

APPENDIX 2. 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, 2011). 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.