



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.