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March 11, 2022

The Chair's Summing Up
The IMF Strategy for Fragile and Conflict-Affected States
Executive Board Meeting 22/23
March 9, 2022

Executive Directors welcomed the opportunity to discuss the Fund's strategy for fragile and conflict-affected states (FCS). They concurred that addressing fragility and conflict is an important policy priority for the international community, especially given the disproportionate economic impact of the pandemic in FCS, and the interlinkages with climate change, food insecurity, and persistent gender disparities. Directors agreed that the implications of fragility and conflict are macro-critical and relevant to the Fund's mandate—both in terms of the long-run economic impact on members, but also because spillovers originating in FCS can undermine macroeconomic stability and growth prospects in neighboring countries and regions.

Directors noted that about one fifth of Fund members are classified as FCS. They agreed that the Fund has an important role to play, within its mandate, to help these countries exit from fragility and support them to achieve macroeconomic stability, enhance resilience, strengthen governance, and promote inclusive growth. Directors expressed strong support for the proposed FCS strategy and its measures, which responds to the Board-endorsed recommendations of the 2018 Independent Evaluation Office Report on The IMF and Fragile States and builds on actions under the related Management Implementation Plan. They welcomed the inclusive process through which the FCS strategy was developed, with extensive consultations with the World Bank, the UN system, and other partners and stakeholders.

Directors endorsed the proposed principles of engagement to ensure that the Fund's mandate and comparative advantage will be effectively leveraged to help country authorities in FCS achieve better macroeconomic outcomes. They emphasized the importance of focusing engagement on areas within the Fund's core competencies; promoting greater tailoring of instruments to the country-specific manifestations of fragility and conflict; as well as strategically enhancing partnerships with humanitarian, development, peace, and security actors. Directors noted that country ownership and effective communication with the public are key to advancing reforms in FCS.

Directors strongly supported the proposal to roll out Country Engagement Strategies (CES) across FCS. They concurred that the CES is an important vehicle to identify the key drivers of fragility and conflict to better tailor Fund engagement; support the integration of surveillance, capacity development (CD), and lending programs; inform program design and conditionality; and support a stronger dialogue with country authorities and partners. Directors emphasized the importance of consultations with country authorities throughout the CES

process, as well as leveraging other institutions' analyses and expertise. Many Directors suggested considering a faster rollout of CES than proposed, if feasible. These Directors also suggested keeping the option of preparing CES for countries not formally defined as FCS but that are at high risk.

Directors generally agreed with the proposed measures to further calibrate the Fund's instruments and modalities of engagement to FCS conditions. They supported an expanded field presence to ensure that stepped-up CD provision in FCS is better tailored to local absorptive capacity and coordinated with other development partners. Directors emphasized the critical role that Fund CD can play in supporting FCS to progressively build institutions that effectively perform macroeconomic policy functions, noting the alignment between the FCS strategy and the FY23-25 CD priorities.

With regard to the lending toolkit, Directors supported the view that FCS that can implement UCT-quality programs should be encouraged to do so. They supported making full use of existing flexibility in the lending toolkit and enhancing program design through realistic macroeconomic frameworks and parsimonious and tailored conditionality aligned with institutional capacity and informed by the CES. Many Directors underlined that floating tranches should not be attached to core aspects of the program so as not to disincentivize reforms. Directors noted that the recognition of post-program financing gaps should be accompanied with the appropriate safeguards. A few Directors suggested considering post program assessments for defunct arrangements. To address situations where there is an urgent balance-of-payment need and UCT-quality programs are not possible, most Directors expressed openness to using the flexibility of having concurrent staff-monitored programs and RCF/RFI, as this should support the transition to a UCT-quality arrangement, and looked forward to proposals for targeted adjustments to the RCF framework. Many Directors also suggested exploring in the future options for a new ECF window enabling shorter-duration arrangements to transition to longer-term UCT-quality programs. Lastly, Directors noted that the proposed Resilience and Sustainability Trust (RST) could help FCS address their long-term structural challenges, but many Directors expressed concerns that many FCS may not qualify for the RST if a UCT-quality program is required. Directors requested that more information and a clear justification on the approach adopted in a country be included in staff reports for Board discussion.

Directors supported enhancing partnerships to amplify the impact of Fund engagement in FCS by leveraging complementarities while avoiding duplication of efforts and leveraging the Fund's engagement to catalyze increased donor support. Collaboration with the World Bank is especially critical and the adoption of its methodology for FCS classification as proposed in the FCS strategy is an important step to ensure greater consistency of approaches between the two institutions. A few Directors underlined the importance of robust Country Policy and Institutional Assessments. Directors emphasized the need to ensure a smooth transition to the new FCS classification methodology, which should not result in diminished support to countries that will be dropped from the current internal IMF FCS list.

Directors agreed with the resource allocation proposal, consistent with the FY23-25 Medium-Term Budget, as per the budget augmentation framework. They agreed with the proposed FCS engagement model focused on closer support and follow-up with country authorities and partners. Directors supported the initiatives to enhance the expertise, recognition, and accountability of staff working on FCS, along with appropriate incentives. Directors acknowledged the inherent risks in FCS engagement and the importance of risk mitigation. Many Directors stressed that the Fund should be prepared to accept residual risks when sufficiently assessed and justified to fulfill its unique mandate and be able to best serve its membership.

Directors looked forward to the planned operational guidance to help staff effectively implement the FCS strategy, as well as to annual updates on progress made. A number of Directors suggested having a timeframe for reviewing implementation of the FCS Strategy.