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**Statement by Mr. Zhang and Ms. Yang on IMF Strategy for Fragile and Conflict-Affected States  
(Preliminary)  
Executive Board Meeting  
March 9, 2022**

We thank staff for the well-written report and the helpful outreach to our office. We support the timely discussion on enhancing Fund engagement with Fragile and Conflict-Affected States (FCS) and appreciate staff's hard work in developing a full-fledged FCS strategy. FCS are the most vulnerable members of the Fund, with pre-existing weaknesses exacerbated by the pandemic and climate change. The Fund has an important role to play in supporting FCS to restore macroeconomic stability, strengthen resilience, and promote inclusive growth to help them exit from fragility. We broadly support the proposed strategy and would like to emphasize the following points.

**We welcome the harmonization of the Fund's FCS list with that of the World Bank.** In the absence of a universal definition of FCS, alignment of the methodology, thresholds, and criteria of the FCS could facilitate a more coordinated international response and reduce the risk of inconsistencies between institutions. Adopting the new methodology for FCS classification could better capture the nuances between fragility and conflict-related challenges, allowing the Fund to tailor its engagement to FCS conditions. As staff rightly pointed out, the Fund should maintain autonomy and ownership in the application and review of FCS classification methodology. *Given that the FCS list will be updated on an annual basis while the successful FCS engagement should be long-term oriented, could staff comment on how countries transitioning on and off the FCS list would affect the Fund's work, as well as staff promotion under the career development framework?*

**We emphasize that lacking inclusive growth and development is one of the long-standing drivers of fragility and conflicts.** Given that there will be no growth or development without investments, the enhanced Fund engagement with FCS should place a greater emphasis on tailored policies and measures to promote investments, both private and

public. Considering infrastructure expenditures are urgently needed by many FCS, we call on staff to distinguish current spending and capital spending with greater granularity under the DSA, as the latter can generate productive assets.

**We support the planned rolling out of Country Engagement Strategy (CES).** CES will provide in-depth assessment of fragility and conflict drivers and help strengthen the integration of IMF core functions. It could also guide the prioritization and sequencing of structural reforms and CD activities. As such, it serves as the anchor for the Fund's engagement with FCS. Developing a high-quality and realistic CES requires thorough consultation both within the Fund and with external stakeholders, particularly country authorities. It seems that the current CES for certain countries may not fully meet the expectations set by the FCS strategy, and we look forward to the revised staff guidance note, which will provide a standard template of CES to ensure quality consistency.

**We support the proposed measures to strengthen the effectiveness of the IMF's core functions in FCS.** Given the heterogenous nature and challenging social and political context of FCS, policy advice, capacity development, and program design and conditionality should be adapted to country circumstances, particularly political economy dynamics and institutional capacities.

- We agree with staff that surveillance should systematically address fragility and conflict issues that are macro-critical, with a focus on social aspects and institutional capacities. Staff's efforts in exploring innovative methods to address data shortcomings are commendable.
- Capacity development is at the center of the Fund's FCS engagement, and we fully support enhancing CD delivery to FCS and better integrating CD with surveillance and lending. CD delivery should be demand driven, flexible to changing priorities, and based on absorption capacity and implementation record. We take positive note that CD will be well-sequenced, starting with strengthening basic functions and progressing to more complex reforms. We agree with staff that RCDCs, many of which China has made financial contributions, such as CICDC, CCAMTAC and AFRITAC, should play an important role in CD delivery for FCS.
- In terms of lending, the medium-term ECF should be the workhorse for PRGT-eligible FCS with protracted BOP needs, and the current lending toolkit could be better utilized to explore its flexibility. We support to improve program design by using more realistic macroeconomic frameworks and conditionality tailored to country specifics. In cases where a UCT-quality program is not feasible, we see merit in the proposal of combined use of SMPs and emergency financings to support FCS to build a track-record toward a UCT-quality program. We look forward to the official launch of the RST, which provides longer term financing for countries to address structural challenges such as climate change.

**Enhancing country ownership is imperative to the success of the FCS Strategy.** Aligning external support and government ownership could promote structural reform agenda and

strengthen economic fundamentals in the long run. We encourage staff to step up efforts in building trust with country authorities and promoting ownership, as well as to assist authorities in re-building trust with the public by improving communication with the population, in order to secure the necessary buy-in for successful implementation of structural reforms.

**Strengthening partnerships to leverage the expertise of development, humanitarian, peace, and security institutions is essential to promote resilience and help FCS to exit fragility.** The outcomes of IMF engagement with many FCS are significantly impacted by factors beyond the Fund's control, requiring strong collaboration among partners. We support a strategy that seeks to improve collaboration and synergies with various partners in Fund engagement with FCS, based on each institution's mandate and comparative advantage. We notice that Fund engagement might be constrained or suspended in cases where government recognition is uncertain, while communication with partners may improve Fund understanding of developments on the ground, more should be done. We encourage staff to take an innovative approach to overcome political challenges and ensure the continuity and sustainability of fund engagement.

**Regarding the budget and HR arrangements,** we support appropriate budget increase for FCS engagement, which allows the Fund to expand overtime its footprint in FCS and strengthen the effectiveness of Fund engagement in FCS. While stepping up field presence is particularly important for FCS, blending virtual and in-person CD delivery would be appropriate in light of security and budget considerations. We welcome the new career development framework to attract Fund talent to work on FCS and the learning curriculum to improve staff skillsets. The Fund-wide special recognition scheme for institutional priorities will add further incentives for staff to participate in FCS work.