Risk), HRL2 (Medium Residual Risk), and HRL3 (High Residual Risk). Mission travel to and staff deployment in HRL1 countries (currently numbering 17) are routinely approved by area departments, with pre-departure security training and briefings. Any field presence in HRL2 and HRL3 countries must meet higher standards of criticality and requires approval from area departments and management, respectively.⁶⁰ As of October 2017, there were six HRL3 and five HRL2 countries (Table 7).

In principle, mission travel to any location is possible with approval from management, who must be satisfied that the business case for a field presence sufficiently outweighs the identified risk. In HRL3 situations, the proposing departments must prepare a memorandum arguing the business case based on (i) “the criticality of the planned activity itself”; and (ii) “the importance of conducting the activity in the field (as opposed to elsewhere).” In practice, no surveillance, program, or TA mission to a HRL3 country has been approved by management since the new system was introduced. The IEO was told that departments now considered the HRL3 classification as equivalent to a *de facto* travel ban, and staff interactions with country authorities typically took place at headquarters or in safer locations elsewhere in the region. Missions to HRL2 countries, however, take place with appropriate risk-mitigating measures (such as the deployment of specialized equipment and field security consultants).

⁵⁹ Residual risk is the risk remaining after all reasonable mitigating measures have been taken.

⁶⁰ In addition, mission travel can temporarily be suspended to any country in the event of a temporarily elevated security threat, an epidemic, or a natural disaster.

TABLE 7. HIGH-RISK COUNTRIES, OCTOBER 2017
(HRL2 and HRL3 countries only)

IMF RISK CATEGORIES	MISSION APPROVAL LEVEL	COUNTRY	UN SECURITY LEVEL	IN-COUNTRY MISSION STATUS
HRL3: High Residual Risk	Management	Afghanistan	4	Suspended in March 2014
		Libya	4	Suspended in September 2014
		Syria	5	Suspended in September 2014
		Iraq	5	Suspended in September 2014
		Somalia	5	Suspended in September 2014
		Yemen	5	Suspended in March 2015
HRL2: Medium Residual Risk	Area department	Central African Republic	4	Suspension lifted in November 2016
		Lebanon	3	
		Pakistan	3/4 ¹	
		South Sudan	4	Suspended in June 2016
		Venezuela	3	

Source: IMF Security Services.
13 for Islamabad; 4 for Karachi.

The IMF's security policy has raised some tension with development partners in several cases. Representatives of bilateral aid agencies and MDBs, in their interactions with the IEO, questioned why the IMF was physically absent in countries, including Afghanistan, Iraq, Somalia, and Yemen, where their own people were operating albeit with heightened precautions.⁶¹ Part of the reason offered to the IEO is that the organization has a higher threshold of safety (for instance, two level 4 countries under the five-tier UN Security Level System are designated as HRL3 in the IMF system). Moreover, other agencies often do not have a procedure that strictly relates security risk to travel policy. Security experts indicated to the IEO that the IMF had always been among the most risk-averse global institutions, even before the killing of its resident representative in Kabul. The 2014 staff working group, for example, observed that the IMF's binary (HRL/non-HRL) classification system then in use classified more countries as high risk than did the systems at other international financial institutions (IFIs) (IMF, 2014a).

Several reasons were offered to the IEO to explain why the IMF is an outlier among the IFIs in the apparent degree of its risk tolerance. First, the IMF staff primarily consists of macroeconomists who tend to be more risk averse as they are less attracted by the challenges of working on development issues. In contrast, other IFIs whose work is predominantly concerned with development have on their staffs many who are drawn specifically to work in this area. Second, much of the work the IMF does on the ground is limited to dialogue with senior officials at finance ministries and central banks. There is a presumption within the IMF that, unlike the work of MDBs which often requires staff presence at project sites, field presence is not as critical, and that in-country interactions can, if required, be replaced by dialogue with the authorities in other locations. Third, IMF management has made it clear that they take an extremely cautious approach to putting the safety of staff members at risk.

Some mission chiefs to high-risk countries interviewed for the evaluation suggested that engaging with the country authorities

⁶¹ The Islamic Development Bank continues to maintain some field presence in Somalia and Yemen.

in the safe environment of a third country could actually be more productive than visiting the country, where they would be constantly worried about security threats and where the frequency of meetings was limited by security measures required for in-city travel. They also felt that the authorities themselves, freed from attention to day-to-day operations, could focus more intensively on the substance of discussions. Moreover, IMF recruitment for FCS teams would be even more difficult if such work involved highly risky travel. Likewise, senior officers in TA departments observed that TA delivery in third countries was, though not ideal, still effective.

However, fragile state authorities offered a very different perspective, seeing engagement with the IMF outside the country as disruptive and far less effective. Moreover, in their view, by not visiting the country, the IMF staff became much less attuned to local conditions and political constraints, and much less able to coordinate effectively with other partners on the

ground or to play an advocacy role in the broader community. Some former IMF staff with FCS experience agreed, adding that the IMF's catalytic role would be more effective with field presence. The voices of development partners were also loud and clear: the IMF needs to be on the ground, given the unique and critical role it can play.

Balancing real security concerns with the need to be fully effective in fragile states clearly poses a huge challenge for the IMF. Giving greater weight to the value of at least some in-country interactions, the IMF could look for pragmatic intermediate steps to increase its field presence in HRL3 countries while containing risk, including occasional short visits by senior team members and taking advantage of the secure premises of a foreign embassy or an international airport. The IEO was told that, in one instance, two IMF members had traveled to a country where mission travel was temporarily suspended to engage with senior policymakers for a few days.



KEY FINDINGS AND RECOMMENDATIONS

KEY FINDINGS

The overall impact of the IMF in fragile states

The IMF has provided unique and essential services to FCS to restore macroeconomic stability and rebuild core macroeconomic institutions as prerequisites for state building, playing a role in which no other institution can take its place. In this critical role, the IMF is broadly acknowledged to have had a high impact. While the IMF has provided relatively little direct financing, it has catalyzed donor support through its assessment of a country's economic policies and prospects.

Notwithstanding this positive assessment, the IMF's overall approach to its FCS work seems conflicted. Even though the Fund has declared publicly that FCS would receive priority, it has not consistently made the hard choices necessary to achieve full impact from its engagement in countries where success requires patient and dedicated attention over the long haul. Past efforts to adapt IMF policies and practices to FCS needs have not been sufficiently bold or adequately sustained, and the staff has tended to revert to treating fragile states using IMF-wide norms, rather than as countries needing special attention, leaving questions about the Fund's commitment in this area.

To be sure, the variable progress made by FCS to exit fragility reflects many factors, domestic and external, that lie outside the IMF's control or mandate. This reality requires the Fund to be prepared to take a holistic approach in working with development partners to track broad governance-related issues, while being realistic about capacity and security constraints.

The adequacy of existing instruments for fragile states

Although there is a mismatch between the long-term patience required for IMF engagement and the short-term results-focused character of UCT arrangements, the IMF staff has generally been able to use its existing range of lending and non-lending instruments to respond to the needs of FCS. Indeed, at times the IMF has been nimble in meeting immediate financing needs, especially where donor support was strong. However, the application of conditionality has generally differed little from that in other countries, even though the completion rate of IMF-supported programs has been much lower. IEO interviews and survey results suggest that there is a tension within the institution over how much existing instruments can or should be tailored to the needs of fragile states, given concerns that setting fewer or softer conditions could undermine the Fund's leverage over domestic policy decisions and weaken the signaling role of UCT conditionality. There also seems to be a gap between instruments designed for rapid support, with limited conditions, and those for more sustained support, with much higher policy standards.

Capacity development in fragile states

Capacity development is probably the area where the IMF can play its greatest role in FCS, especially after initial macroeconomic stabilization is accomplished. IMF technical assistance faces large obstacles to its effectiveness in FCS, including these countries' limited

capacity, weak governance, and political instability. Even so, the delivery of TA has improved considerably, including through the greater deployment of regional experts and greater integration of TA with surveillance and program work, with area departments taking steps to involve functional departments and national authorities in designing country strategies.

IMF TA to fragile states has seen a substantial increase but has plateaued in more recent years despite large unmet needs. This seems to reflect concerns about the limited lasting impact of TA work in countries with low absorptive capacity, set against competing priorities for TA resources. There is still room to improve the impact of TA by better aligning the modality of its delivery with individual countries' unique circumstances and needs (e.g., by making greater use of long-term resident advisors in some cases), by better tailoring capacity development work to local political and institutional conditions, and by integrating it further with surveillance and program work. The Fund's increasing focus on TA accountability, including through results-based management, is in general a welcome step, but should be exercised realistically with FCS whose weak capacity militates against reliably producing quick results. Greater involvement of concerned Executive Directors could help facilitate coordination with donor countries in the provision of TA.

The country specificity of IMF advice and conditionality in fragile states

Work on FCS must be approached with humility and patience. Even where what should be done can be identified, how it should be done requires careful political economy analysis lest a wrong prioritization or wrong sequence of actions undermine the delicate balance of power in the country or overwhelm a government's weak capacity. The 2012 Staff Guidance Note provides sensible guidance on the need for flexibility and realism, but the Fund's interdepartmental review process still seems to have pushed for too much uniformity across countries, while the culture of the institution that prizes international best practice can pose obstacles to adopting realistic and politically feasible solutions. Many IMF policy notes and staff reports have been too "business as usual," treating fragile states almost like any other country; they did not discuss sufficiently how policy advice or program design had been tailored to

the political and social context of a particular country, as stipulated in the 2012 Staff Guidance Note.

Collaboration with development partners in fragile states

There is a wide acceptance of the need to collaborate intensively with development partners in order to increase the effectiveness of IMF engagement, but such collaboration has not been consistently achieved. In countries where a resident representative is assigned, there exists a formal or informal mechanism of consultation, with or without host government involvement. Even so, partner agencies often consider the dialogue to have been insufficiently interactive and the IMF staff to have been less than willing to engage in open dialogue on strategy. Collaboration sometimes has not gone much beyond information sharing. Particular concerns are that a fair amount of duplication has taken place in the delivery of TA and that not enough joint effort has been made to identify sources of political resistance to reform, search for realistic solutions, or forge a unified strategy for advancing politically challenging reforms. Effective collaboration has understandably been difficult, given the differing institutional mandates, priorities, and budget cycles of partners. Global forums exist to discuss these high-level issues, but the IMF has all but ceased to participate in them actively.

Management of human resources

While mission chiefs and resident representatives working on FCS are generally appreciated as effective and dedicated to making a difference, the IMF has experienced long-standing difficulties in attracting experienced staff to FCS work more broadly, and this has diminished the quality of support it provides to FCS members. Given the priority the institution places on advanced and globally systemic countries, and given the background of most IMF economists, high performers have gravitated toward working on large or advanced economies. This tendency has been perpetuated by the perception (substantiated by promotion records) that FCS work is undervalued by the institution and is not career-enhancing. Moreover, despite its labor-intensive nature, such work has not received additional staff resources, further diminishing its attractiveness as a potential country assignment. For their part, country officials complain about the high turnover and inexperience of team members. While the need to incentivize the staff to work on FCS has long been recognized and some concrete measures have been introduced, especially in relevant area departments,

these difficulties persist. The IMF's new HR strategy currently under development provides an important opportunity to effect a fundamental change in staff incentives through deeper changes in institution-wide HR policy and practice.

Handling of security issues in high-risk locations

The IMF's security policy, with higher thresholds of safety than applied by many development partners, has raised frustration among the officials of countries affected by the Fund's de facto travel bans and tension among partners who continue to operate in countries where the IMF is now physically absent. IMF decisions on whether to deploy staff in a highest-risk (HRL3) country (at present six countries) involve weighing the security risk (as determined by Security Services) against "the criticality of the planned activity" and "the importance of conducting the activity in the field (as opposed to elsewhere)." In practice, management has approved no surveillance, program, or TA mission to such countries. Seeing that many partners operate there and that IMF engagement is widely acknowledged to be critical, a decision not to deploy staff on the ground seems to reflect, at least in part, a low estimation of the importance of field presence relative to the security risk. The authorities of HRL3 countries are consistent in their complaints about the ineffectiveness and disruptiveness of engaging with the IMF in third countries. The IMF should recognize the real limitation on effective engagement stemming from a lack of field presence and find pragmatic ways to achieve valuable presence on the ground to meet critical needs while taking necessary steps—even at high resource cost—to minimize the risk exposure of its staff.

RECOMMENDATIONS

Although the IMF has rightly received positive marks overall for its contribution to addressing the complex issues facing fragile states, this evaluation concludes that, given the importance and persistent nature of the problem, the Fund should be prepared to make meaningful adjustments in how it engages with these countries on a bolder and more sustained basis than in the past. The IMF has at various times indicated the priority it attaches to FCS work, but it has not fully lived up to its public statements. The discrepancy between talk and action has left questions about the credibility of the IMF's commitments in this area. To restore credibility with development partners as well as

with the public, the IMF needs to send a clear signal of its commitment to FCS work.

To this end, the evaluation proposes six broad recommendations (Table 8). In making these proposals, the evaluation team acknowledges that much of the foregoing diagnosis of the IMF's fragile state work is hardly new. Issues similar to those identified here have been raised repeatedly within the IMF at least since the 2008 staff review. Accordingly, the recommendations here focus on trying to build a more robust institutional commitment to FCS work. The shortcomings have persisted precisely because the institution has not developed a full consensus—among shareholders, management, and staff—that it has a continuing critical role to play in countries in fragile and conflict-affected situations even after basic macroeconomic stabilization has been achieved. Nor has it developed institutional mechanisms to ensure that good intentions to treat FCS with special attention are translated consistently into sustained action.

Not all the measures recommended would require additional resources but some would. With a budget fixed in real terms, giving greater priority to fragile state work would inevitably mean allocating fewer resources to competing activities. A clear commitment by management and the Board attesting to the importance of FCS work could guide the allocation of scarce resources when hard choices need to be made among competing ends.

Recommendation 1: Management and the Executive Board should reinforce that work on fragile states is a top priority for the IMF by issuing a statement of its importance, for IMFC endorsement, to guide the Fund's fragile state work going forward.

It bears repeating that the issue of conflict and state fragility has become one of the most urgent global issues of the day and will likely remain so for some time. The idea that fragile states require greater focused attention is widely supported in the international community. As a member of the international community, the IMF needs to work with partners within a common commitment, playing its critical roles that are widely accepted and valued. A statement issued by management and the Executive Board, and endorsed by the International Monetary and Financial Committee (IMFC), would signal the IMF's commitment to play its full part. Such a statement should embody the idea that achieving macroeconomic stability and building core institutions falls

TABLE 8. RECOMMENDATIONS

1.	Message of high-level commitment. Management and the Executive Board should reinforce that work on fragile states is a top priority for the IMF by issuing a statement of its importance, for IMFC endorsement, to guide the Fund's fragile state work going forward.
2.	Creation of an institutional mechanism. Management should give the IMF's work on fragile states greater continuity and prominence by establishing an effective institutional mechanism with the mandate and authority to coordinate and champion such work.
3.	Comprehensive country strategies. For work on individual fragile states, the IMF should build on ongoing area department initiatives to develop forward-looking, holistic country strategies that integrate the roles of policy advice, financial support, and capacity building as part of the Article IV surveillance process. These strategies would provide a platform for more actively involving concerned Executive Directors and a more robust framework for collaborating with development partners.
4.	Financial support. The IMF should adapt its lending toolkit in ways that could deliver more sustained financial support to fragile states, including for those challenged to meet the requirements of upper-credit-tranche conditionality, and should proactively engage with stakeholders to mobilize broad creditor support for FCS with outstanding external arrears to official creditors, including the IMF.
5.	Capacity development. The IMF should take practical steps to increase the impact of its capacity development support to fragile states, including increasing the use of on-the-ground experts, employing realistic impact assessment tools, and making efforts to ensure that adequate financial resources are available for capacity development work in these countries.
6.	Human resources issues. The IMF should take steps to incentivize high-quality and experienced staff to work on individual fragile states, ensure that adequate resources are allocated to support their work, and find pragmatic ways of increasing field presence in high-risk locations while taking necessary security arrangements even at high cost.

squarely within the IMF's mandate; that crises in many fragile states are not only humanitarian but also economic, with serious regional and potentially global implications; and that fragile states, given the complexity and enormity of their challenges, deserve and demand the best the IMF can offer, requiring patient and sustained commitment.

Recommendation 2: Management should give the IMF's work on fragile states greater continuity and prominence by establishing an effective institutional mechanism with the mandate and authority to coordinate and champion such work.

Past efforts to strengthen the IMF's work on FCS have not been sustained because of a lack of a clear consensus within the institution, so that implementation has relied too much on individuals. The work takes off when those placed in charge develop interest and expertise, and wanes when they are replaced by those less so inclined. Prospects for reliably

delivering on a strong commitment to FCS work would be bolstered by establishing an effective institutional mechanism to give continuity and prominence to the work. Such a mechanism could take different forms, but one possible model would be an interdepartmental group of the type exemplified by the Fund's Committee for Capacity Building, consisting of senior (B5 or B4) representatives of area and key functional departments, chaired by a deputy managing director. Regardless of the exact modality, such an institutional mechanism must have the mandate and authority to coordinate and champion operational work on FCS, share knowledge and experience on FCS, and serve as development partners' first point of contact at the IMF on strategic and broad policy-related FCS issues.

Among the immediate tasks could be to:

- ▶ Devise a long-term strategy to raise the profile of FCS work in the IMF, including how best to organize interdepartmental collaboration and how to ensure adequate commitment of budgetary resources for

FCS among competing priorities. It could consider if the Fund would benefit from having an autonomous unit (not unlike the Risk Unit) dedicated to FCS issues. The experience of peer institutions, including most development banks,⁶² argues in favor of creating such a unit. On the other hand, creating a separate unit away from the center of operational activity could increase silos and potentially diminish its effectiveness.

- ▶ Assess whether lending policies are appropriately tailored to FCS needs, taking account of the nature of their fragility. In this context, an important issue is whether the interdepartmental review process is pushing for too much uniformity across countries and, if so, how the process could be strengthened to give more recognition to circumstances unique to each fragile state.
- ▶ Review the 2012 Staff Guidance Note, including how well it has been implemented in practice. More than five years have passed since the issuance of this note, and much experience has been gained in applying the guidelines to real-life situations. Some staff members have characterized it as too general to be of practical use, while others have said that some of its suggestions (e.g., calls for “quick wins”) are unrealistic. The role of the staff in donor coordination, and how the staff should approach the issue of corruption in fragile states, should be clearly spelled out if the note is revised.
- ▶ Assume a central role in interagency coordination. Although collaboration must largely take place at the country level, it is also needed at the institutional level on strategic matters. For this it is important to reenergize the IMF’s participation in global forums on FCS issues, such as the International Dialogue on Peacebuilding and Statebuilding (and the constituent International Network on Conflict and Fragility), including by subscribing to the New Deal Principles for Engagement in Fragile States. The payoff from such strategic engagement may not always be immediate, as it rarely has operational implications and such forums often turn into mere talking shops. Even so,

the IMF must be an active participant in the global debate on FCS issues and contribute to improving the effectiveness of the international community’s engagement with FCS by sharing its experience and analytical work.

Recommendation 3: For work on individual fragile states, the IMF should build on ongoing area department initiatives to develop forward-looking, holistic country strategies that integrate the roles of policy advice, financial support, and capacity building as part of the Article IV surveillance process. These strategies would provide a platform for more actively involving concerned Executive Directors and a more robust framework for collaborating with development partners.

To be effective, the IMF’s work on individual fragile states should be framed within a forward-looking strategy and positioned as part of the international community’s concerted efforts. Such strategies would identify challenges, constraints, and risks, and lay out an integrated approach of policy advice, financial support, and capacity building. Area departments are increasingly moving in this direction by preparing country engagement notes and including them in Article IV and UFR staff reports. These efforts should become an integral part of the IMF’s mode of operation in all fragile states. One benefit would be to allow concerned Executive Directors to become more directly supportive of the IMF’s work on FCS, especially in the capacity development area, facilitating the IMF’s collaboration with the governments they represent and for mobilizing donor support where necessary.

Recommendation 4: The IMF should adapt its lending toolkit in ways that could deliver more sustained financial support to fragile states, including for those challenged to meet the requirements of upper-credit-tranche conditionality, and should proactively engage with stakeholders to mobilize broad creditor support for FCS with outstanding external arrears to official creditors, including the IMF.

Establishing a special facility tailored to the needs of FCS for more flexible and longer-term or grant-like financing would send a strong signal of the IMF’s commitment to FCS, but it

⁶² The World Bank, the OECD, the African Development Bank, and the Islamic Development Bank are among the institutions that have established separate units dedicated to fragile state work.

is not clear that adequate resources for this purpose could be mobilized from the membership. If a dedicated instrument proves impracticable to establish, a more pragmatic approach may be to find ways to modify existing instruments to better meet FCS needs, although this may still require the IMF to raise additional PRGT trust fund resources. The IMF's current review of low-income country facilities provides an opportunity to consider alternative approaches.

- ▶ The greatest need would seem to be to reduce the gap between the rapid financing facilities (that is, the RCF/RFI) and upper-credit-tranche conditionality programs under the ECF or EFF. Options could include: (i) raising the annual limit on access under the RCF in the face of an urgent balance of payments need (which could be obtained through a repeat purchase, provided that the country establishes a track record of adequate macroeconomic policies for a period of six months, for example, through a Staff-Monitored Program); and (ii) allowing access to a shorter (say, one-year) UCT arrangement as a bridge to a possible ECF arrangement, without requiring a full set of policies for the member to achieve a stable and sustainable macroeconomic position in two years or less, as stipulated under current guidelines for access to the SCF.
- ▶ There could also be value in looking for ways to help reduce short-term adjustment needs and make more room for growth-friendly spending, including by extending the repayment period under the PRGT.

For countries that have external arrears to official creditors, including the IMF, the Fund should respond proactively to windows of opportunity provided by political change to mobilize broad creditor support, including helping to secure agreement on the amount of arrears and the arrangement of bridge financing, as necessary for the restoration of access to Fund resources.

Short of providing grants—which the IMF is not equipped to do—giving FCS significantly greater access to IMF financing would place greater demands on the PRGT and increase risks by raising the country's indebtedness and the Fund's credit exposure. These costs and risks need to be balanced against the broader benefits to the global community of more sustained and patient IMF support for fragile states.

Recommendation 5: The IMF should take practical steps to increase the impact of its capacity development support to fragile states, including increasing the use of on-the-ground experts, employing realistic impact assessment tools, and making efforts to ensure that adequate financial resources are available for capacity development work in these countries.

Though the IMF's TA delivery in fragile states has improved considerably in recent years, additional efforts are warranted to continue to raise the impact of the TA provided to these countries. Extensive on-the-ground implementation support, including the use of long-term resident advisors, is expensive and requires long-term commitment, but seems to be the mode of delivery that works best in an environment of weak capacity. Increasing the use of impact assessment tools is welcome, but must take account of the characteristics of FCS, where returns can take longer to realize. The IMF should find ways to make more flexible use of TA funds contributed by donors, who may express their preference for recipients or prescribe how the funds are to be used. Additional resources will be needed, but could be found through various channels if the commitment is there. In particular, one way to mobilize additional resources would be to solicit funds to establish a multi-donor trust fund dedicated to capacity building for FCS use. Alternatively, additional TA resources for FCS could be opened up by inviting middle- and high-income countries to pay voluntarily for some types of IMF technical assistance and training. Such payments could be channeled to a TA trust fund dedicated to FCS use.

Further, there is scope for improving the IMF's role in donor coordination in the delivery of TA. While a resident representative plays a useful role in donor coordination on the ground, there is a limit to what he or she can do when partners differ in their mandates, priorities, and budget cycles. More formalized and binding cooperation between organizations at headquarters level would be helpful to ensure more consistent coordination. A promising model might be the recently launched "Platform for Collaboration on Tax," under which providers coordinate their technical assistance for building tax administration in developing and emerging market countries (IMF and others, 2016a; 2016b).⁶³ Executive Directors from

⁶³ This was launched by the IMF, the OECD, the UN, and the World Bank in response to a 2016 call from Group of Twenty finance ministers. The platform is being implemented in Indonesia and Uganda.

donor countries could also play a more active role in promoting collaboration between the IMF and the aid agencies of the governments they represent. Staff could use Article IV staff reports for this purpose, by spelling out more clearly the capacity development strategies and the challenges faced, as noted above (see Recommendation 3).

Recommendation 6: The IMF should take steps to incentivize high-quality and experienced staff to work on individual fragile states, ensure that adequate resources are allocated to support their work, and find pragmatic ways of increasing field presence in high-risk locations while taking necessary security arrangements even at high cost.

Though the difficulty of recruiting experienced staff to work on FCS has long been recognized, what has already been done to address the issue has not fundamentally changed the IMF's mindset, culture, or practices. Area departments have tried to adapt as they can but a fundamental change is needed at the institutional level. Such a change must start with a strong signal of the institutional importance of the work from the Managing Director and the Executive Board (see Recommendation 1). To follow through, FCS work must be much better recognized in performance assessments and promotion decisions as being complex and taxing, and requiring a high degree of maturity as well as managerial, diplomatic, interpersonal, and communication skills. As such, work on FCS should be designated as a key component of a fungible macroeconomist's career path, and high-quality work performed on FCS should be fully valued in promotion decisions by the Review and Senior Review Committees.

The IMF HR strategy currently being developed provides an important opportunity to achieve these objectives. Elements of such a strategy that could be relevant include giving greater weight to institutional priorities in country assignments, enhancing financial incentives to take on high-intensity and hardship assignments, and directly linking the effective completion of an FCS assignment to future career advancements. It could also be helpful to give greater weight in recruitment to experience and expertise in low-income and fragile states, while enhancing the career path for mid-career entrants.

Work on FCS can be particularly demanding in terms of labor intensity, frequent travel, and security risk. To make such assignments more attractive, along with providing the career and financial incentives noted above, the IMF needs to take steps to ensure that adequate staff resources are provided to country work in individual fragile states. Realistic benchmarks should be established for the size of mission teams and for the experience level and turnover of staff on FCS assignments. Ideally, UFR missions to fragile states where public finances are central should include an experienced FAD economist. While FCS experience could be valuable at an early stage of their careers, those in the Economist Program should participate in UFR missions to FCS only when the mission is otherwise fully staffed. An acknowledgment of local capacity limitations, and the potential regional repercussions of a state's fragility, should help shape the IMF-wide criteria for determining the size of staff resources allocated to a country.

Helping FCS has been deemed an international priority, and the IMF has a key role to play in these international efforts. The business case for IMF field presence is strong in high-risk locations where development partners operate. The IMF must find pragmatic ways of increasing field presence in such locations, which could include taking intermediate steps such as short visits by senior staff to engage at high levels at critical junctures. Ensuring strong security protection in high-risk locations will incur high costs, but is essential so that more staff members feel safe and willing to travel to, and work in, these countries, and so that management feels more comfortable in authorizing travel where justified by the need.

A NOTE ON COUNTRY COVERAGE

In proposing these recommendations, the IEO is aware of the difficulty that may arise in judging which member countries should be considered fragile for policy purposes. The IEO agrees that the IMF does not need to devise its own unique definition of fragile states. For internal purposes, the current approach based primarily on the work of the World Bank appears to have served the IMF well. In applying any policy developed for FCS in a specific instance, the fragility characteristics of each country should be carefully examined to determine if the policy should apply to that country, irrespective of whether it appears on the IMF's internal list.



IMF RELATIONS WITH FRAGILE STATES¹

(END-2017)

AREA DEPARTMENT	COUNTRY (*small state)	PROGRAM HISTORY, 2006–17 (date completed; **ongoing)	MISSION CHIEF GRADE LEVEL	
Africa	Angola	SBA (2012)	B2	
	Burundi	ECF (2016)	A15	
	Central African Republic	RCFs (2014/2015) ECF**	A15	
	Chad	SMP (2014) ECF**	A15	
	Comoros*	RCF (2015) SMP (2017)	A15	
	Congo, Dem. Rep. of	SMP (2008) ECF (2012)	B2	
	Congo, Republic of	SMP (2008) ECF (2011)	A15	
	Côte d'Ivoire	RCF (2011) ECF, EFF**	B2	
	Eritrea	Never a program	A15	
	Guinea	SMP (2011) RCF (2014) ECF (2016) ECF**	A15	
	Guinea-Bissau	SMP (2006) RCF (2014) ECF**	A15	
	Liberia	SMP (2008) RCF (2015) ECF (2017)	A15	
	Madagascar	RCFs (2014/2015) SMP (2016) ECF**	A15	
	Malawi	ECF (2017)	A15	
	Mali	RCFs (2013) ECF**	A15	
	Sao Tome & Principe*	ECF**	A15	
	Sierra Leone	ECF**	B2	
	South Sudan	Never a program	B2	
	Togo	SMP (2007) ECF**	A15	
	Zimbabwe	SBA (2000) SMP (2014)	B2	

¹Thirty-nine fragile states, as identified by the 2015 SPR list.

²FAD=Fiscal Affairs Department; LEG=Legal Department; MCM=Monetary and Capital Markets Department; STA=Statistics Department.

	RESIDENT REPRESENTATIVE	RISK CLASSIFICATION (location in which mission takes place if outside the country)	ARTICLE IV CYCLE (most recent consultation)	TA BY DEPARTMENT (since 2012) ²	HIPC INITIATIVE (Decision Point/ Completion Point)
	Y		12 months (23-Jan-17)	FAD, MCM, STA	Not applicable
	Y	HRL1 (Lusaka, Zambia)	Program (25-Aug-14)	FAD, LEG, MCM, STA	(August 2005/ January 2009)
	Y	HRL2 (Bangui, Central African Republic)	12 months (20-Jul-16)	FAD, MCM, STA	(September 2007/ June 2009)
	Y		Program (22-Jul-16)	FAD, MCM, STA	(May 2001/ April 2015)
	Y		12 months (7-Dec-16)	FAD, LEG, MCM, STA	(June 2010/ December 2012)
	Y	HRL1 (mission suspended)	12 months (2-Sep-15)	FAD, LEG, MCM, STA	(July 2003/ July 2010)
	Y		12 months (17-Jul-15)	FAD, MCM, STA	(March 2006/ January 2010)
	Y		Program (25-May-16)	FAD, LEG, MCM, STA	(March 2009/ June 2012)
	N		12 months (7-Dec-09)	FAD, LEG, MCM, STA	Not applicable
	Y		12 months (22-Jul-16)	FAD, LEG, MCM, STA	(December 2000/ September 2012)
	Y		Program (11-Dec-17)	FAD, LEG, MCM, STA	(December 2000/ December 2010)
	Y		Program (8-Jul-16)	FAD, LEG, MCM, STA	(March 2008/ June 2010)
	Y		Program (28-Jun-17)	FAD, LEG, MCM, STA	(December 2000/ October 2004)
	Y		Program (11-Dec-15)	FAD, LEG, MCM, STA	(December 2000/ August 2006)
	Y	HRL1	Program (2-Dec-15)	FAD, LEG, MCM, STA	(September 2000/ March 2003)
	N		Program (10-Jun-16)	FAD, LEG, MCM, STA	(December 2000/ March 2007)
	Y		Program (1-Jul-16)	FAD, LEG, MCM, STA	(March 2002/ December 2006)
	Y	HRL2 (Nairobi, Kenya)	12 months (15-Mar-17)	FAD, LEG, MCM, STA	Not applicable
	Y		Program (5-May-17)	FAD, LEG, MCM, STA	(November 2008/ December 2010)
	Y		12 months (5-Jul-17)	FAD, LEG, MCM, STA	Not applicable

APPENDIX 1. IMF RELATIONS WITH FRAGILE STATES¹ (continued)

(End-2017)

AREA DEPARTMENT	COUNTRY (*small state)	PROGRAM HISTORY, 2006–17 (date completed; **ongoing)	MISSION CHIEF GRADE LEVEL
Asia and Pacific	Kiribati*	Never a program	A14
	Marshall Islands*	Never a program	A14
	Micronesia*	Never a program	A15
	Myanmar	SMP (2013)	A15
	Nepal	PRGF (2007) RCFs (2010/2015)	A15
	Solomon Islands*	ECF (2016)	B1
	Timor-Leste*	Never a program	A14
	Tuvalu*	Never a program	A14
Europe	Bosnia & Herzegovina	SBA (2012/2015) EFF	A15
	Kosovo	SMP (2011) SBA (2012/2013/2017)	A15
Middle East and Central Asia	Afghanistan	SMP (2015) ECF*	A15
	Iraq	SMP (2016) SBA**	A15
	Libya	Never a program	A15
	Somalia	SMP**	B2
	Sudan	SMP (2014)	A15
	Syria	SBA (1964)	B2
	West Bank and Gaza ⁵	Not applicable	A15
	Yemen, Republic of	RCFs (2012/2015) ECF	B2
Western Hemisphere	Haiti	RCF (2016) ECF	A15
Total number	39		

³The IMF Regional Representative office is based in Fiji and covers 12 IMF member countries, including Kiribati, Marshall Islands, Micronesia, Solomon Islands, and Tuvalu.

⁴Office locally staffed.

⁵A territory that is not an independent member of the Fund.

⁶Covered by the Resident Representative based in New Delhi, India.

	RESIDENT REPRESENTATIVE	RISK CLASSIFICATION (location in which mission takes place if outside the country)	ARTICLE IV CYCLE (most recent consultation)	TA BY DEPARTMENT (since 2012) ²	HIPC INITIATIVE (Decision Point/ Completion Point)
	Y ³		12 months (8-Dec-17)	FAD, LEG, MCM, STA	Not applicable
	Y ³		24 months (25-Jul-16)	FAD, LEG, MCM, STA	Not applicable
	Y ³		24 months (1-Sep-17)	FAD, LEG, MCM, STA	Not applicable
	Y		12 months (25-Jan-17)	FAD, LEG, MCM, STA	Not applicable
	Y ⁶		12 months (27-Mar-17)	FAD, LEG, MCM, STA	Not applicable
	Y ³		12 months (21-Mar-16)	FAD, LEG, MCM, STA	Not applicable
	N		12 months (4-Dec-17)	FAD, MCM, STA	Not applicable
	Y ³		24 months (12-Sep-16)	FAD, MCM, STA	Not applicable
	Y		Program (23-Oct-15)	FAD, LEG, MCM, STA	Not applicable
	Y		Program (20-May-15)	FAD, LEG, MCM, STA	Not applicable
	N ⁴	HRL3 (Dubai, UAE)	Program (8-Dec-17)	FAD, LEG, MCM, STA	(July 2007/ January 2010)
	Y	HRL3 (Amman, Jordan)	Program (1-Aug-17)	FAD, MCM, STA	Not applicable
	N	HRL3 (Amman, Jordan)	12 months (17-May-13)	FAD, LEG, MCM, STA	Not applicable
	Y	HRL3 (Nairobi, Kenya)	12 months (7-Sep-16)	FAD, LEG, MCM, STA	Not applicable
	Y		12 months (29-Nov-17)	FAD, LEG, MCM, STA	Not applicable
	N	HRL3 (mission suspended)	12 months (26-Feb-10)	FAD, LEG, MCM, STA	Not applicable
	Y	HRL1	Not applicable	FAD, MCM, STA	Not applicable
	Y	HRL3 (Riyadh, Saudi Arabia)	Program (2-Sep-14)	FAD, MCM, STA	Not applicable
	Y	HRL1	24 months (18-May-15)	FAD, LEG, MCM, STA	(November 2006/ June 2009)

THE IMF'S INSTITUTIONAL LEARNING ON FCS WORK

Since 2008, IMF staff has conducted three reviews of its work on fragile states. The first of these observed that although the IMF's engagement with fragile states had been broadly favorable, there was room for strengthening program implementation in fragile states (IMF, 2008a). It noted that the structural reform agenda might have been overambitious in some cases, given the capacity constraints, while the attention paid to public financial management, governance, and generating the political consensus for reform might have been insufficient. It further noted that while the IMF had not adopted a differentiated policy on fragile states, the Medium-Term Strategy called for greater flexibility in program design and emphasized the need to coordinate with other institutions to complement the IMF's expertise because many issues were developmental or political in nature. The review concluded by proposing a new instrument to engage with fragile states that involved a more graduated and longer-term approach than the existing range of instruments.

The 2011 review was a landmark document that signaled an intensification of the IMF's efforts to improve its engagement with fragile states (IMF, 2011a). It concluded that greater flexibility was needed in program design along with fuller attention to the political context ("staff reports should explain how program design has been tailored to the political and social context, informed by an assessment of the political situation"). A gradual and realistic approach to reforms was to be maintained even after transition to an ECF-supported program. The 2011 review also called for closer coordination with donors, particularly in the field, to foster prioritization of key objectives, noting the need for the IMF to have "a more effective field presence," including in the provision of technical assistance. To incentivize staff to work on fragile states, it called for "a clear signal that the institution values the work done on fragile states, including by favorably recognizing such work in promotion decisions," while adding that "bringing about changes to the Fund's work in fragile situations will require the institution to change its mindset."

The 2011 review led to the 2012 issuance of a Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations (IMF, 2012). Among the key points in the Guidance Note are:

- ▶ Work in fragile states should be guided by (i) attention to the political economy; (ii) the content and pace of reforms that reflect security and social needs as well as capacity constraints; (iii) approaches conducive to sustained engagement; and (iv) close coordination with donors.
- ▶ Effective engagement requires identification and regular updates of the country's main fragilities and of the authorities' capacity and commitment, including by drawing on analysis from donors, academics, and other relevant sources.
- ▶ Strong outreach by mission teams and resident representatives with local civil society, parliamentarians, and academics can help build support for the reform program and increase understanding of the role of the IMF in the reform process.
- ▶ Capacity building should be an integral part of the Fund's engagement and is to be guided by: (i) close attention to absorptive capacity; (ii) well-tailored TA aligned

with program objectives; (iii) involving authorities in preparing a medium-term plan; (iv) reliance on resident advisors (“boots on the ground”); and (v) donor coordination.

- ▶ Policy notes should address the nature of fragility, political and social context, and aspects of donor coordination. Documentation for a request for a new arrangement should include a brief discussion of the overall strategy that would help the country transition out of fragility.

The 2015 review, the last of the three, was a “stocktaking” exercise to assess how the 2012 Guidance Note had been implemented in practice (IMF, 2015c). It observed, for example, that regional technical assistance centers had allowed greater responsiveness to member circumstances and that capacity development was increasingly aligned with program objectives, while noting that there was a large unmet demand for resident advisors. Authorities and mission chiefs saw inadequate access of FCS to IMF resources as the key shortcoming of the IMF’s available lending tools. In terms of HR issues, the 2015 review highlighted the difficulties experienced by mission chiefs in recruiting economists and resident representatives for FCS assignments, given the perceived adverse

impact of such assignments on career prospects. To better integrate technical assistance with area department work, the 2015 review called for a targeted approach in which it would become a standard practice for a desk economist to participate in TA missions and for TA experts to participate in area department missions.

The IMF has been making efforts to strengthen internal capacity for its work on fragile states, building on the extensive knowledge of the macroeconomics of LICs (IMF, 2003). SPR has maintained an internal website (Low-Income Country Collaboration Site) “designed to encourage cross-pollination of ideas on analytical work and recent developments,” where analytical papers produced by staff on fragile states are posted; however, the knowledge exchange site dedicated to fragile states has not always been kept up to date. Following the 2015 staff review, AFR developed its own guidance note on “engagement with fragile states,” highlighting the key points that staff should be aware of. In addition, SPR, in collaboration with the Research Department, has hosted periodic seminars involving prominent outside experts to discuss development challenges facing fragile and other LICs, and the Institute for Capacity Development has been offering a limited number of internal economics training courses on LIC topics with relevance for fragile states.

SUMMARIES OF COUNTRY CASE STUDIES¹

AFGHANISTAN

When the international community reengaged with Afghanistan in 2001, the country was in a perilous state after more than two decades of conflict. Early in the reconstruction process, the Afghan government took advantage of international support to make impressive strides in rebuilding institutions and implementing sound economic policies. The IMF played a crucial role by providing policy advice and technical assistance that promoted macroeconomic stability, laid the foundations for economic growth, and strengthened the government's capacity. By 2004, the government had introduced a new currency, made ambitious tax reforms, and largely achieved macroeconomic stability. The IMF's supportive role has been widely acknowledged.

Starting in the mid-2000s, however, the rate of progress slowed amid a worsening security situation. By 2012, when the Fund's ECF-supported program fell off track, longstanding vulnerabilities became more evident. Given the large role played by the United States in setting the overarching strategy for Afghanistan, the IMF's ability to influence the trajectory of economic policy has been constrained. Even so, in hindsight, the IMF could have done more to strengthen financial supervision and provided Afghan officials and donors with more candid and realistic assessments about the country's economic prospects and vulnerabilities. The IMF's chief medium-term goals in Afghanistan, including achieving fiscal sustainability, boosting economic growth, and maintaining financial stability, have been elusive.

ANGOLA

Angola's relationship with the IMF has varied significantly since the civil war ended in 2002. Initially, attempts were made to engage with the authorities through SMPs, but performance proved unsatisfactory. This was followed by a relatively successful SBA in 2009 and a constructive surveillance dialogue since 2012.

The lack of early success stemmed partly from the IMF's overestimation of the authorities' capacity to deliver the ambitious reforms that were urged by the Fund in the face of the political, social and institutional difficulties arising from the almost 30 years of civil war. Issues of ownership of reforms and the availability of alternative financing sources also played a role. The SBA helped Angola stabilize its economy in the wake of an oil price collapse, but it achieved less on the structural reform front. The country's need for financial support diminished after oil prices recovered.

Officials considered IMF policy advice to have been generally sound, although issues of timing needed to be given greater weight. They valued IMF TA highly. In interviews with the evaluation team, some raised concerns regarding the IMF's responsiveness to TA requests and the need for practical implementation support. Cooperation between the IMF and partners had been good. Staff outreach efforts were appreciated and could have been stronger.

¹ See background papers for details (Takagi and others, 2018a, 2018b).

BOSNIA AND HERZEGOVINA

The end of a 44-month-long war in 1995 left Bosnia and Herzegovina with a devastated economy, a highly-fragmented society, and a highly complex government structure (as agreed under the Dayton Accords), consisting of the state, two autonomous entities, and a local self-governing area. The IMF immediately provided timely technical assistance for the creation of a central bank and other policy institutions essential for a functioning economy, even though initial attempts to engage in a program relationship were repeatedly frustrated by a lack of cooperation between the two autonomous entities.

Over the subsequent 22 years, the Fund supported the country with policy advice, financing, and technical assistance. Under a succession of IMF-supported programs, Bosnia and Herzegovina achieved a degree of macroeconomic stability, recorded several years of strong growth, and weathered bouts of economic difficulty; above all, it has been able to establish a functioning market economy. Even so, given the fragmentation of national decision making, program implementation was often problematic and the pace of any reform was slow. The IMF staff persevered and remained engaged with the country despite the obstacles. Most observers agree that, under Bosnia and Herzegovina's difficult circumstances, the IMF performed well as a lever for reform, as an anchor for policy making (for example, in counterbalancing populist tendencies), and even as coordinator and mediator between different government levels or entities in the face of centrifugal forces.

CAMBODIA

Cambodia emerged in the early 1990s from decades of political instability that included a genocide and successive civil conflicts. The IMF has been actively engaged in Cambodia since 1993, initially with financial arrangements. Since 2003, persistent external arrears to official creditors have prevented the country from accessing Fund resources (this situation will likely remain unless political differences with the creditors are resolved), but the Fund has continued to engage through surveillance and technical assistance.

The IMF has played an important role in Cambodia in helping the authorities with appropriate macroeconomic policies and in building key economic institutions. The country has enjoyed strong economic performance during the last 20 years while reducing poverty significantly. Though poverty

remains high and there are pervasive governance shortcomings, it has overcome the legacy of the conflict years and is now no longer considered a fragile state.

CHAD

Chad presents a classic case of persistent state fragility. It is located at the center of a volatile region, with serious security challenges and large populations of refugees and internally displaced persons. It has had to build up military capacity to defend its borders effectively. The oil production that started in 2003 has not led to a structural transformation of the economy. Chad remains one of the world's poorest countries, with a low level of social development and state capacity. Since the late 1980s, the IMF has provided Chad with financial and technical support. IMF-supported programs have been successful in helping to achieve debt relief under the HIPC Initiative and maintain broad macroeconomic stability. However, little progress has been made on the structural reform front, given institutional fragility and recurrent interruptions.

The experience of Chad illustrates that when authorities are committed and receive adequate support from the international community, meaningful reforms are possible even in a country facing politically and economically challenging circumstances. Chad often could not maintain the necessary focus on reform, for reasons that included the fiscal impact of oil revenues and the political destabilization emanating from regional insecurity. Even so, the Fund played a supportive role, in coordination with its development partners, in helping Chad embark on domestic resource mobilization and diversify its economy. Given the small size of the donor community, the IMF's Resident Representative has often played a key coordinating role.

CÔTE D'IVOIRE

Côte d'Ivoire emerged from a decade of civil war and political conflict in 2011 and has since made steady economic progress. Before the crisis years, the country was Francophone West Africa's leading economy and main destination for foreign investment, with a high level of infrastructure development and administrative capacity. The crisis took a heavy toll on the society and economy, with collapsing economic activity and increasing poverty; the country still ranks towards the bottom of the Human Development Index.

The IMF remained engaged in Côte d'Ivoire throughout this period, including during the conflict years, when it participated in regional and global efforts to return stability to the country. In the post-conflict period, the Fund played an important role by tempering the authorities' ambition with realism, given the enormous development needs. Using a variety of financing instruments, the IMF committed an increasing amount of resources to the country, partly in appreciation of its critical challenges and partly in response to its good record of performance. While Côte d'Ivoire's institutional capacities remained largely intact despite the conflict, a range of structural challenges—including the need to enhance the efficiency of the civil service and state-owned enterprises—required technical assistance from the IMF and the international donor community. Structural reforms were often politically difficult, but the Ivorian experience demonstrates the need for the IMF to take every opportunity to insist on reforms critical for macroeconomic stability and sustainable growth.

DEMOCRATIC REPUBLIC OF THE CONGO

Since independence in 1960, the Democratic Republic of the Congo has undergone prolonged periods of political instability and economic mismanagement. Following the end of a major violent conflict (that also involved several neighboring states) in the early 2000s, the IMF reengaged with the country and sought to help restore macroeconomic stability, rebuild institutions severely damaged by the fighting, and address its major debt overhang. Progress was significant initially but became more uneven over time. The IMF provided financial assistance in support of two three-year programs ending in 2012 and the relationship subsequently took the form of surveillance and technical assistance, as agreement was not achieved on a program to address governance concerns. The Democratic Republic of the Congo continues to be viewed as a highly fragile state and faces major challenges of ensuring political stability, improving macroeconomic policy management, and addressing serious governance and transparency issues associated with the natural resources sector, the key engine of the economy.

HAITI

Haiti is the Western Hemisphere's poorest country. Since its beginning as an independent nation in the early 19th century, a multitude of factors including historical and social elements,

vulnerability to natural disasters, and political instability have made the country one of the world's most fragile states. The prospects under reform-minded governments at last seemed more positive, but a massive earthquake in 2010 caused enormous loss of life and reduced much of the capital city and surrounding areas to rubble.

Helping to address Haiti's persistent problems has proved a difficult challenge for the international community, including the IMF, which has played a prominent role in external assistance efforts. Apart from some brief interruptions, Haiti has been in a semi-continuous program or "near program" relationship with the IMF over the last six decades and has also received extensive technical assistance. Despite many reversals, the IMF's involvement has been associated with some success overall in macroeconomic stabilization, but implementing sustained structural reforms has proved more elusive, and more on-the-ground support would be helpful. Most observers consider that without IMF support, Haiti's situation would have turned out even more unfavorably. The record to date and the prospects suggest that Haiti will need to continue to rely heavily on the IMF for many years to come.

IRAQ

Following the 2003 U.S. invasion, the IMF intensified its long-dormant relationship with Iraq. Although it has not provided Iraq with large amounts of financing, the Fund has since engaged with the country through a series of financial arrangements to promote macroeconomic stability and growth-enhancing structural reforms, as well as through technical assistance to build capacity and key institutions. Over the years, the IMF has provided internal discipline to government agencies and facilitated coordination among donors, despite the country's limited institutional capacity and human capital to digest its advice and analysis.

Iraqi officials who were interviewed for this evaluation expressed appreciation for the IMF's engagement and expertise. Nevertheless, they expressed a desire for more policy-focused advice that was applicable to the situation on the ground and for greater understanding of Iraq's political fragility. While valued by authorities, IMF technical assistance has recently been significantly hampered by the staff's inability to travel to Iraq, which has diminished its ability to learn about local conditions and limited its influence and impact. Iraq is a unique case of a fragile state bestowed with large oil wealth.

The IMF is expected to continue its engagement with Iraq for the medium term in policy advice and capacity building.

KOSOVO

Kosovo, once an autonomous province of the Socialist Republic of Serbia within Yugoslavia, became a victim of rising conflict between Serbian and Kosovar nationalism in the context of Yugoslavia's disintegration. During the conflict that ensued from 1996 to 1999, thousands of its Albanian population were killed, and hundreds of thousands were displaced. At the conflict's end, Kosovo was left in shambles, devoid of institutions or capital and plagued by corruption and social tensions.

The IMF was quick to engage in Kosovo long before it unilaterally declared independence in 2008 or had its independence recognized by the International Court of Justice in 2010. Barred from providing assistance to a non-sovereign nation, the Fund made its contributions to the international reconstruction efforts in the form of technical assistance to the United Nations Mission. IMF TA helped establish preconditions for a functioning market economy, including by building the foundation of a central bank and other core macroeconomic institutions. Once Kosovo became an IMF member in 2009, the IMF began to provide financial assistance as well.

The IMF's early contributions to the building of core institutions in Kosovo are widely acknowledged to have been significant and effective. Faced with changing and complex circumstances, the IMF staff displayed a high degree of flexibility and adaptability in procedures and operations. Although Kosovo largely achieved macroeconomic stability, its program implementation was mixed in an environment of political impasse, capacity constraints, and governance problems. Kosovo's experience suggests the need to avoid overly ambitious objectives when capacity is severely limited and to collaborate with development partners to achieve progress. Given Kosovo's political uncertainty and acute lack of data, the IMF may have done too much micromanaging and been excessively conservative at times, thereby limiting the room for more growth-friendly policies.

LIBERIA

Even before the 1980 coup and the subsequent civil war, Liberia had exhibited many underlying features of fragility, including ethnic and social tensions, widespread poverty,

and heavy dependence on world commodity prices. In 2005, following more than 20 years of internal conflict, a democratically elected president ushered in a period of political stability and socio-economic progress. The IMF was quick to engage with the new authorities who faced the unprecedented challenge of rebuilding basic economic and financial institutions entirely destroyed by the war. Over the following years, the IMF maintained close involvement through policy advice, capacity building support, and financial assistance.

The IMF's efforts met with reasonable success in the immediate post-war years, especially as regards helping restore macroeconomic stability and addressing Liberia's enormous debt problem. Subsequently, Liberia had three successive financial arrangements with the IMF. Although macroeconomic policies under these programs were broadly satisfactory, progress with respect to structural reforms was more mixed. Clearly, Liberia will remain a fragile state for the foreseeable future and the IMF's continued involvement is widely viewed as an essential element of the support provided by the international community.

MYANMAR

Sixty years of dictatorship, conflict, mismanagement, and isolation left Myanmar with a legacy of profound economic and social underdevelopment. Since the start of economic opening in the late 2000s, the IMF has supported Myanmar's transition to a functioning market economy by providing not only policy advice but also technical assistance, which became the centerpiece of its work. Myanmar has since achieved macroeconomic stability, with robust growth and stable inflation, though enormous development challenges remain to raise the economic well-being of its population.

A one-year Staff-Monitored Program (SMP) agreed in 2013 provided a framework for reform and policy implementation. Even though progress under the SMP was strong—boosted among other things by solid national ownership and an improved relationship with the international community—the authorities afterwards refrained from engaging with the IMF in a program relationship, with or without financing. Even so, the IMF's support to Myanmar remained intense. In fact, Myanmar for some time has become the largest recipient of IMF TA. The IMF has shown flexibility and realism in adapting its mode of engagement and tailoring its advice to Myanmar's evolving circumstances.

RWANDA

Rwanda lived through an extremely difficult period following the 1994 genocide. The country needed to rehabilitate the economy, repatriate a large number of refugees and displaced persons, address military conflicts at borders, demobilize part of its army, and rebuild essential economic institutions. Today, with strong progress made in these areas, Rwanda is no longer considered a fragile state.

Throughout this period, the authorities sought policy advice and financial support from the IMF. Initially, program performance was uneven, given the enormity of the challenges. The authorities and IMF staff often did not see eye to eye on policy issues and this led to temporary suspensions of negotiations. Notwithstanding these difficulties, a close relationship was maintained, and Rwanda's economic programs were largely successful in promoting growth, stabilizing the economy, managing debt distress risks, and reducing poverty.

The Rwandan experience illustrates the tension that can arise between conditionality and the need for the IMF to be flexible in a fragile state. The Fund adapted its modes of engagement as the country made progress in building capacity. Both the authorities and the staff showed persistence and commitment to implement the agreed programs. In helping Rwanda exit from fragility, IMF technical assistance, underpinned by the authorities' proactive engagement in identifying needs, played a critical role.

SIERRA LEONE

Sierra Leone's 10 year-long civil war, destructive of economic infrastructure and notorious for its atrocities, was officially declared to be over in early 2002. The IMF was quick to reestablish its engagement with the country even before the war's formal end. It has since maintained an almost uninterrupted financial relationship with the country under successive arrangements and has provided extensive technical assistance in the areas of its core competence. Program performance was initially strong, reflecting the successful political transition and favorable external conditions. Over the subsequent years, program implementation faltered and the pace of structural reform slowed. Even so, the country enjoyed a decade of strong economic performance, with real GDP on average growing at 8 percent per year amid increasing price stability.

When the country was hit in 2014 by an Ebola epidemic and a fall in international iron ore prices, the IMF reacted quickly and flexibly by augmenting access under the existing Extended Credit Facility arrangement three times, coupled with waivers of program conditions, and by providing grant-like support, under the Catastrophe Containment and Relief Trust (CCRT), to countries in the region to help deal with the impact of the Ebola crisis.

The recent experience of Sierra Leone illustrates the trade-off that often exists between economic development and stabilization objectives; the tension such a trade-off can create for the relationship between the Fund and a member country; the need for political economy analysis to inform a decision on program conditionality; and, above all, why work on fragile states requires humility, patience, and flexibility.

SOMALIA

August 2012 saw the establishment of Somalia's first permanent central government since the start of the decades-long civil war, paving the way for the IMF's reengagement with the country the following year. Somalia has received strong international support and, in February 2017, it experienced a peaceful transfer of power for the second time following elections. Even so, political stability remains fragile amid continued fighting among competing clan-based factions. Poverty is rampant, and Somalia's institutional capacity is ranked among the lowest in Africa.

The IMF has since 2013 helped strengthen Somalia's key economic institutions and supported the authorities in formulating a reform strategy. Program implementation under two Staff-Monitored Programs has been satisfactory. Given the country's outstanding arrears to external creditors, the Fund has not been able to provide financing, making technical assistance the main vehicle of IMF support. But the impact of IMF TA has been constrained by staff's inability to travel to the country, and despite the pressing need for on-the-ground support, TA and training have been given in third countries.

TIMOR-LESTE

Timor-Leste gained independence from Indonesia in 2002 following two-and-a-half years of United Nations transitional administration. As part of concerted international efforts, the IMF's initial role was to help build state capacity from scratch, especially in treasury and central bank operations, even before the country became a member. After the key institutions of a

functioning economy had been built, the IMF continued to provide technical assistance, which, for a time, made Timor-Leste one of the largest recipients of IMF TA.

The IMF has never had a lending arrangement with Timor-Leste. The initial availability of generous donor support was followed, starting from 2004, by a build-up of substantial oil and gas revenues. The country has not had a budgetary shortfall or a balance of payments problem that called for

IMF financial support. The 2009 withdrawal of the Fund's resident representative further diminished the IMF's interaction with the authorities. The government's understandable desire to scale up public investment has been a continuous source of tension with the Fund's equally understandable advice to slow down the pace of withdrawal from the petroleum fund, given capacity limits and the need to extend the benefits of offshore wealth to future generations.

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STATEMENT BY THE MANAGING DIRECTOR

ON THE INDEPENDENT EVALUATION OFFICE REPORT ON THE IMF AND FRAGILE STATES

EXECUTIVE BOARD MEETING MARCH 22, 2018

I welcome the report of the Independent Evaluation Office (IEO) on the IMF and Fragile States. The report recognizes that the Fund has made important contributions in restoring macroeconomic stability, building core institutions, and catalyzing donor support across a diverse range of countries in fragile and conflict situations. The IEO's analysis and findings provide a thorough stock-taking and resonate with staff. Accordingly, I broadly support the IEO's recommendations to make the Fund's engagement with countries in fragile and conflict situations more impactful.

As noted in the IEO report, helping countries in fragile and conflict situations has been deemed an international priority, meriting close engagement by the Fund in its bilateral surveillance, program design and lending, and capacity development (CD). The growing attention given to the dangerous implications of persistent fragility for regional and global stability, underline the key role of the Fund in international efforts to help countries in fragile and conflict situations. The Fund is in a unique position in this effort, particularly in its proven ability to respond quickly and effectively to assist such countries.

I am pleased that the IEO report finds important contributions that the IMF has made in countries in fragile and conflict situations, including helping to restore macroeconomic stability, build core macroeconomic policy institutions, and catalyze donor support. It is also welcome that the IEO shows that the IMF is broadly acknowledged to have high impact, particularly in years soon after countries emerged from periods of violence and isolation. The findings of the IEO report confirm many identified in the June 2015 policy paper on “*IMF Engagement with Countries in Post-Conflict and Fragile Situations—Stocktaking*.” The paper concluded that the Fund's engagement with countries in fragile and conflict situations is often impactful and well appreciated by country authorities, and that this vulnerable group of the membership particularly benefits from the Fund's expertise in capacity building, financial support, and policy advice.

At the same time, I agree that there remains room to do better, while considering that engagement with countries in fragile and conflict situations is inherently challenging, given their generally limited capacity, weak governance, and often unstable political and security environment. In particular, the IEO report concludes that more could be achieved by making bolder efforts, including to: build on ongoing initiatives to develop forward-looking, holistic country strategies; provide more sustained financial support; strengthen the impact of CD; and incentivize staff work in countries in fragile and conflict situations. In making these recommendations, the IEO report recognizes that some efforts would require an increased allocation of the Fund's financial and human resources.

In broadly supporting the findings of the IEO, I wish to highlight relevant actions that are in train or are in the work program agreed by the Executive Board. Specifically, staff are piloting a

multi-year CD framework for selected countries in fragile and conflict situations that better integrates CD with surveillance and improves coordination with other assistance providers. The ongoing 2018 PRGT facilities review will provide an opportunity to assess the finding that there is a gap in the toolkit between emergency and medium-term support. The new HR strategy, currently under development, aims to strengthen incentives for staff to work on countries in fragile and conflict situations by ensuring that career development is linked to experience in working with a broad range of the membership, including in countries in fragile and conflict situations. In this context, I acknowledge and recognize the finding that the lack of field presence of staff in high-risk locations could be a limitation on effective engagement. But I believe we need to weigh this finding against the paramount objective of ensuring staff safety as set out in our 2015 security policy for missions to high-risk locations.

RESPONSE TO IEO RECOMMENDATIONS

The IEO makes six recommendations in its report. Below is my proposed response to each of these.

Recommendation 1. Management and the Executive Board should reinforce that work on fragile states is a top priority for the IMF by issuing a statement of its importance, for IMFC endorsement, to guide the Fund’s fragile state work going forward.

I broadly support this recommendation as laid out in my responses to recommendations 2-6.

Recommendation 2. Management should give the IMF’s work on fragile states greater continuity and prominence by establishing an effective institutional mechanism with the mandate and authority to coordinate and champion such work.

I agree there is scope to better coordinate and discuss countries in fragile and conflict situations within the Fund and with a broad range of stakeholders through establishing an effective institutional mechanism. We will consider how best to structure an interdepartmental mechanism in a manner that is not duplicative and not unduly resource-intensive. This mechanism could, as proposed, review the implementation of the *Staff Guidance Note on the Fund’s Engagements with Countries in Fragile Situations* including whether program design has adequately taken into account the fragile

characteristics of a country; and prepare broad guidance on country strategies proposed in Recommendation 3. The institutional mechanism could also provide a platform for revisiting our engagement with key international players in countries in fragile and conflict situations.

Recommendation 3. For work on individual fragile states, the IMF should build on ongoing area department initiatives to develop forward-looking, holistic country strategies that integrate the roles of policy advice, financial support, and capacity building as part of the Article IV surveillance process. These strategies would provide a platform for more actively involving concerned Executive Directors and a more robust framework for collaborating with development partners.

I concur with the usefulness of country strategies that integrate Fund activities across our various roles into the Article IV process. However, the resource costs of developing holistic long-term country strategies could be significant, and their useful lifespan limited by uncertainties inherent to countries in fragile and conflict situations. Therefore, requirements for such strategies will need to be flexible and adaptive, to avoid creating a “box-checking” exercise, and will need to be lean so as not to overburden the Article IV process.

Recommendation 4. The IMF should adapt its lending toolkit in ways that could deliver more sustained financial support to fragile states, including for those challenged to meet the requirements of upper-credit-tranche conditionality, and should proactively engage with stakeholders to mobilize broad creditor support for FCS with outstanding external arrears to official creditors, including the IMF.

I support this recommendation insofar as I see definite merit in reassessing the IMF’s lending toolkit from the perspective of the needs of countries in fragile and conflict situations. But we should be clear from the outset on the constraints imposed by the IMF’s funding model: we borrow money from some member countries to lend to other member countries. Even with the interest rate at zero percent, IMF funding today adds to countries’ debt burden in the medium term. Countries in fragile and conflict situations typically already carry significant debt burdens and face elevated economic uncertainty; they need grant

aid from development partners, rather than rely heavily on external loans to help meet immediate financing needs.

This is not an argument against the provision of any Fund financing. As the IEO report underscores, IMF financing in fragile situations has been catalytic, playing a critical signaling role in providing the donor community with a degree of assurance “that donor financial assistance would be used in a transparent and sustainable macroeconomic framework.” Countries in fragile and conflict situations benefit from entering into arrangements with the IMF not primarily because of the volume of IMF funding, but rather the volume of donor funding that is catalyzed by IMF loans.

IMF staff are examining whether/how the Fund should modify its toolkit to accommodate the needs of countries in fragile and conflict situations in the context of the 2018 Review of Facilities for Low-Income Countries (the conclusions of this examination could also be relevant for the support of middle-income countries in fragile and conflict situations). The IEO’s suggestion that the Fund consider the case for shorter (say one-year) arrangements is an interesting proposal that warrants careful examination in the facilities review: we will also look at the case for raising access limits for the rapid financing facilities (RFI/RCF). However, I do not see a convincing case for extending the repayment period for loans under the PRGT (which currently extends out to 10 years); our mandate is to provide short-to-medium-term finance to countries to tackle balance of payments needs, not longer-term financing (the space filled by the development banks). Absent some new trust funding targeted explicitly at countries in fragile and conflict situations, an extension of the term of PRGT loans would have to cover all low-income countries—a move that would threaten the current financing model for PRGT lending.

As noted in the report, establishing a facility specially tailored to the needs of countries in fragile and conflict situations for grant funding and long-term loans would require the establishment of a large trust fund dedicated to this purpose. The proposal has appeal, providing that we can ensure maintaining uniformity of treatment of the Fund’s membership. But I cannot see it obtaining the levels of financial support from our membership that would make it viable over time, and it would also involve fundraising efforts in the same space as IDA, with the risk that it would simply shift grant funding between the Bretton Woods Institutions rather than generate additional resources.

Finally, I agree that the Fund should respond speedily to windows of opportunity to achieve a comprehensive clearance of arrears with members that have long been in arrears to the international community. That said, comprehensive debt settlements require the consent of all external bilateral creditors, which may not be easy to achieve.

Recommendation 5. The IMF should take practical steps to increase the impact of its capacity development support to fragile states, including increasing the use of on-the ground experts, employing realistic impact assessment tools, and making efforts to ensure that adequate financial resources are available for capacity development work in these countries.

I support most elements of this multi-pronged recommendation while also stressing the critical issue of absorption capacity that can critically limit the impact of CD in countries in fragile and conflict situations, particularly in small states, which face a unique set of challenges. I agree that the Fund should find ways to make more flexible use of CD funding contributed by donors—efforts are already underway and will continue to enhance flexibility, though the degree of existing inflexibility should not be overstated. In addition to the pilot initiatives for the CD Framework mentioned above, efforts include: (i) additional technical advisors deployed during FY17-18 in several countries in fragile and conflict situations, and; (ii) additional responsibilities for some regional technical assistance centers to cater to countries in fragile and conflict situations through long-term advisors hired specifically for that purpose.

I share the view that the impact of CD can also be enhanced through the implementation of results-based assessments. I concur that there may be scope for a multi-donor trust fund dedicated to CD for use by countries in fragile and conflict situations, provided that we can make a business case to donors and ensure that this would not undercut funding for RTACs. On charging for CD, a 2015 change in the Fund’s charging policy envisaged that “use of internal Fund resources for technical assistance to high-income countries be limited to critical needs (e.g., crisis cases) where no external funding can be found,” establishing an expectation that such countries would pay for their own technical assistance in most cases. However, recent staff work on cost-recovery for externally-financed activities has found such charges would not raise much

additional finance, while introducing cumbersome administrative procedures including for procurement, and possibly reducing broader traction of policy advice.

As regards the recommendation for formal coordination mechanisms with other providers, they have proved to be cumbersome and not flexible enough in responding quickly to emerging needs. While the Platform for Collaboration on Tax provides a good example of interagency cooperation, it is a labor-intensive exercise and it is too early to assess whether it should be replicated in other areas. In this context, Executive Directors’ support on coordination with their respective aid agencies is welcome.

Recommendation 6. The IMF should take steps to incentivize high-quality and experienced staff to work on individual fragile states, ensure that adequate resources are allocated to support their work, and find pragmatic ways of increasing field presence in High-Risk Locations while taking necessary security arrangements even at high cost.

I recognize the human resources challenges involved in staffing fragile and conflict situation country teams, and I concur with the need to offer more robust incentives for staff working on these countries in the context of the ongoing HR strategy. However, as regards increasing field presence, our paramount objective is staff safety as set out in our security policy for missions to high-risk locations.

TABLE 1. THE MANAGING DIRECTOR’S POSITION ON IEO RECOMMENDATIONS

RECOMMENDATION	POSITION
(i) Management and the Executive Board should reinforce that work on fragile states is a top priority for the IMF by issuing a statement of its importance, for IMFC endorsement, to guide the Fund’s fragile state work going forward.	SUPPORT
(ii) Management should give the IMF’s work on fragile states greater continuity and prominence by establishing an effective institutional mechanism with the mandate and authority to coordinate and champion such work.	SUPPORT
(iii) For work on individual fragile states, the IMF should build on ongoing area department initiatives to develop forward-looking, holistic country strategies that integrate the roles of policy advice, financial support, and capacity building as part of the Article IV surveillance process.	SUPPORT
(iv) The IMF should adapt its lending toolkit in ways that could deliver more sustained financial support to fragile states, including for those challenged to meet the requirements of upper credit-tranche conditionality, and should proactively engage with stakeholders to mobilize broad creditor support for FCS with outstanding external arrears to official creditors, including the IMF.	SUPPORT
(v) The IMF should take practical steps to increase the impact of its capacity development support to fragile states, including increasing the use of on-the ground experts, employing realistic impact assessment tools, and making efforts to ensure that adequate financial resources are available for capacity development work in these countries.	SUPPORT
(vi) The IMF should take steps to incentivize high-quality and experienced staff to work on individual fragile states, ensure that adequate resources are allocated to support their work, and find pragmatic ways of increasing field presence in high risk locations while taking necessary security arrangements even at high cost.	QUALIFIED SUPPORT

THE CHAIRMAN'S SUMMING UP

IEO EVALUATION—THE IMF AND FRAGILE STATES

EXECUTIVE BOARD MEETING 18/23

MARCH 22, 2018

Executive Directors welcomed the report by the Independent Evaluation Office (IEO) on the IMF and Fragile States. Directors agreed that helping countries in fragile and conflict situations is a global priority, meriting close engagement by the Fund in its bilateral surveillance, program design and lending, and capacity development (CD). They were pleased with the IEO's assessment about the Fund's critical role and important contributions to these countries, including by helping them to restore macroeconomic stability, build core macroeconomic policy institutions, and catalyze donor support. Directors welcomed the Managing Director's broad support for the IEO recommendations and agreed that more could be achieved through further efforts, taking into account the unique circumstances and challenges facing these countries.

Directors broadly supported Recommendation 1, calling for the Managing Director and the Executive Board to issue a statement on the importance of the Fund's work on countries in fragile and conflict situations that could be endorsed by the IMFC. Directors noted that such a statement would need to be accompanied by concrete steps, with greater value placed on such work within the Fund.

Directors broadly agreed with Recommendation 2, and most Directors welcomed the intention to establish an effective institutional mechanism to better coordinate the work by the Fund and other stakeholders. In this context, some Directors cautioned that such a mechanism should not be duplicative or unduly resource intensive, while a few suggested that the mechanism be chaired by management, and some others would appreciate regular reporting to the Board on staff's work in countries in fragile and conflict situations. A few Directors held the view that greater continuity and prominence could also be achieved within the existing procedures.

Directors also broadly supported Recommendation 3 to develop forwardlooking, holistic country strategies that integrate the roles of policy advice, financial support, and capacity building as part of the Article IV surveillance process. They stressed that requirements for such strategies would need to be flexible and adaptive, to avoid being a bureaucratic administrative requirement, and should not overburden the Article IV process.

Directors expressed different views regarding how the Fund should deliver financial support to countries in fragile and conflict situations as proposed in Recommendation 4. They welcomed the Managing Director's commitment to consider modifications to the Fund's lending toolkit in the context of the 2018 Review of Facilities for Low-Income Countries. Most Directors saw merit in or were open to considering suggestions to raise the access limit for the RFI/RCI and introduce shorter upper-credit tranche financial arrangements, while a number of Directors emphasized that higher access to Fund resources may not be helpful to countries that mainly need grants. A number of Directors cautioned against reducing the strength of program conditionality, while recognizing that program design should be calibrated to domestic implementation capacity. A few Directors suggested that for those countries with weaker implementation capacity, consideration could be given to lengthening program duration to allow for more time to implement policies and strengthen capacity. A number of Directors were skeptical about the case for an extension of the repayment period of loans under the PRGT and

the need for a special financial facility for countries in fragile and conflict situations. Directors emphasized that countries in fragile and conflict situations would benefit from entering into Fund arrangements primarily because of the catalytic role of these arrangements in mobilizing financial support from other development partners.

Directors supported Recommendation 5 to take practical steps to strengthen the impact of Fund CD support to countries in fragile and conflict situations, including increasing the use of on-the-ground experts, employing realistic impact assessment tools, and making efforts to ensure that adequate financial resources are available for CD work in these countries. They noted that weak absorption capacity and governance in fragile and conflict situations could limit CD effectiveness, which warrant particular attention. In this context, most Directors saw merit in the idea of gathering support for a multi-donor trust fund dedicated to such CD, provided that a business case could be made to donors and this would not undermine funding for the Regional Technical Assistance Centers.

Directors agreed on the importance of effective coordination with other CD providers and better tailoring CD work to the specific conditions and long-term needs of countries in fragile and conflict situations.

Directors supported Recommendation 6 that the Fund should take steps to adapt its human resources strategy to provide robust incentives for high-quality and experienced staff to work on individual countries in fragile and conflict situations, and to ensure that adequate budgetary resources are allocated to support their work. They called on the upcoming review of the HR strategy to proactively consider ways of providing stronger recognition of the staff's work in these countries to reduce turnover and attract more experienced staff, and to consider changes to recruitment practices. Some Directors expressed openness to considering enhanced financial and non-financial incentives to staff for work on countries in fragile and conflict situations. A number of Directors called on the Fund to consider best practices of other development institutions regarding interaction, continuous security assessment, and increased field presence in countries in fragile and conflict situations. Directors noted, however, that an increase in field staff presence in high-risk locations should be weighed against the paramount objective of protecting staff safety.

In line with established practices, management and staff will carefully consider today's discussion in formulating a follow-up implementation plan, including approaches to monitor progress.



COMPLETED AND ONGOING IEO WORK PROGRAM

EVALUATION REPORTS

Evaluation of Prolonged Use of IMF Resources

Completed 08/02

The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil

Completed 05/03

Fiscal Adjustment in IMF-Supported Programs

Completed 08/03

Evaluation of the IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility

Completed 07/04

The IMF and Argentina, 1991–2001

Completed 07/04

IMF Technical Assistance

Completed 02/05

The IMF's Approach to Capital Account Liberalization

Completed 05/05

IMF Support to Jordan, 1989–2004

Completed 11/05

Financial Sector Assessment Program

Completed 01/06

Multilateral Surveillance

Completed 03/06

The IMF and Aid to Sub-Saharan Africa

Completed 03/07

IMF Exchange Rate Policy Advice

Completed 05/07

Structural Conditionality in IMF-Supported Programs

Completed 12/07

Governance of the IMF: An Evaluation

Completed 05/08

IMF Involvement in International Trade Policy Issues

Completed 06/09

IMF Interactions with Member Countries

Completed 12/09

IMF Performance in the Run-Up to the Financial and Economic Crisis:

IMF Surveillance in 2004–07

Completed 01/11

Research at the IMF: Relevance and Utilization

Completed 06/11

International Reserves: IMF Concerns and Country Perspectives

Completed 12/12

The Role of the IMF as Trusted Advisor

Completed 02/13

IMF Forecasts: Process, Quality, and Country Perspectives

Completed 02/14

Recurring issues from a Decade of Evaluation: Lessons for the IMF

Completed 06/14

IMF Response to the Financial and Economic Crisis

Completed 10/14

Self-Evaluation at the IMF: An IEO Assessment

Completed 09/15

Behind the Scenes with Data at the IMF: An IEO Evaluation

Completed 03/16

The IMF and the Crises in Greece, Ireland, and Portugal

Completed 07/16

The IMF and Social Protection

Completed 07/17

The IMF and Fragile States

Completed 03/18

IMF Financial Surveillance

In progress

IMF Advice on Unconventional Monetary Policy

In progress

EVALUATION UPDATES

Prolonged Use of IMF Resources: Revisiting the 2002 IEO Evaluation

Completed 07/13

Fiscal Adjustment in IMF-Supported Programs:

Revisiting the 2003 IEO Evaluation

Completed 07/13

IMF Technical Assistance: Revisiting the 2005 IEO Evaluation

Completed 03/14

Revisiting the IEO Evaluations of The IMF's Role in PRSPs and the PRGF (2004) and The IMF and Aid to Sub-Saharan Africa (2007)

Completed 08/14

The IMF's Approach to Capital Account Liberalization:

Revisiting the 2005 IEO Evaluation

Completed 02/15

Multilateral Surveillance: Revisiting the 2006 IEO Evaluation

Completed 02/17

IMF Exchange Rate Policy Advice: Evaluation Update

Completed 10/17

Structural Conditionality in IMF-Supported Programs: Evaluation Update

In progress

Governance of the IMF: Evaluation Update

In progress

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