Brief Summary

The IMF and Fragile States Report 2018

- The Independent Evaluation Office of the IMF conducted a report on IMF engagement (Surveillance, lending and capacity development) in Fragile countries evaluating its impact thereon. Of the focussed countries considered for the report 13 are from g7+ (Afghanistan, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of the Congo, Haiti, Liberia, Sierra Leone, Somalia, Solomon Islands, South Sudan, Timor-Leste and Yemen). The report focussed on how IMF's programs of lending and capacity development have been effective in FCS.
- The findings of the report have been presented to the IMF Management Board. Very recently, the IMF management board agreed to establish a committee which can follow up on the recommendation of the report.
- The report was based on consultation with IMF staff (former and current) in the countries or region and IMF HQ, Government officials, Civil Societies, Donors and Management of the IMF.

Key Findings of the Report:

1. The overall impact of the IMF in fragile states

- IMF has provided 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.

2. The adequacy of existing instruments for fragile states

- The IMF's financial toolkit, with its relatively short-term focus, is not inherently well suited to the circumstances of fragile states. Conflict affected countries find the high-quality policies required by IMF-supported programs hard to achieve and sustain, and even interest-free concessional IMF resources must be repaid within ten years. IMF has been quick 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.

- 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. 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. 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 hinders producing quick results. Greater involvement of concerned Executive Directors could help facilitate coordination with donor countries in the provision of TA.

3. The country septicity 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 in case 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.

4. 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 united strategy for advancing politically challenging reforms.

5. Management of human resources

- While mission chiefs and resident representatives working on FCS are 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.

6. 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 the so called HRL3 countries are consistent in their complaints about the ineffectiveness and disruptiveness of engaging with the IMF in third countries.

Recommendations of the report:

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. 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 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.

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 on 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.
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.
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 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. e IMF's current review of low-income country facilities provides an opportunity to consider alternative approaches.
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. 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.
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 fund pragmatic ways of increasing field presence in high-risk locations while taking

necessary security arrangements even at high cost. 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, the IMF needs to take steps to ensure that adequate staff resources are provided to country work in individual fragile states.