

**THE IMF AND FRAGILE STATES**

**DRAFT ISSUES PAPER FOR AN EVALUATION BY THE**

**INDEPENDENT EVALUATION OFFICE**

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## I. INTRODUCTION

1. The Independent Evaluation Office (IEO) is launching an evaluation of the IMF's engagement with fragile states (FS), which may be defined broadly (as was done in a recent IMF paper) as "states in which the government is unable to deliver basic services and security for the population" (Gelbard and others, 2015). While the IMF has long been involved in these countries, the modalities and intensity of engagement have varied over time and across countries.<sup>1</sup> The very nature of fragility in these countries has posed unique challenges to the IMF in determining how best it can play its role, which assumes particular relevance given the scale of the problems and the consequent likely need for sustained and lengthy support from the international community.

2. Several of the characteristics of the set of countries under consideration (see paragraph 4 below) are present to different degrees in many other members with which the IMF engages. In recent years, however, the international community has sought to distinguish a particular subgroup of countries as "fragile states" where these characteristics have featured more prominently and challenges are therefore considered to be distinct. Against this background, the IMF, along with other multilateral institutions, has devised special policies, guidelines or approaches specifically to address their needs. It is thus legitimate to ask how well these recent initiatives have worked. Addressing this question is a principal motivation of the evaluation. In particular, the evaluation will seek to identify aspects of the IMF's approach that appear to have worked well and those that have worked less well (and why) in order to help draw lessons for the IMF's future policy and operational work, including whether or not modifications may be warranted.

3. The evaluation is designed to address the two main aspects of the IMF's role in fragile states, namely: (i) the **framework and procedures** for engagement, both internal to the institution and vis-à-vis other external stakeholders; and (ii) the quality, relevance and traction of **substantive elements** of the IMF's engagement (i.e., surveillance, program design, and capacity building). Combined, it is hoped that the assessment of these aspects will contribute to assessing the overall effectiveness of the IMF's engagement in fragile states and help to draw lessons for the IMF's future work. The evaluation follows similar recent efforts by the evaluation offices of other multilateral institutions to evaluate the effectiveness of their engagement with fragile states (e.g., OPEV-AfDB, 2012; IEG-World Bank, 2013; 2016).

4. The international community has recently paid increasing attention to the issues faced by fragile states. Irrespective of the precise definition, there is general agreement that their overall economic performance has lagged considerably behind that of non-fragile countries. As summarized by IMF (2015), on average, per capita incomes are lower by over one-third and poverty rates three times higher; macroeconomic outcomes tend to be less favorable; dependency on volatile aid flows is greater; and economies are less diversified and more

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<sup>1</sup> The IMF's engagement with fragile states takes place through vehicles established for all member countries: Article IV consultations, financing and other support arrangements, and capacity building.

susceptible to shocks. Moreover, FS are characterized by more limited administrative capacity, less developed economic institutions, and governance weaknesses. They also tend to face higher risks of internal violence, political instability and regional conflict, including spillovers from instability in neighboring countries.

5. A voluminous literature has emerged that deals with FS in general as well as the experiences of individual fragile states (see World Bank, 2011, for a comprehensive survey of the literature). Studies by academics, international organizations and bilateral aid agencies have sought to analyze the issues facing FS and the best approaches to dealing with them. The features of FS differ considerably from each other, but a recurring common theme is that despite extensive domestic and external efforts, often spanning several decades, the situation of many FS remains of major concern. The literature, while evincing differences of view on a number of important issues,<sup>2</sup> appears unanimous in highlighting the multidimensional nature of state fragility.

6. In this context, the IMF itself has since 2008 conducted three assessments of its work on FS (IMF, 2008a, 2011a, 2015). IMF (2011a) was followed in 2012 by the issuance of a staff guidance note providing guidelines for the IMF's engagement with FS (IMF, 2012). Given the medium-term objective of making progress toward a stable and sustainable macroeconomic environment that is consistent with strong and durable poverty reduction and growth, the guidance note, among other things, calls for policy design in fragile countries to capture the following principles: (i) explicit consideration of the political context; (ii) a well-tailored pace of macroeconomic adjustment; (iii) opportunities for "quick wins"; (iv) inclusive growth and social protection; (v) integration of technical assistance with policy advice and program design; and (vi) contingency planning. IMF (2015), based on surveys of country authorities, area department teams, and functional departments, took stock of the state of Fund engagement with FS, outlining possible follow-up actions in the areas of capacity building, financing facilities and program design, and policy support.

7. In terms of the IMF's financing role, the 2009 revamp of financing facilities included changes for low-income countries (LICs), some of which may be in fragile situations (IMF, 2009a; 2009b; 2009c);<sup>3</sup> likewise, the 2009 revision of guidelines on conditionality had implications for the

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<sup>2</sup> For example, such issues include: (i) the underlying causes of state fragility, including the roles played by historical, geographical or socio-cultural factors; (ii) the applicability of the concept of "state building," including the merits of alternative approaches to governance issues; and (iii) the effectiveness of external intervention, including assistance aimed at promoting peace and security objectives, as well as humanitarian, developmental and financial aid.

<sup>3</sup> As part of the 2009 changes, all concessional facilities were placed under the umbrella of a single Poverty Reduction and Growth Trust (PRGT) streamlining them into three concessional facilities: the Extended Credit Facility (ECF); the Stand-by Credit Facility (SCF); and the Rapid Credit Facility (RCF), which replaced the Emergency Natural Disaster Assistance (ENDA), Emergency Post-Conflict Assistance (EPCA), and the rapid access component of the Exogenous Shock Facility. In 2015, the Catastrophe and Containment and Relief Trust (CCR) was introduced. In addition, the IMF maintains two non-financing instruments that can be used by FS: a staff monitored program

Fund's work on fragile states. In the area of capacity building, the IMF has also ramped up support to countries with financial arrangements to facilitate the implementation of crisis-resolving measures. As the immediate impact of recent crises has receded, the focus of the IMF's capacity building efforts appears to be shifting toward enhancing institutional and policymaking capacity in member countries to boost resilience to shocks, especially in low-income fragile or small states (IMF, 2008b, 2011b, 2013). In addition, IMF staff has produced a considerable amount of analytical work, including as Selected Issues Papers for Article IV consultations, addressing issues of engagement with FS and the role of economic policies and institutions in building resilience (e.g., Delechat and others, 2015; Gelbard and others, 2015).

8. The rest of this draft issues paper explains the main building blocks of the evaluation. Section II gives an outline of the evaluation. After stating the objective and country coverage of the evaluation, it poses a number of evaluation questions under the two main aspects of the IMF's role in fragile states, as noted above, namely: (a) the framework and procedures for engagement and (b) the substantive elements of the IMF's engagement. Section III presents a work plan for the evaluation, including the sample period, a provisional list of sample countries, and sources of evidence.

## II. AN OUTLINE OF THE EVALUATION

### A. Objective and Coverage

9. **Objective:** The evaluation will assess the IMF's involvement to date under two broad headings: (i) the procedures and framework (both internal and external) that have guided the institution's work on FS; and (ii) the substantive elements of the IMF's engagement (i.e., surveillance, program design for both financing and non-financing arrangements, and capacity building).

10. **Country coverage:** The evaluation will cover both current and former fragile states. In this context, an important methodological issue arises concerning the appropriate definition of state fragility. The guidance note on "the Fund's Engagement with Countries in Fragile Situations" (IMF, 2012) observes that there is no universally accepted definition of fragility, that each country case is unique, that there is significant heterogeneity among fragile situations, and that fragilities in a given country tend to change over time.<sup>4</sup> The IMF, rather than preparing a list of fragile states, has instead emphasized the key characteristics of such countries, including (i) significant institutional and policy implementation weaknesses; (ii) a fractious political context evidenced by

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(SMP, under which countries formulate a macroeconomic policy framework to be monitored by staff); and the Policy Support Instrument (PSI, which works as a signaling device to facilitate access to external financing).

<sup>4</sup> The guidance note therefore calls for IMF staff to regularly update its understanding of a country's main fragilities and the authorities' policy capacity and commitment, and states that the multiple dimensions of fragility can be assessed by drawing on analysis from donors, academics, and other relevant sources.

a greater tendency to political stress and civil unrest; (iii) severe domestic constraints; and (iv) vulnerability to shocks.

11. For purposes of statistical analysis, however, the IMF's approach to identifying fragile states has for the most part followed the methodology developed by the World Bank. On this basis, for example, IMF (2015) identified as FS the group of 39 states that was based on the Bank's criteria (see Appendix 1).<sup>5</sup> This evaluation will broadly follow the same practice in identifying current and former fragile states (where former FS are defined as countries that were on the 2008 list but not on the 2015 list). To be sure, the World Bank's approach is not the only widely accepted one. For example, the OECD's 2015 *States of Fragility Report* identified 50 states as being in a "state of fragility."<sup>6</sup> It is not the purpose of the evaluation to propose or endorse any particular definition, but the evaluation will explore the implications of different possible definitions of state fragility for the IMF's work.

## **B. Evaluation Questions—The Framework and Procedures**

12. Issues to be assessed under this heading relate to the strategy and accountability framework, the use of IMF facilities or arrangements, interaction with external stakeholders, the role of the IMF Executive Board, and human resources (HR) management. The range of IMF facilities or arrangements available to FS has undergone considerable modification in recent years. We will consider both financing and non-financing arrangements, such as "staff-monitored programs" and the Policy Support Instrument.

### **The strategy and accountability framework**

- (a) Are the objectives/goals of IMF involvement in FS sufficiently clear and well understood?
- (b) Are these objectives/goals broadly supported by the membership?
- (c) Are these objectives/goals realistic?

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<sup>5</sup> The World Bank annually releases a "Harmonized List" of fragile states, which is in part based on what it calls "Country Policy and Institutional Assessment (CPIA)" rating (designed to measure, however imperfectly, the quality and influence of key state and society institutions and the policies they implement). The methodology has gone through a series of changes since 2006, when the first list was released, reflecting the Bank's evolving understanding of development challenges in fragile states. Because CPIA does not directly measure the levels of political and criminal violence, the harmonized list has been expanded to include countries with peace-keeping and peace building missions; the multidimensionality of fragility has been incorporated in the list to a greater extent in more recent years.

<sup>6</sup> The OECD Development Assistance Committee (DAC) identifies a fragile situation when state structures lack political will or capacity to provide the basic functions needed for poverty reduction and development, and to safeguard the security and human rights of the population. The European Commission has a similar definition emphasizing that fragility refers to weak and failing structures and to situations where the social contract is broken because of the state's incapacity or unwillingness to deal with its basic functions and meet the obligations and responsibilities of a modern state.

- (d) Is there a framework to assess whether the IMF is achieving these objectives/goals?
- (e) Have adjustments in the IMF strategy (overall and in specific country cases) in the context of past reviews been appropriate?

### **The use of IMF arrangements**

- (a) How appropriately were the different arrangements designed to meet the specific needs of FS?
- (b) Were the financing amounts and terms involved suitable?
- (c) Did the extent of usage of the different arrangements match expectations? If not, why not?

### **Interaction with external stakeholders**

- (a) To what extent was the IMF's assessment of the broad nature of the problems facing FS and the appropriate approaches to dealing with them shared with other stakeholders (for example, national authorities, international organizations and other experts in the field)?
- (b) Was the IMF effective in the context of discussions within the international community on the overall financing and capacity needs of FS? How well did the IMF work with other stakeholders? Was it guided by a common, long-term, overall strategy?
- (c) How effectively were capacity building activities coordinated with other providers of support?
- (d) How well was the IMF's policy advice communicated to other stakeholders, especially bilateral donors and multilateral institutions?
- (e) How did the financing provided by the IMF dovetail with that of other multilateral and bilateral donors?
- (f) More broadly, were existing institutional arrangements for interaction between the IMF staff and other stakeholders regarding FS (either collectively or in individual cases) effective?

### **The role of the Executive Board**

- (a) Did IMF staff convey their views adequately vis-à-vis the Executive Board on matters such as the nature of the problems facing FS and the design of IMF facilities?
- (b) Was the Board provided with sufficient information and analysis to assess, in individual cases, the appropriate extent and nature of IMF engagement?

### **HR management**

- (a) How was the quantum of staff resources allocated to the group of (current and former) FS over time?
- (b) How did the IMF decide, among competing priorities, the allocation of staff resources to different FS and between FS and non-FS?
- (c) Was IMF staff adequately trained to deal with the broader political and noneconomic features that often affect significantly outcomes in FS?
- (d) How effective were incentives (career-related and otherwise) to encourage IMF staff to work on FS?
- (e) Were security-related issues handled appropriately? Did security concerns affect the turnover of staff assigned to FS?
- (f) Was IMF staff assigned to a particular FS for a sufficiently long period of time to acquire a minimum level of country-specific expertise?
- (g) What were the relative roles of country missions and headquarters in tailoring policy advice to the needs of specific countries?

### **C. Evaluation Questions—Substantive Elements of IMF Engagement**

13. Issues to be examined under this heading involve three vehicles of IMF engagement: surveillance, program design for financing and non-financing arrangements, and capacity building.

#### **Surveillance**

- (a) How relevant and effective was the IMF's advice in a surveillance context?
- (b) How appropriately was the IMF's advice tailored to take into account the social, political, and capacity constraints faced by FS?
- (c) How did institutional and other capacity constraints hamper the effectiveness of IMF surveillance?

#### **Program design**

- (a) Did program design—and associated conditionality in the case of a financing arrangement—reflect a sufficient appreciation of the institutional and other non-economic aspects, including the political context, faced by FS?
- (b) Was program design sufficiently flexible to take adequate account of these elements?

- (c) How closely linked were program design issues and the expected outcome of capacity building activities?
- (d) Were the pace and sequence of reforms realistic, by taking account of capacity and other constraints?
- (e) Were the outcomes of IMF support consistent with expectations?

### **Capacity building**

- (a) Were capacity building initiatives appropriately aligned with the country's needs and absorption capacity? Did the IMF have a sufficiently robust assessment at the outset of its capacity building activities as to their likely success?
- (b) How systematically did the IMF assess the outcome of capacity building efforts and were these assessments shared by other stakeholders? How were traction, implementation, and ownership evaluated?
- (c) How did judgments in this area affect decisions as to the nature and extent of continued IMF involvement?
- (d) Were capacity building activities adequately integrated with surveillance/program work?

### **III. WORK PLAN**

14. **Sample period:** The focus of the evaluation will primarily be on more recent experiences, especially the period after the 2009 revamp of IMF financing facilities and the 2012 issuance of the staff guidance note on IMF engagement with fragile states. In a number of individual cases, especially for former FS, however, earlier periods when the IMF was heavily involved will likely need to be examined. Given the long-standing nature of the issues facing most FS and (in many cases) the involvement of the IMF, flexibility will be maintained as to the precise time period covered by the evaluation for a particular country.

15. **Sample countries:** In addition to assessments on an aggregate level, for which all relevant fragile states are considered, a more in-depth review will be conducted of a selected subgroup of FS, chosen to ensure geographical balance, heterogeneity of experiences and varying types of engagement by the IMF. These countries will include current fragile states and a small number of former fragile states, defined on the basis of the IMF's 2008 and 2015 lists.

16. Subject to further consultation and revision, it is currently envisioned that a desk study will be made of most, if not all, of the countries listed in Table 1 (former FS not on the IMF's 2015 list are underlined). Case study countries, to which country visits are attempted, will be selected from among these countries as the evaluation progresses. In addition, the experiences of some other middle-income countries that exhibit characteristics of fragility may also need to be assessed for comparison or completeness.

Table 1. Potential Desk Study Countries

Region	Countries
Africa	Angola, Central African Republic, Chad, Cote d'Ivoire, Democratic Republic of the Congo, <u>The Gambia</u> , Liberia, <u>Rwanda</u> , Sierra Leone, South Sudan
Asia-Pacific	<u>Cambodia</u> , <u>Lao PDR</u> , Myanmar, Solomon Islands, Timor-Leste
Europe	Bosnia and Herzegovina, Kosovo
Middle East-Central Asia	Afghanistan, Iraq, Somalia, Sudan, West Bank and Gaza (a non-member)
Western Hemisphere	Haiti

Note: Former fragile states, countries on the 2008 list but not on the 2015 list, are underlined.

17. **Sources of evidence:** Evidence will be gathered from: reviews of IMF and external documents; interviews with current and former national authorities, current and former officials from multilateral institutions (including the World Bank, the OECD, regional development banks, and the g7+ subgroup of FS) and current and former members of the IMF Executive Board and staff; and consultations with bilateral donors, academics, and other stakeholders. It is recognized that visits to some fragile states may be precluded by security concerns. In such cases, alternative approaches will be explored to seek the views of former and current senior national authorities, including through group meetings in third countries or surveys where feasible.

## REFERENCES

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### Appendix 1. Fragile States Covered by Past IMF Reviews

Region	IMF (2008)	IMF (2011) <sup>1</sup>	IMF (2015)
Africa	Angola	Angola	Angola
	Burundi	Burundi	Burundi
	Cameroon	Central African Republic	Central African Republic
	Central African Republic	Chad	Chad
	Chad	Comoros	Comoros
	Comoros	Congo, Dem Rep of	Congo, Dem Rep of
	Congo, Dem Rep of	Congo, Republic of	Congo, Republic of
	Congo, Republic of	Cote d'Ivoire	Cote d'Ivoire
	Cote d'Ivoire	Eritrea	Eritrea
	Djibouti	Guinea	Guinea
	Eritrea	Guinea-Bissau	Guinea-Bissau
	Gambia, The	Liberia	Liberia
	Guinea	Sao Tome & Principe	Madagascar
	Guinea-Bissau	Sierra Leone	Malawi
	Liberia	Togo	Mali
	Niger	Western Sahara <sup>2</sup>	Sao Tome & Principe
	Nigeria	Zimbabwe	Sierra Leone
	Rwanda		South Sudan
	Sao Tome & Principe		Togo
	Sierra Leone		Zimbabwe
	Togo		
	Zimbabwe		
	Asia-Pacific	Cambodia	Kiribati
Kiribati		Myanmar	Marshall Islands
Lao P. D. R.		Nepal	Micronesia
Myanmar		Solomon Islands	Myanmar
Papua New Guinea		Timor-Leste	Nepal
Solomon Islands			Solomon Islands
Timor-Leste			Timor-Leste
Tonga			Tuvalu
Vanuatu			

Europe	Albania Bosnia & Herzegovina Fmr Serbia and Montenegro	Bosnia & Herzegovina Kosovo	Bosnia & Herzegovina Kosovo
Middle East-Central Asia	Afghanistan Iraq Somalia Sudan Tajikistan Uzbekistan	Afghanistan Georgia Iraq Somalia Sudan Tajikistan West Bank & Gaza <sup>2</sup> Yemen, Republic of	Afghanistan Iraq Libya Somalia Sudan Syria West Bank & Gaza <sup>2</sup> Yemen, Republic of
Western Hemisphere	Haiti	Haiti	Haiti
Total number	41	33	39

<sup>1</sup>2011 World Bank list.

<sup>2</sup> Not an IMF member.