

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.