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

1. We thank the staff for the detailed paper on the IMF Strategy for Fragile and Conflict Affected States (FCS). The macroeconomic stability of FCS countries is highly vulnerable because of challenges including conflicts, natural disasters, limited state capacity, and social problems. The situation has been aggravated by the COVID-19 pandemic. Given that these heterogeneous groups of LICs and MICs constituting about 20 percent of the membership confront different types of vulnerabilities, the role of the Fund is critical as well as challenging. In this context, the proposed strategy should help the Fund to support FCS in achieving macroeconomic stability and sustainable growth.

2. The FCS suffer from weak policy space in respect of providing public goods, governance, and high risks of violence. The macroeconomic environment is characterized by weak fiscal conditions due to low tax capacity and spending priorities, weak central banks, undeveloped financial markets, and volatile external position. To help these countries, we concur that the Fund's engagement should be in line with its mandate for ensuring macroeconomic stability through its key activities: surveillance, lending, and capacity development.

3. We concur that the principles of engagement should be based on Fund's core mandate, tailoring financial support to meet the needs of individual members, and leveraging the strength of the partners. The program design and conditionalities need to be calibrated to suit the members' socio-economic context and governance

capabilities. Collaborating with partners is key to the success of the program especially since many countries face security problems, displacement, and humanitarian concerns.

4. We take note of the country engagement strategies wherein the Area Department country teams need to work closely with the authorities and partners in preparing policy advice and reform strategy. It is important to strengthen sustained engagement through active surveillance and capacity building activities. In this context, we welcome the roll-out of Staff guidance Note and survey of Mission Chiefs. Further, surveillance is in-built in the countries which are covered under Fund's program support. *Can the staff comment on any special mechanism to strengthen surveillance in countries that do not have any program support?*

5. We welcome the stepping up of CD activities and integrating CD with surveillance and lending. We believe that CD should help in building a strong institutional mechanism and develop champions for reform in the host country for effecting durable improvement. To achieve these objectives, we concur on the requirement to bolster Fund's human resources for augmenting FCS work.