INFORMAL SESSION TO ENGAGE

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To: Members of the Executive Board

From: The Acting Secretary

Subject: **IMF Engagement with Countries in Post-Conflict and Fragile Situations—Stocktaking**

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IMF ENGAGEMENT WITH COUNTRIES IN POST-CONFLICT AND FRAGILE SITUATIONS—STOCKTAKING

EXECUTIVE SUMMARY

This review examines experience in implementing the lessons drawn in the 2011 Board paper on the Fund's engagement with countries in post-conflict and fragile situations (more commonly referred to as fragile states (FS)) and the ensuing 2012 Guidance Note. The focus is on capacity building, Fund facilities and program design, and policy support. The review identifies scope to improve the Fund's engagement in selected areas.

Capacity building. Resources dedicated to capacity building in FS have risen in recent years. While recognized as high quality by FS authorities, the latter would like to see capacity building tailored more closely to their absorptive capacity, with a stronger focus on training and support through resident advisors. Staff teams generally concur that the Fund's capacity building approaches could be further strengthened, but also point to budget and security constraints and the need for strong country ownership of the institution-building process.

Proposals: A new pilot approach is proposed for providing support to FS using a capacity building framework (CBF) that would establish goals for institution building, identify immediate and planned TA and training from the Fund and other development partners, and allow for fine-tuning of support, where needed, based on the evolving needs of FS. This proposed CBF will build on the new results based management (RBM) framework due to be rolled out in FY16 which will help strengthen monitoring and reviewing of outcomes of the CBF. The pilot approach, if successful, could be considered for broader FS usage, as well as application in selected non-FS low-income countries where capacity building is critical.

Fund facilities and program design. Use of the Rapid Credit Facility (RCF) by fragile states has increased, as envisaged in the 2011 Board paper, substituting in some cases for the use of staff-monitored programs (SMPs). FS authorities highlight inadequate levels of IMF financing as the key shortcoming of the Fund's existing facilities/instruments, with access under the RCF particularly low. Judged by the number of quantitative targets and structural benchmarks, program design has not changed much in recent years, and is broadly comparable across fragile and non-fragile states. The number of successful programs is also broadly similar for both groups although the number of programs that fail quickly is higher for fragile states. The authorities see

room for more emphasis on inclusive growth and protection of social expenditure, with indicative targets on priority social spending missed in about one-third of cases.

Proposals: A forthcoming paper will explore options to expand access to concessional financing for the Fund's poorest and most vulnerable members subject to maintaining the self-sustaining nature of the Poverty Reduction Growth and Trust (PRGT). More substantive changes in facilities will be considered in the next facilities review. Steps are proposed to strengthen program success in protecting priority social spending through more targeted specification of spending floors and adoption of contingency plans to preserve spending from fiscal shocks.

Policy support. FS authorities view the Fund's policy support as of high quality, but would like to see Fund teams bring greater FS experience, which would help in developing alternative policy solutions appropriate to FS circumstances. Staff welcomed the 2012 staff guidance note and the increased provision of training on FS-related political economy issues. That said, mission chiefs underlined the challenges of recruiting desk economists and resident representatives motivated and skilled for FS assignments.

Proposals: Training on political economy issues will be continued, and knowledge-sharing across teams working on fragile states will be fostered, including through a new intranet-based FS thematic site. The security concerns of staff considering FS assignments are being addressed through new security policies and steps are being taken to ensure that staff working on FS assignments share the same strong career prospects as their peers in non-FS positions.

Approved By
Peter Allum, Daniela Gressani, and David Robinson

Prepared by the African, Middle Eastern and Central Asia, and Strategy, Policy, and Review Departments (in consultation with other departments). The paper was prepared by an interdepartmental working group involving AFR, MCD, and SPR. The lead author of this paper was Ms. Bouza (SPR), with major contributions by Messrs. Gelbard, Orav, Pani, and Ruggiero (AFR); Mr. Gemayel and Ms. Baduel (MCD); and Messrs. Meyer Cirkel and Allum (SPR). Mmes. Fuli (AFR), Liu and Kehayova (SPR) provided valuable research assistance. Mmes. San Pedro-Pribram and Milton (SPR) also provided valuable administrative support. Contributions to the box features were provided by Messrs. Kwalingana and Torrez (AFR), Messrs. Gottschalk, Saker, and Yang (APD), Messrs. Leichter and Vardy (ICD), Ms. Castellanos Garcia and Mr. Demirkol (MCD), Ms. Ndoye (SPR), and Mr. Ntamatungiro (WHD).

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Acronyms and Abbreviations

AFC	Central AFRITAC
AFR	African Department
APD	Asia & Pacific Department
CAR	Central African Republic
CB	Capacity Building
CBF	Capacity Building Framework
CCB	Committee on Capacity Building
CCR	Catastrophe Containment and Relief
CD	Capacity Development
CPIA	Country Policy and Institutional Assessment
CSOs	Civil Society Organizations
DFID	Department for International Development
ECF	Extended Credit Facility
FAD	Fiscal Affairs Department
FATF	Financial Action Task Force
Ffd	Financing for Development
FPP	Financial Programming and Policies
FS	Fragile States
GPA	Global Policy Agenda
GN	Guidance Note
HIPC	Heavily Indebted Poor Countries
HRD	Human Resources Department
HRLs	High Risk Locations
ICD	Institute for Capacity Development
IET	Internal Economics Training
LICs	Low-Income Countries
LIDC	Low-Income Developing Countries
MCD	Middle East and Central Asia Department
MDTFs	Multi-Donor Trust Funds
MICs	Middle-Income Countries
MONA	Monitoring of Fund Arrangements
MoU	Memorandum of Understanding
NFS	Non-fragile States
NGOs	Nongovernmental Organizations
OECD	Organization for Economic Cooperation and Development
PRGT	Poverty Reduction Growth and Trust
RAP	Resource Allocation Plan
RBM	Results Based Management
RCF	Rapid Credit Facility

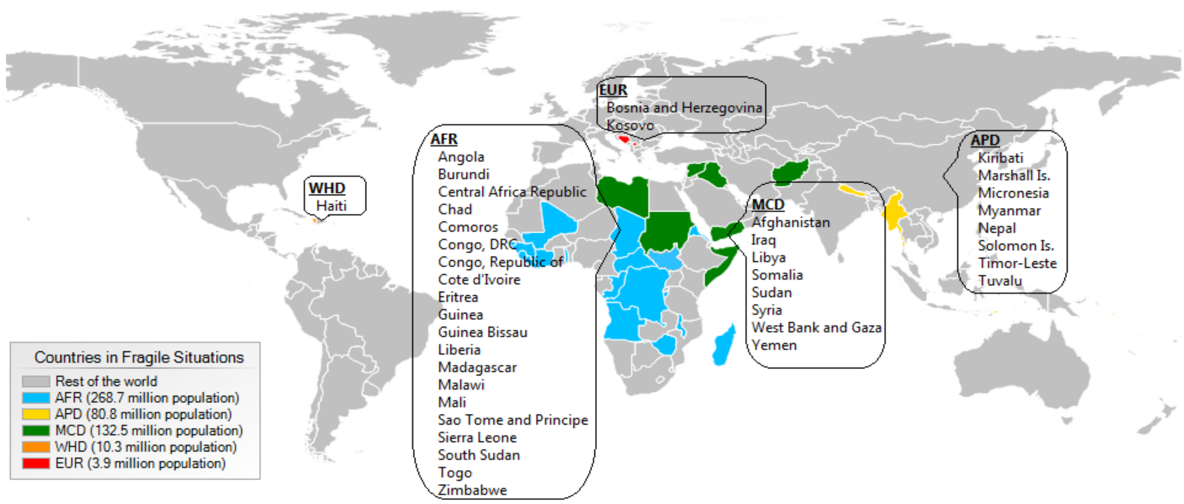
RFI	Rapid Financing Instrument
REO	Regional Economic Outlook
RRs	Resident Representatives
R&R	Rest and Recuperation
RSN	Regional Strategy Notes
RTACs	Regional Technical Assistance Centers
SAF	Security and Business Continuity Accountability Framework
SMPs	Staff-Monitored Programs
SPR	Strategy, Policy and Review Department
STA	Statistics Department
STI	Singapore Training Institute
TA	Technical Assistance
TIMS	Travel Information Management Systems
UCT	Upper Credit Tranche
WG	Working Group

INTRODUCTION AND CONTEXT

1. **This paper reviews recent Fund engagement with countries in a post-conflict and fragile situation** (also referred to as fragile states (FS)). It takes stock of engagement in the period following the 2011 Board paper and the 2012 staff guidance note (GN) (see Table 3 and Box 1). Board views on the findings of the review will help guide staff's efforts to further strengthen Fund engagement.

2. **A half-billion people live in fragile states, the majority in African low-income countries (LICs)**. The review defines FS as having either *weak institutional capacity* measured by the World Bank Country Policy and Institutional Assessment (CPIA) score (average of 3.2 or lower) and/or *experience of conflict* (signaled by presence of a peace-keeping or peace-building operation in the most recent three-year period).[1] This approach identifies 39 FS, with half in Africa, and slightly under one-quarter each in Asia and the Pacific, and the Middle East and Central Asia (Figure 1).

Figure 1. The Distribution of Fragile States



Source: World Economic Outlook and Fund staff estimates.

3. **Many FS members are locked in cycles of low administrative capacity, political instability, conflict, and weak economic performance.** FS differ as a group in the extent of their political cohesion, levels of income and its distribution, ethnic and religious divisions, and quality of institutions. At the same time, FS tend to exhibit less favorable (and more volatile) economic performance:

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[1] This approach is similar to that used by the World Bank and the African Development Bank, differing only in using a three-year average of the CPIA instead of the most recent outturn. Other organizations, using slightly different metrics, define a larger number of countries as fragile (for instance, 50 countries are defined as fragile in the OECD's 2015 *States of Fragility Report*).

- On average, per capita incomes in FS are 62 percent lower than in other countries, while poverty rates are about three times higher;

- Macroeconomic outcomes tend to be less favorable for FS members, including in regard to inflation, growth and public debt (especially before the Heavily Indebted Poor Countries (HIPC) initiative) (Table 1). FS tend to be more dependent on volatile external aid flows;

- FS members tend to be less diversified (many concentrate on exploitation of natural resources), have large informal sectors, and experience larger growth downturns in the face of shocks;

- FS members are characterized by more limited capacity for economic administration, less-developed economic institutions, and less favorable ratings in governance indicators; and

- FS members face higher risks of internal violence, political instability, and regional conflict and are more susceptible to spillovers from instability in neighboring countries.

Table 1. Basic Economic Trends 1/

	2005–2009		2010–2014	
	FS	Non-FS	FS	Non-FS
Real GDP growth (%)	4.3	5.0	4.1	4.5
Real GDP growth per capita (%)	2.5	3.6	1.6	3.1
Real GDP per capita (US$, average)	1,042	2,705	1,031	2,741
Real GDP growth (average volatility)	3.3	3.3	4.9	1.7
Inflation (%)	9.7	7.3	6.8	6.0
Current account balance (% of GDP)	-4.3	-4.9	-7.1	-6.6
Debt (% of GDP)	81.2	44.9	43.1	45.1
Net ODA (% of GDP)	18.0	4.8	18.8	4.4
Net ODA per capita (US$)	201	92	281	111

Sources: World Economic Outlook (WEO) and IMF staff estimates.
1/ The control group non-FS include non-fragile LICs and MICs only.

4. **The review focuses on changes, if any, to Fund engagement with FS since the staff guidance note of 2012 (Box 1).** The review draws on responses to dedicated questionnaires for FS mission chiefs, FS authorities, technical assistance (TA) departments and IMF Regional Technical Assistance Centers (RTACs). Survey inputs were complemented by meetings with individual FS mission chiefs, data on capacity building from the Institute for Capacity Development (ICD), and information on patterns of Fund engagement and program outcomes from the Monitoring of Fund Arrangements (MONA) database (Table 2). Data on engagement and outcomes are generally reported for periods before and after issuance of the staff guidance note (i.e., 2005–11 and 2012–14). Given constraints on time and resources, the review did not explore the perspectives of development partners—though one bilateral aid agency volunteered inputs during the course of the review. One particular caveat in regard to the findings of the review relates to the relatively low response rate (less than 30 percent) on the FS authorities survey. That said, the authorities' responses generally confirm messages conveyed in other contexts.

Table 2. Main Source of Inputs to the Review

Sources	Comments
Mission chief survey (43 questions)	Response by 28 current and 2 former mission chiefs (of 39 FS)
TA department survey (12 questions)	Responses from 17 divisions in FAD, ICD, LEG, MCM, and STA
Country authorities survey (24 questions)	Responses from 11 FS country authorities (out of 39)
RTAC survey (15 questions)	Responses from 4 RTACs (out of 8 that cover 33 FS)
Mission chief interviews	6 FS mission chiefs interviewed
ICD data	Fund capacity building activities
MONA data	Design and implementation of Fund programs

5. The paper is organized as follows. The following section of the paper addresses the Fund's engagement with FS members, looking at capacity building, Fund facilities and program design, and policy support. A subsequent section summarizes aspects of the Fund's engagement with other stakeholders. Possible next steps are outlined in a concluding section.

Box 1. Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations 1/

The seven principles of engagement set out in the staff guidance note were:

- ***More explicit consideration of the political context***. Understanding the socio-political constraints faced by the authorities is crucial in finding the appropriate and feasible set of policy advice. Particularly designing policy measures that could increase social cohesion or, at a minimum, avoid placing undue stress on the political and social fabric is key.

- ***A well-tailored pace of macroeconomic adjustment***. Institutional capacity constraints need to be kept in mind when tailoring quantitative objectives. Given the signaling and catalytic role of IMF programs, overambitious timelines could quickly hamper development success.

- ***Opportunities for "quick wins."*** A focus on the sequencing of reforms, particularly favoring short-term objectives that can deliver early successes is important. Especially in countries facing a fragile institutional setup, building public support for reform early on can have a positive impact on development and growth.

- ***Inclusive growth and protection of social expenditure***. As a means to safeguard and promote peace and stability, explicit attention needs to be paid to inclusive growth, job creation, and social safety nets. Notably, securing a smooth transition out of fragility require strategies to address the challenge posed by low-skilled, unemployed youth. The financial implications of these measures should be reflected in the fiscal program and collaboration with other IFIs intensified, while keeping the Fund's central mandate.

- ***Well-tailored structural reforms***. A countries' fragility usually encompasses low capacity and institutional weakness. Hence, tailoring structural reforms to strictly priority sectors and socially critical sectors, and adjusting expectations to feasible implementation timetables become key.

- ***Integrated capacity building***. Adoption and effective implementation of key structural or institutional measures can be supported by targeted and timely TA and training.

- ***Contingency planning.*** In fragile situations, political volatility and potential instability require economic and financial programs that provide adequate room for maneuver. Contingency planning can take a variety of forms, depending on circumstances, from explicit consideration of approaches to maintain continuous engagement in the face of difficulties (e.g., how to maintain the policy dialogue and delivery of TA when a Fund-supported program has veered off-track) to the design of specific contingency measures.

1/ See IMF (2012),"Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations."

Table 3. Recommendations of the June 2011 Board Paper on Macroeconomic and Operational Challenges in Countries in Fragile Situations 1/

Recommendations	Status Update
For LIC FS, fuller use of RCF to support more flexible approach to adjustment and reforms where needed. Under this approach, the RCF would continue to serve as a bridge to ECF arrangements.	RCF use among LIC FS has increased in the last 2 years (see Figure 6). Nine RCF disbursements since 2010 were designed to build a track record for a future UCT-quality program (Table 5).
For MIC FS, establishment of a unified, RCF-like non-concessional facility for emergency assistance which would provide greater flexibility than other GRA emergency facilities;	In 2011 the Executive Board approved a set of reforms to bolster the flexibility and scope of the Fund's lending toolkit to provide liquidity and emergency assistance more effectively to global membership. As part of the reform, the Fund's instruments for emergency assistance (Emergency Natural Disaster Assistance and the Emergency Post-Conflict Assistance) are consolidated under the new Rapid Financing Instrument (RFI), which may be used to support a full range of urgent balance of payments needs, including those arising from exogenous shocks. So far, the RFI has been used just once—for St. Vincent and the Grenadines in August 2014.
A moderate increase in the cumulative access limit of RCF and comparable access limits for the nonconcessional facility for emergency assistance to permit more extended use when warranted.	In 2013 the RCF annual/cumulative limit was increased from 25/75% of quota to 25/100% of quota; and in case of a sudden exogenous shock, it was increased from 50/100% to 50/125% of quota.
Greater flexibility built into program design to reflect better the limited implementation capacity of FS and the need to deliver "quick wins" to population.	While the majority of mission chiefs find themselves and review departments allowing for greater flexibility in FS program design, more can be done (see Tables 4 and 6).
Promotion of mechanisms to strengthen the catalytic role of Fund engagement. For example, donors could include in country-specific Multi-Donor Trust Funds (MDTFs) a budget support component linked to Fund supported programs (or Fund monitoring).	The current review has not covered changes in donor financing practices. However, FS programs are typically closely coordinated with development partners that provide budget support.
Fuller attention to the political context in FSs where program design is better tailored to the political and social context of the country.	While the majority of mission chiefs find themselves and review departments paying much closer attention to the political context in FS, more can be done according to the authorities (see Table 6; Figure 19).
Closer coordination with donors, particularly in the field to better prioritize key objectives, identify quick wins, and assess financial implications of such priorities.	A great majority of mission chiefs indicated that they regularly consult with donors, in particular, with the World Bank and local development partners to identify quick wins and prioritize reform objectives. However, a key development partner indicated that they would like to see strengthened interaction in some areas (see ¶28–¶29).

Table 3. Recommendations of the June 2011 Board Paper on Macroeconomic and Operational Challenges in Countries in Fragile Situations (concluded)

Recommendations	Status Update
Continued efforts to plan for technical assistance over a medium-term horizon and to provide support in the field.	Recent programmatic capacity building engagement with Somalia and South Sudan are good examples (Box 2). Some mission chiefs mentioned that TA may even be focusing too excessively on ambitious medium-term goals at the expense of short-term measures (see ¶10). Better balance between medium-term and short-term capacity building efforts would be useful. Authorities and mission chiefs both agree that there is a large unmet demand for resident advisors who could better support implementation of capacity building goals (see ¶9 and Figure 3).
Attention to staff resources devoted to FSs.	In February 2015, an interdepartmental working group (WG) led by HRD proposed a number of financial and career incentives as well as enhanced security measures for staff working on FS, High Risk Locations (HRLs) and Low-Income Countries (LICs). Management has asked the WG to further develop proposals on career incentives (see ¶41).

1/ See IMF (2011), "Macroeconomic and Operational Challenges in Countries in Fragile Situations."

FUND ENGAGEMENT WITH FRAGILE STATES MEMBERS

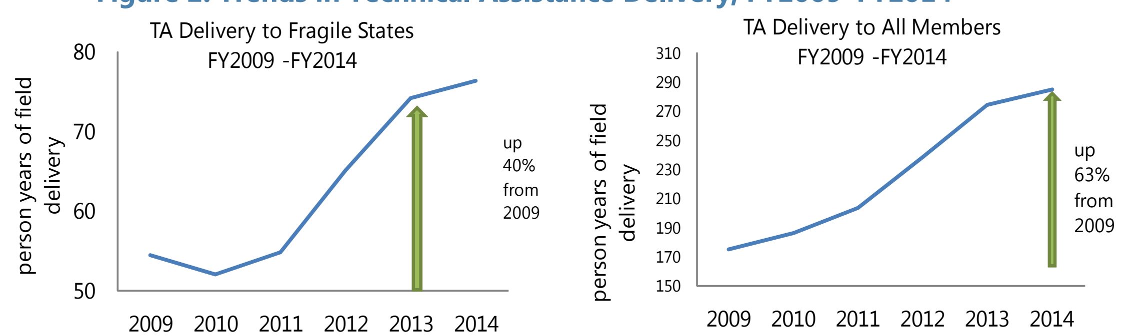
6. This section reviews the effectiveness of Fund support to FS member countries. The Fund's contributions are explored in regard to core services to members: capacity building; program-based financial support; and more general policy support.

A. Capacity Building

Capacity building is central to the effectiveness of the Fund's engagement with fragile states, and significant progress has been achieved. Delivery has been scaled up, including through dedicated programs for FS with exceptional needs. The expanded role of RTACs has allowed the Fund to be more responsive to member circumstances, including by drawing on cross-country experience with policy design and implementation. TA and training is increasingly aligned to program objectives and area department priorities. And the new Results Based Management (RBM) framework to be rolled out in FY16 aims to strengthen the monitoring and outcomes of capacity building efforts. At the same time, further progress could be made in better aligning capacity building to FS needs and capacities; tracking and discussing implementation shortcomings with FS authorities; using the in-depth institutional knowledge of TA departments to strengthen the policy advice and program design work of country teams; and coordinating Fund capacity building with other development partners.

7. Fund capacity building in FS has risen since 2009, albeit more slowly than overall TA. Measured by person-years of TA delivery in the field, resources committed rose by 40 percent between FY2009 and FY2014, as part of an overall 63 percent rise in the Fund's TA delivery over the same period (Figure 2). Security conditions, particularly for Middle East and Central Asia Department (MCD) countries, and the Ebola outbreak have affected recent TA delivery in some cases. Very significant amounts of TA have been prioritized for individual FS, such as Somalia and South Sudan (Box 2).

Figure 2. Trends in Technical Assistance Delivery, FY2009–FY2014



Source: RAP snapshot on May 16, 2014. Travel Information Management System (TIMS).

Box 2. IMF Technical Assistance for Fragile States 1/

Haiti: Fund technical assistance (TA) to Haiti has been tailored to the country's reform agendas, in the context of Fund-supported programs (2006–2010 and 2010–2014). TA support covered tax policy, revenue administration, public financial management, financial sector development and statistics. Fund TA also aimed at strengthening the reliability and accuracy of key program data reported to the Fund. Fund TA has been closely coordinated with other donors' interventions. Collaboration between TA providers was strengthened following the surge in assistance during the post-earthquake, in view of Haiti's already limited capacity and given the challenges associated with the aid surge. The effectiveness of Fund TA has been limited by low implementation capacity and stakeholder opposition. For instance, establishing the Treasury Single Account was initially slowed by resistance by key stakeholders; however, the placement of a resident advisor in June 2014 sped up the reforms. Also, the drain of qualified staff towards nongovernment institutions and changes in the Minister of Finance delayed some reforms. Finally, a number of draft laws were not enacted given a difficult political context.

Somalia: The Fund has been actively engaged with the Federal Government of Somalia since its recognition in April 2013. Despite Somalia's ineligibility to use the Fund's financial resources on account of its arrears status, the Fund has provided TA in to the areas of: central bank operations; financial governance and accounting; currency reform; fiscal policy and budget preparation; and development of statistical systems. In December 2014, the Fund launched an orientation program for the newly appointed Central Bank of Somalia Board of Directors. Despite a volatile environment in the country, important milestones have been achieved, including the preparation of the first national budget, the development of initial GDP and external sector estimates, and the preparation of central bank balance financial statements. To further develop capacity, in February 2015 the Fund launched a 3-year multi-donor Trust Fund for Somalia with financial support from donors.

South Sudan: In 2012, the Fund set up a 5-year capacity building program for the country. The program is guided by a Steering Committee comprising the authorities, donors, and IMF staff, operates under a results-based management framework, and is adapted periodically to reflect the evolving situation on the ground (the program was interrupted between December 2013 and September 2014 as a result of the civil conflict). The Fund coordinates the program with other providers and its main goals are to: develop an integrated macroeconomic framework; set up a fully functional central bank; modernize tax and customs administration; strengthen oil revenue management; and build capacity for the production of basic macroeconomic data. Support is delivered through short-term and long-term advisors, headquarters' missions, and training. Recent outcomes include foreign reserves management guidelines and strengthened accounting procedures adopted by the central bank, the establishment of a pilot program for customs at the main customs post, and the monthly publication of monetary data in International Financial Statistics.

1/ Prepared by AFR, MCD, and WHD.

8. **Training has also increased substantially.** IMF training of government officials takes place mainly through regional courses, where efforts are made to ensure that enrollment is equitably distributed across member countries. The number of FS individuals participating in ICD training increased by 81 percent between FY2009 and FY2014, while training measured in terms of participation-weeks rose by 34 percent over the same period (compared to 28 percent for all Fund members). Within the FS training effort, there was a slight shift toward MCD participants and a corresponding decline for Asia & Pacific Department (APD). Recognizing that some FS have special capacity building needs, training is also provided through country-specific courses, where only

government officials from the country participate (Box 3). These courses provide an effective vehicle to address weak capacity in an individual country by training a cohort of government officials across various institutions responsible for macroeconomic policies. However, staffing and financial constraints limit the ability of the IMF to provide this type of training on a frequent basis. The uptake of online course participation has been strong in FS. Zimbabwe and Sudan are among the top 10 countries in terms of number of government officials who have successfully completed an online course in the first year of the on-line training program (with an impressive completion rate of 88 and 68 percent, respectively). On average, the number of officials trained in fragile states is only slightly higher than that for non-fragile states (NFS), but one notable difference is the average pass rate (officials who earn a certificate of completion), which stands at 68 percent for fragile states and 35 percent for NFS. This difference is highest for MCD and APD countries some of which may be attributed to security constraints that make online training even more attractive.

9. Fund capacity building is rated strongly by FS authorities, albeit with calls for more long-term resident advisors and TA that is better tailored to their needs. The current review found that a large majority of FS respondents view Fund capacity building as of high quality and aligned to their economic priorities. At the same time, a significant portion of respondents would like capacity building to be better tailored to their absorption capacity and administrative constraints. Most importantly, reflecting the Fund's resource constraints and/or security considerations, there appears to be a large unmet demand for long-term resident advisors (the Fund's deployment of such advisors is seen by 55 percent of authorities as "not at all adequate").[2] Respondents also looked for TA to include a higher training element; more frequent follow-up on implementation progress; for TA to be better aligned to FS members' capacity to absorb advice; and for more timely delivery of support (Figure 3). Anecdotally, many FS also struggle to find the time and staffing resources to manage what are often ambitious and uncoordinated programs of capacity building offered by development partners.

[2] As noted in the 2011 Board paper, resident advisors can be more effective than mission-based support in monitoring progress and assisting country officials with TA implementation. In principle, this role can also be played by visiting experts based in RTACs.

Box 3. IMF Training for Fragile States 1/

- **Central African Republic (2014):** Central AFRITAC (AFC) organized a workshop on budget preparation and implementation tailored to the specific TA needs of fragile states facing poor revenue mobilization and high demand for priority spending. Thirty officials from the Central African Republic (CAR) ministries of finance and budget; economy and development; health; education; civil service; and defense attended the workshop. The workshop aimed at enhancing support pending the resumption of AFC in-country direct TA. Apart from strengthening AFC's engagement with CAR, the workshop's main outcomes included the identification of issues officials face in preparing and implementing the state budget and the adoption of an action plan of short term measures to address them.

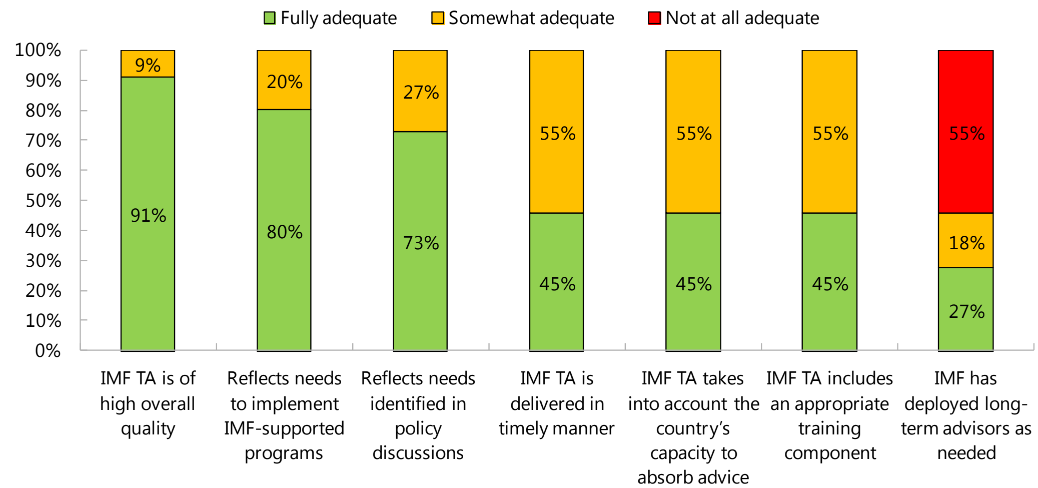
- **Myanmar (2013–15):** Since 2013, the APD together with ICD's Singapore Training Institute (STI) have been responding to Myanmar's large capacity development needs in the wake of its transition towards a more market-oriented economic structure. This support has been provided under an integrated macroeconomic policy training and technical assistance program provided by a resident macroeconomic advisor based at the IMF's Thailand Technical Assistance office. This program has three major components: (i) providing 3-4 macroeconomic training courses in conjunction with STI per year, (ii) building macroeconomic frameworks for both countries, and (iii) providing TA that helps government and central bank officials apply the training course materials and macroeconomic frameworks to tasks such as forecasting, macroeconomic analysis and policy development. Given the initial capacity levels, continued assistance will be needed for macroeconomic management capacity to take hold and develop. The program is funded by grants from Japan and a successor project has recently been agreed.

- **South Sudan (2012):** Training on Financial Programming and Policies (FPP) was offered jointly with African Department (AFR) as the first component of the program of capacity building for South Sudan (Box 2). It was attended by government officials from the central bank, the finance ministry and the bureau of statistics. The lectures were tailored to the level of capacity and the characteristics of the country, namely, natural resource management and issues related to the East African Community. The course took place in Kenya and was followed by a presentation in South Sudan to high-level government officials.

- **Zimbabwe (2013–14):** A series of three training events, financed by DFID, led by ICD and the Statistics Department (STA), with participation from AFR, was offered to officials from various Zimbabwean government agencies. The courses covered core elements of macroeconomic analysis and policies and fiscal statistics and were aimed at creating an interdepartmental group of economists responsible for formulating macroeconomic policies. Lectures covered topics of particular interest to Zimbabwe, including dollarization, and practical workshops were based on case studies using Sub-Saharan Africa country examples. The STA-led event was part of broader STA efforts to improve macroeconomic statistics in Zimbabwe, and, as such, was complementary to the ICD courses that focused on the framework for macroeconomic policies.

1/ Prepared by AFR, APD, and ICD.

Figure 3. Country Authority Views on Adequacy of Fund Capacity Building



Source: Country authority survey results. Reflects 11 responses received out of 39.

10. A significant majority of mission chiefs see country conditions as the main obstacle to successful uptake of TA and training. The leading challenge is viewed as weak implementation capacity, followed by commitment to reforms and high FS staffing turnover (Figure 4). That said, one-third of mission chiefs also saw TA as not well tailored to FS needs. Mission chiefs mentioned that TA often focused excessively on ambitious medium-term goals at the expense of short-term measures, including "quick wins," but noted that TA teams were nonetheless ready to add shorter-term goals, when requested. About 60 percent of mission chiefs saw scope for better alignment between TA agendas, program priorities, and structural benchmarks (Table 4). They also commented on the desirability of more hands-on training as part of each TA exercise, more missions to review TA uptake, and greater use of resident advisors to help support the authorities with TA implementation. Country teams also noted that the effectiveness of Fund policy advice is hampered by data availability. Improving the quality of macroeconomic statistics should be an important goal for the Fund's engagement with FS. That said, a few staff suggested that global data initiatives (e.g., GFSM01, BPM6) stretch the capacity of FS data compilers, and that a focus on TA geared to basic data production would pay higher dividends.

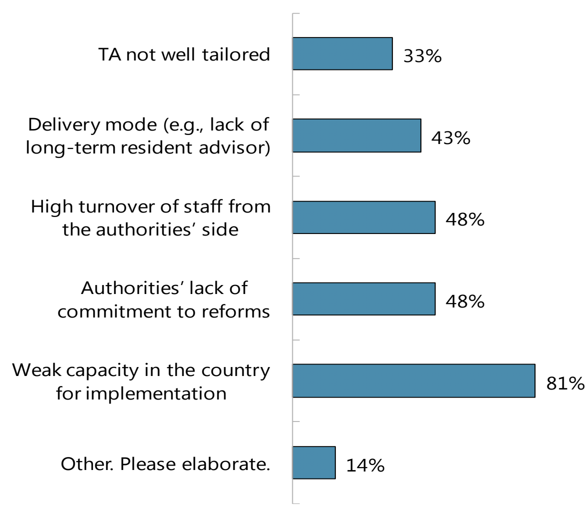
Table 4. Mission Chief Views on Support from Technical Assistance Departments

Consider support from TA departments:	To a great extent	To some extent	Not at all
Tailored and prioritized TA focus to reflect low capacity	33%	58%	8%
Developed specific TA agendas that were closely linked to program priorities and structural benchmarks	39%	52%	9%
Focused on early successes (quick wins) to build support for the process of reform	23%	55%	23%
Included contingency planning to cope with setbacks under alternative scenarios	0%	50%	50%

Source: Mission chief survey results. Reflects 28 responses.

Figure 4. Mission Chief Views on Obstacles to Capacity Building

The main reasons for capacity building or TA to fall short of expectations



Source: Mission chief survey results. Reflects 28 responses received out of 39.

11. The Fund's TA departments report ongoing efforts to meet FS needs. The large majority (around 80 percent) of survey respondents indicated that more attention is being given to absorptive capacity when providing support to FS. The governance of the Fund's capacity development (CD) activities has also been strengthened in line with the Executive Board's review of the Fund's CD strategy in June 2013.[3] Notwithstanding this, TA departments did not see much progress yet in fostering peer learning among members. Also, a significant number (40 percent) saw

[3] See IMF (2013a), "The Fund's Capacity Development Strategy—Better Policies Through Stronger Institutions" and IMF (2013b), "Executive Board Review of the Fund's Capacity Development Strategy, Public Information Notice No. 13/72."

scope to further strengthen the role of RTAC Steering Committees in improving donor coordination of capacity building. On the question of focusing TA delivery on "quick wins", the Fiscal Affairs Department (FAD) noted that a balance is needed between this important goal and the need to develop longer-term capacities and institutions to help design and implement policies on a sustainable basis. FAD also noted that, even where TA does not include a specific training element, efforts are made to link TA to complementary capacity building and training activities in the form of country-specific seminars, regional workshops, technical courses (in coordination with ICD), and seminars.

12. Like mission chiefs, RTACs also see weak absorptive capacity, staffing turnover and commitment to reform in the recipient country as the main obstacle to effective TA uptake. RTACs emphasized that their capacity building efforts are explicitly geared to the capacity of member countries, including through regional workshops and follow-up missions designed to track TA implementation and provide hands-on skills transfer to public officials. The more continuous nature of RTAC engagement relative to HQ-based capacity building reflects the designated role of RTACs—though the latter also see scope for HQ-based TA provision to learn from their success in this area. In the view of RTACs, sustained investments in institution building with a strong training component can help reduce dependency on TA over the longer-term. They also emphasized the need for RTACs and resident representative offices to work closely to ensure that TA is aligned to FS reform priorities and is in line with absorption capacity. Resident Representatives (RRs) and country teams can also play an important role in monitoring the traction of TA in strengthening institutional performance, and helping to coordinate capacity building activities with other development partners. Some RTACs noted that security problems can complicate capacity building by reducing interactions with country authorities and raising the cost of TA delivered at alternative mission sites. Contrary to the views of country authorities and mission chiefs, RTACs did not see the number of long-term Fund advisors as a constraining factor for effective TA delivery.

B. Fund Facilities and Program Design

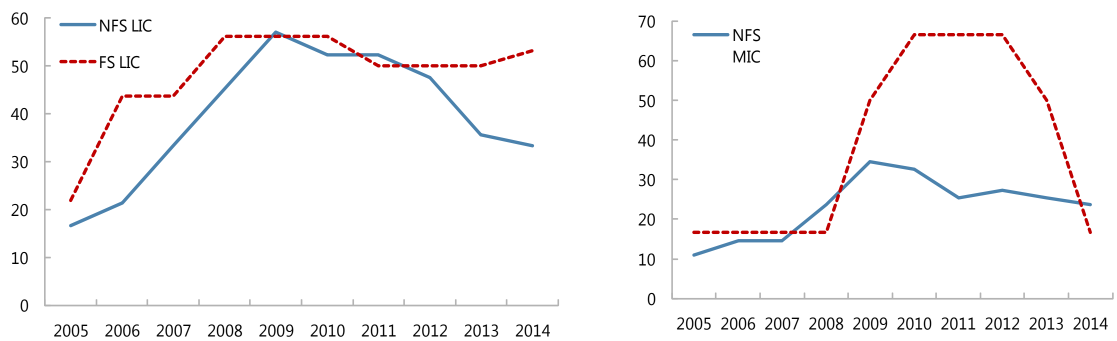
About one-half of FS are implementing Fund-supported programs, typically under an ECF arrangement. For FS seeking to build a track record of policy implementation, the rapid credit facility (RCF) is replacing staff-monitored programs (SMPs) in many cases. While the RCF has the advantage of providing financing, access limits are low in relation to FS perceived needs, and this represents one possible area for reform on which staff is already working. While some FS authorities argue that the Fund sets the bar for conditionality at an overly demanding level, this appears to be a minority view, largely related to the ambition of fiscal targets. The overall success rate for FS programs is broadly similar to that for non-FS peers, suggesting that conditionality has not been at the expense of outcomes. However, where programs go off track, they tend to do so more quickly for FS. FS authorities highlight the need for more attention to inclusive growth and protecting priority spending.

13. Fund engagement has followed different patterns for low-income and middle-income countries (MICs). For low-income FS members, the proportion of countries with Fund-supported programs rose sharply between 2005 and 2008 and has remained at a high level (Figure 5). For

MICs, however, program engagement has been more short-lived, with a surge during 2009–13 mainly due to geopolitical events in the middle east and north africa region.[4]

Figure 5. Proportion of Countries with Fund-Supported Programs, 2005–14

Proportion of LICs with program (in percent) *Proportion of MICs with program (in percent)*



Source: Monitoring of Fund Arrangement (MONA) database.

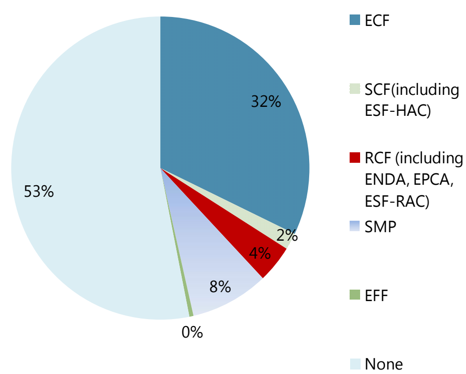
14. Among low-income FS members, there has been a shift from SMPs to use of the RCF. Comparing the period before and after 2011, the proportion of FS members with an SMP dropped from 8 percent to 3 percent, while the proportion using the RCF rose from 4 percent to 7 percent (Figure 6). While both forms of engagement can be used to establish a policy track record ahead of a subsequent Upper Credit Tranche (UCT)-quality program, the RCF has the advantage of providing financing (see Table 5).[5] But in cases where a country seeks to build track record for a UCT-quality arrangement and faces urgent financing needs, the use of the RCF, with appropriate policy understandings, would often obviate the need for an SMP.[6]

[4] As of end-March 2015, there are 15 active program engagements with FS, all low-income, 3 of which are RCF and 1 SMP.

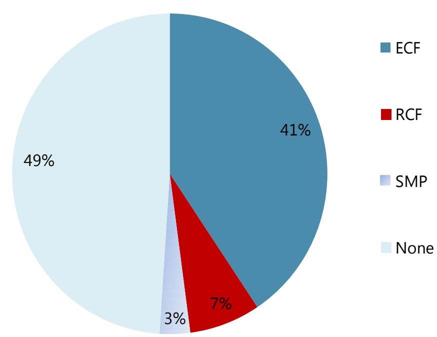
[5] Between 2010 and end-March 2015, 11 RCFs for FS were approved, of which 9 were intended to build a track record toward a UCT program and the remainder constituted a response to a specific exogenous shock (Table 5).

[6] See IMF (2014c), "2014 Handbook of IMF Facilities for Low-income Countries (2015)."

Figure 6. Types of Fund-Supported Programs, 2005–14



Fund Engagement with FS LIC, 2005–2011



Fund Engagement with FS LIC, 2012–2014

Table 5. Recent Uses of RCFs by Countries in Fragile Situations

	Effective Date	Purpose of usage
Central African Republic	3/18/15	both
Central African Republic	5/14/14	track record to UCT
Cote d'Ivoire	7/8/11	track record to UCT
Guinea	9/26/14	shock
Guinea-Bissau	11/3/14	track record to UCT
Liberia	2/23/15	shock
Madagascar	6/18/14	track record to UCT
Mali	1/28/13	track record to UCT
Mali	6/10/13	track record to UCT
Nepal	5/28/10	both
Yemen	4/4/12	both

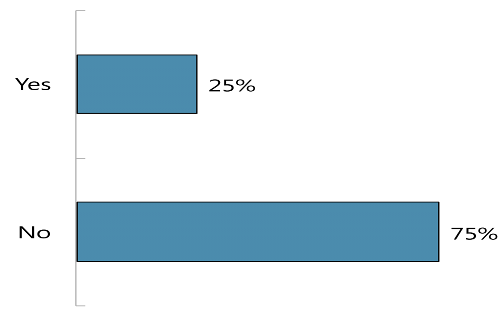
Source: IMF staff reports and staff discussions.

15. **Despite the growing use of RCFs, mission chiefs see gaps in the Fund's tool kit of facilities for FS members**. For FS in the earliest stages of economic adjustment and reform, Fund support is commonly provided through the SMP and RCF, but neither is currently seen as meeting FS needs in all respects. Indeed, nearly three-fourths of FS authorities see Fund facilities or instruments as inadequate to meet their needs (Figure 7), with their leading concern relating to the level of access (Figure 8). In regard to specific forms of engagement, SMPs do not provide Fund financing; their shorter timescale (rarely longer than 18 months) is not well-suited to the multi-year adjustment programs needed by most FS to address deep-rooted economic weaknesses; and, following the abolition of "signaling" SMPs, the SMP option is only available for countries seeking to

move to a subsequent program with UCT conditionality. Mission chiefs also noted that, for a few members, the concept of "staff monitoring" is viewed as a stigma. While the RCF provides Fund financing should an urgent BOP need arise, the annual access limit (25 percent of quota) is seen as limited in relation to FS needs.[7] Quotas in percent of GDP for FS (and for the memberships in general) have been eroding (Figure 9), highlighting the case for revisiting access levels under Fund-supported programs. Moreover, while sequential disbursements under the RCF[8] could, in principle, be used to support a multi-year engagement, this approach has not been adopted to date.[9]

Figure 7. Authorities' Views on Adequacy of Fund Facility/Instrument

If your country has received financial support from the IMF, is the facility/instrument used adequate to meet the needs of a fragile situation?



Source: Country authority survey results. Reflects 11 responses received out of 39.

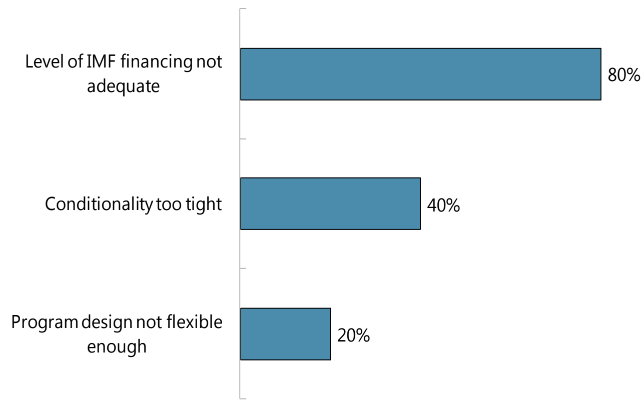
[7] Access under the RCF does not involve review-based ex post conditionality but rather ex ante policy understandings. The annual access ceiling increases to 50 percent of quota where financing gaps relate to external shocks.

[8] RCF supports repeated disbursements over a (limited) period in case of recurring or ongoing urgent financing needs but a member may not receive more than two RCF disbursements in any 12-month period and a cumulative limit of 100 percent of quota (125 percent of quota for drawings under the shocks window) (see IMF, 2014c, Handbook of IMF Facilities for Low-Income Countries).

[9] In Mali, two repeated RCF disbursements over a one-year period were followed by an ECF request. In Central African Republic, two consecutive RCF disbursements were provided with a goal to ultimately transition to an upper credit tranche (UCT) - quality program.

Figure 8. Authorities' Views on Reasons of Inadequacy of Fund Facility/Instrument

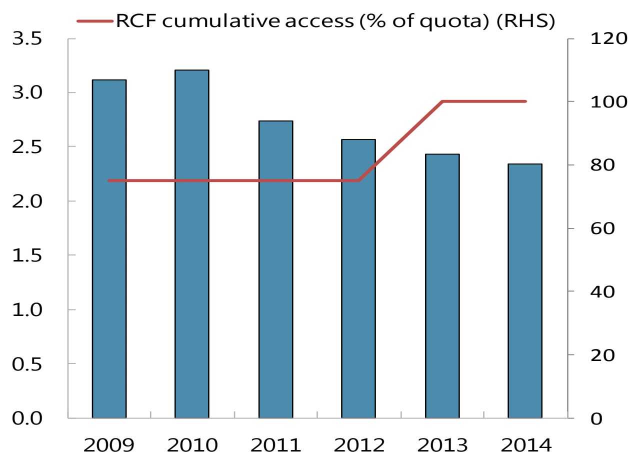
The main reason you believe the facility/instrument is not sufficient:



Source: Country authority survey results. While survey responses were received from 11 country authorities out of 39, this question was answered by only 5.

Figure 9. Evolution of Fragile States Quotas, 2009–14

(In percent of GDP)

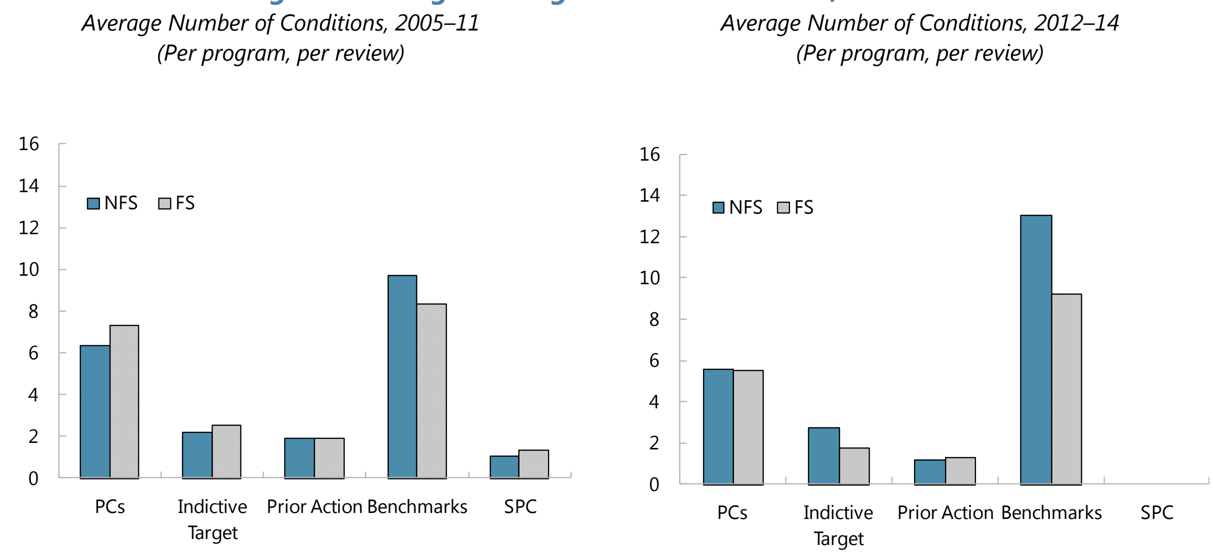


Sources: FIN, IFS, WEO and IMF staff estimates.

Note: RCF cumulative access is 75% in 2009-2012 which increased to 100% in 2013.

16. The scale of program conditionality is broadly similar for FS and non-FS members. The number of program targets has been similar across the two groups, while the number of structural benchmarks has been slightly lower for FS members (Figure 10). Apart from the abolition of structural performance criteria for all members, there has been no major change in the number of quantitative targets or structural benchmarks for FS since the 2011 review of Fund engagement and the 2012 staff guidance note. While the number of structural benchmarks is only a rough guide to the role that they play in Fund-supported programs and does not provide an indication of the complexity of the associated reforms, it is noteworthy that FS authorities find the level of ambition of structural benchmarks to be generally appropriate (Figure 13).

Figure 10. Program Targets and Benchmarks, 2005–14



Source: Monitoring of Fund Arrangements (MONA) database.

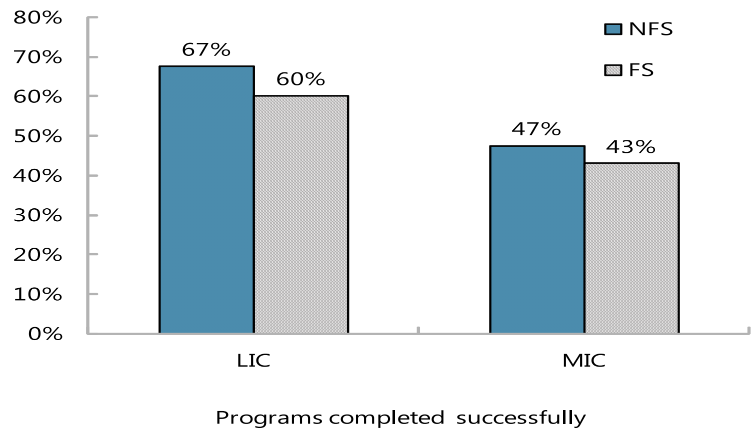
17. Even though the proportion of programs that are successfully concluded is similar for FS and non-FS, a higher proportion of programs go off-track almost immediately for FS. During the 2005–2014 period, FS programs successfully concluded all scheduled reviews only slightly less often than for non-FS peers (Figure 11). That said, for the 40 percent of LIC programs that were not successfully concluded, about one-half (or 20 percent of all programs) went off-track almost immediately (Figure 12).[10] This early failure rate, similar to that reported in the 2011 Board paper, suggests that, taken as a whole, FS programs have had a lower success rate. However, the early failure rate is consistent with the typical volatility in FS compared to other countries. No significant difference in the rate of early program failure between FS and non-FS was observed for MIC programs.

[10] Defined as programs for which no more than one review was completed.

Figure 11. Proportion of Programs Successfully Concluded, 2005–14

Program outcomes (in percent of total) 1/

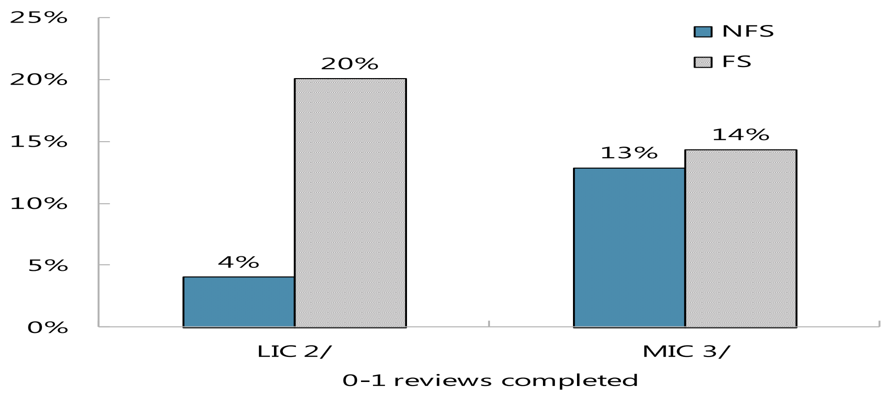
Source: Monitoring of Fund Arrangements (MONA) database.



1/ Includes programs approved after 2005 and ended before Oct 2014. Percent of totalprogram is used here. Programs finished all reviews scheduled are considered as completed successfully.

Figure 12. Proportion of Programs Going Quickly Off-Track, 2005–14

Program outcomes (in percent of total) 1/



Source: Monitoring of Fund Arrangements (MONA) database.

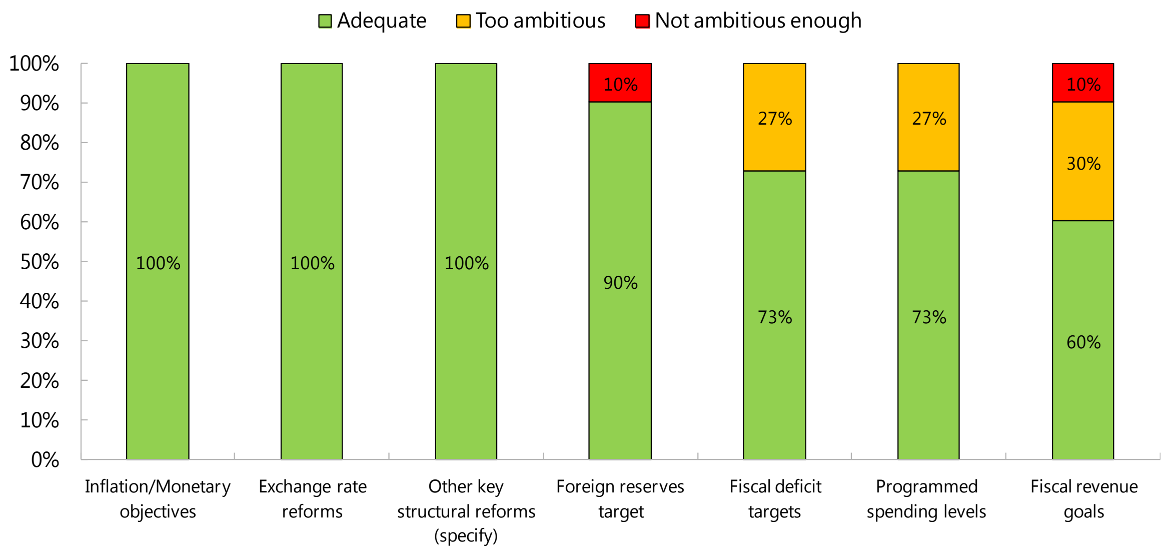
1/ Includes programs approved after 2005 and ended before Oct 2014. Percent of total program is used here.

2/ Only ECF,SCF programs are included for LICs.

3/ Programs for fragile MICs are all SBA, while programs for non-fragile MICs include ECF, SBA,EFF,FCL,PCL.

18. Most FS authorities saw program goals in Fund-supported programs as appropriate. Although a little under one-half of country authorities saw conditionality as too tight (Figure 8), detailed questions on the pace of macroeconomic adjustment under programs found less concern (Figure 13). In some areas (monetary, exchange rate and structural reforms), respondents confirmed that the pace of reforms has been adequate, and concerns focused on fiscal targets, where about 30 percent considered that targets for deficits, spending and revenues had been overly ambitious. About 10 percent thought that targets for foreign reserves and fiscal revenue were not ambitious enough.

Figure 13. Pace of Macroeconomic Adjustment and Structural Reforms

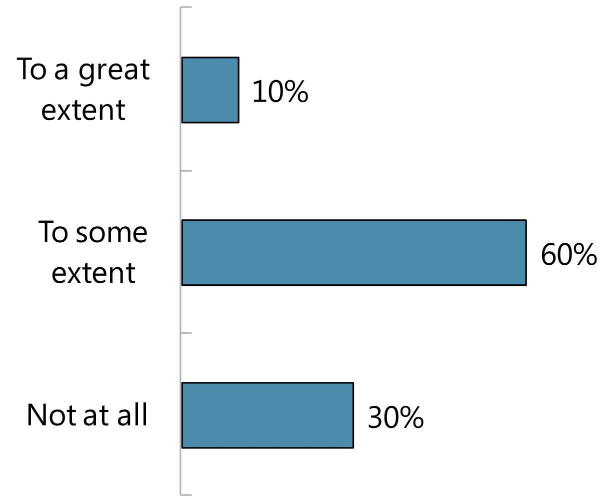


Source: Country authority survey results. While survey responses were received from 11 country authorities out of 39, this question was answered by only 10.

19. FS authorities see room for more emphasis on inclusive growth and protection of social expenditure. More than one-half of respondents recognized that these issues received at least some attention, but one-third did not consider the emphasis on these goals as adequate (Figure 14). Discussions with mission chiefs confirmed that FS members look for more support on these areas, but also pointed to the limits of the Fund's expertise, and underlined the need to coordinate with other development partners, including the World Bank.

Figure 14. Authorities' Views on Focus on Inclusive Growth and Social Protection

Do you think the IMF has been giving adequate emphasis to inclusive growth or social protection?

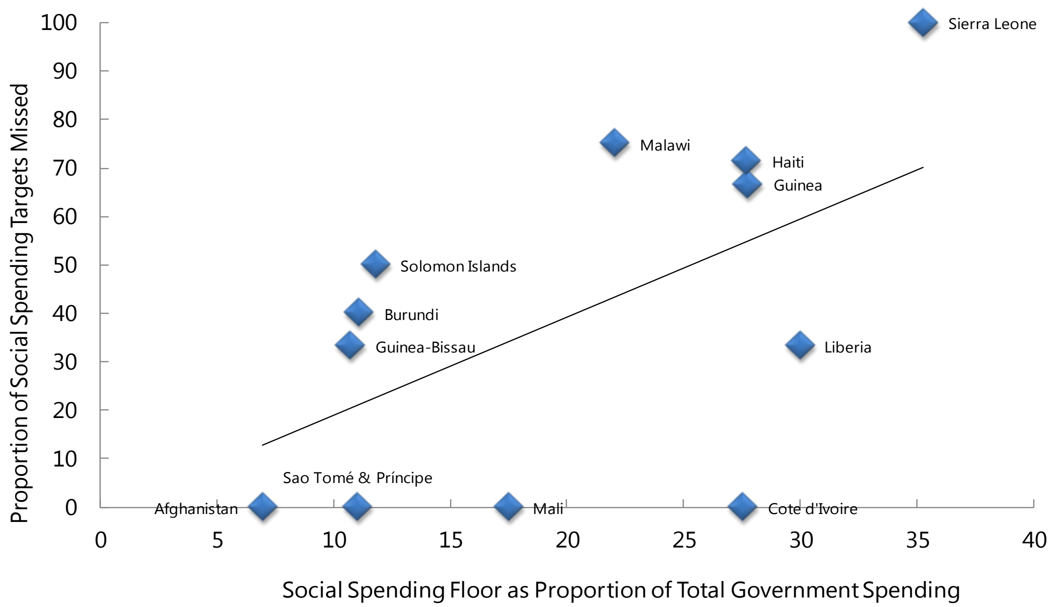


Source: Country authority survey results. Reflects 11 responses received out of 39.

20. In recent programs, indicative targets for social and priority spending were missed about one-third of the time. For FS, the targets were missed slightly more often than for non-FS (40 percent compared to 36 percent of cases).[11] A review of the most recent programs (Figure 15) suggest that targets tend to be missed when they represent a higher share of total government spending, therefore being difficult to safeguard in the event of shortfalls in budget revenue.

[11] The data covers data through 2014 for 12 FS and 16 NFS programs approved in 2010 or later (i.e., after the introduction of indicative targets on social and priority spending in the context of the 2009 reform of PRGT facilities).

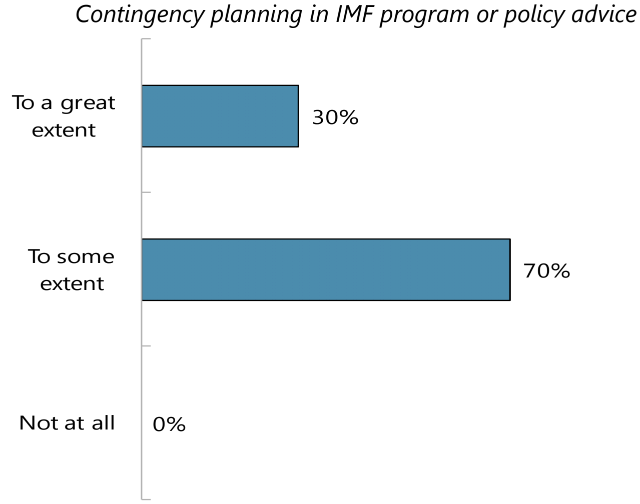
Figure 15. Fragile States: Proportion of Social Spending Floors Missed



Source: MONA, WEO and IMF staff estimates.
Note: Data reflects latest ECF program for each country.

21. Progress in developing contingency plans has been limited. Nearly 70 percent of FS authorities indicated that the Fund provided advice on contingency planning only "to some extent" (Figure 16), and more than one-third of Fund country teams indicated the absence of such plans (Table 6). Mission chiefs pointed to the difficulty of designing in advance useful alternative scenarios or contingency plans in FS, especially given frequent and unpredictable shifts in the political economy and limited Fund staff resources to develop alternative scenarios. Generally, ex post adjustment of program design in the event of shocks was seen as more practical. In this connection, one bilateral aid agency suggested that, in some cases, a faster and more visible response by the Fund in the event of policy setbacks could help the reform momentum. In staff's view, a careful diagnosis of the policy slippage is typically needed in order to design appropriate corrective actions which can take time.

Figure 16. Authorities' Views on Use of Contingency Plans in Fund-Supported Programs



Source: Country authority survey results. Reflects 11 responses recieved out of 39.

Table 6. Mission Chief Views on Team Engagement with Fragile States

Consider the work of your team

	To a great extent	To some extent	Not at all
Gave more explicit consideration to the political context	46%	50%	4%
Tailored and prioritized structural reforms to reflect low capacity	44%	52%	4%
Designed a well-tailored pace of macroeconomic adjustment	58%	31%	12%
Developed specific TA agendas that were closely linked to program priorities and structural benchmarks	52%	36%	12%
Fund engagement focused on early successes (quick wins) to build support for the process of reform	29%	46%	25%
Included contingency planning to cope with setbacks under alternative scenarios	8%	56%	36%

Source: Mission chief survey results. Reflects 28 responses received out of 39.

Box 4. Country Cases: Fund Engagement in Countries in Fragile Situations in Recent Years 1/

Afghanistan: The Fund has maintained close engagement with Afghanistan notwithstanding the delayed reviews under the 2011–14 Extended Credit Facility (ECF) arrangement. This close engagement took into account the political context, and comprised frequent contacts and discussion of macroeconomic policies and structural reforms, and agreement on informal quantitative targets. This engagement ensured that Afghanistan maintained macroeconomic stability during difficult and protracted political and security transitions, continued structural reforms, and received donor support. Structural reforms focused on priority areas such as banking sector reform after the Kabul Bank crisis, revenue mobilization, and anti-money laundering (AML) and countering the financing of terrorism (CFT). Quick wins under the Fund program were the revitalization of the banking supervision department in the central bank which helped formulate a concrete five-year strategic plan for which the Fund provided targeted and timely TA, and assistance and advice to prepare the new banking law that was submitted to parliament in February 2013, and strengthening Afghanistan's AML and CFT framework, especially new laws in 2014, based on the Fund's advice and technical assistance (TA), which improved Afghanistan's compliance with Financial Action Task Force standards.

Chad: During the mid- to late-2000's, the Fund's engagement with Chad was relatively limited on account of profound instability and internal conflict. Engagement has increased substantially since 2013, buttressed by the placement of a resident representative in 2014. The Staff Monitored program (SMP) in 2013 helped catalyze financial support from development partners and provided a basis for an upper-credit tranche (UCT) arrangement under the ECF. Progress has included a gradual but sustained improvement in the fiscal stance, with the non-oil primary balance improving by nearly 4 percentage points of non-oil GDP between 2012 and 2014. The authorities' structural reform agenda acknowledges capacity constraints and focuses on critical improvements in public financial management: limiting the use of emergency spending procedures to strengthen the integrity of the budget, enhancing the debt management process, and improving budget transparency. This approach has safeguarded the ownership of reforms and allowed implementation at a pace adapted to domestic realities. To enhance social protection, the government committed to targets on poverty-reducing expenditures. Regarding capacity building, Fund advice has focused on public financial management and included "hands-on" support from the IMF's Central Africa Technical Assistance Center and enhanced coordination with other development partners.

Guinea-Bissau: Engagement with Guinea Bissau has also increased in recent years. Following the 2012 coup, the Fund maintained a close engagement with the transitional government to maintain the momentum of economic reforms once a new democratic government was in place. Important progress has been achieved with implementation of the Treasury Committee, phasing out of fuel tax exemptions, and a decline in unbudgeted expenditures. The IMF has engaged with CSOs, NGOs, and the donor community through outreach sessions and discussion of issues related to social protection, and assisted the authorities in the areas of microfinance. Intensified capacity building efforts comprised additional support in the areas of tax administration, public financial management, and statistics.

Myanmar: The Fund has intensified its engagement with Myanmar since the country embarked on political and economic reforms in 2011. This led to a SMP in 2013, which helped the authorities maintain macroeconomic and financial stability in support of a wide-ranging economic reform program pursued by the new government. The SMP also helped unlock development partner support after the clearance of Myanmar's arrears to Paris Club members. With the successful completion of the SMP in early 2014, IMF's annual Article IV consultations with Myanmar have been supplemented with regular staff visits and frequent engagement through the resident representative office which was opened in 2013. Meanwhile, the Fund has provided considerable TA and training in Myanmar, including through the Technical Assistance Office for the Lao PDR and Myanmar (TAOLAM), and these efforts have continued to increase over time. Myanmar is expected to be the largest recipient of IMF TA in 2015. Key TA and capacity development priorities include development of monetary and exchange rate policy tools, enhancing bank regulation and supervision, strengthening tax policy and administration, enhancing budget preparation and execution, and developing macroeconomic statistics.

Box 4. Country Cases: Fund Engagement in Countries in Fragile Situations in Recent Years (concluded)

Timor-Leste: The IMF has worked closely with the Timor-Leste authorities and development partners to overcome the legacies of the long period of conflict and severe underdevelopment. When Timor-Leste achieved formal independence in 2002, both the physical infrastructure and human capital of the country had been largely destroyed. In the early days of independence, the IMF provided TA to the authorities in re-establishing macroeconomic management, establishing a payments authority, developing the banking and payment systems, and creating the Petroleum Fund to save oil revenues. Since then Timor-Leste has made impressive progress on overcoming fragilities with successful elections and the election and the ending of the 13-year UN presence in 2012, and the more recent stable change in government. The highly transparent Petroleum Fund, whose assets amount to around three times GDP, has proved a model for other countries, and has played a key role to date in mitigating the so-called resource curse. Timor-Leste now faces the challenge of increasing the quality and inclusiveness of growth, by developing the nascent private sector. Given remaining fragilities, the Fund maintains an elevated level of surveillance engagement with Timor-Leste and has worked closely on TA and training to develop the central bank, improve fiscal capabilities, and ensure inclusiveness through sustainable development and better access to finance. The IMF has also engaged with Timor-Leste in its role as a founding member of the g7+ group of 18 fragile and conflict-affected countries.

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1/ Prepared by AFR, APD and MCD.

Box 5. Fund Engagement in Countries Affected by the Ebola Epidemic 1/

The Ebola outbreak in Guinea, Liberia, and Sierra Leone had major economic consequences. Real GDP growth declined sharply undercutting revenues, while spending needs to contain the epidemic increased, creating large fiscal financing gaps. Poverty and food insecurity increased as food production and trading were hit and as other income-generating economic activities suffered. The Fund provided a total of US$290 million in concessional loans to the three countries since September 2014, designed to provide budget resources to maintain public spending and fight the outbreak. The Fund also created in February 2015 a new vehicle—the Catastrophe Containment and Relief (CCR) Trust—to provide grants for immediate debt relief to countries hit by public health disasters with international spillover potential, using the Trust to provide some US$100 million to Guinea, Liberia and Sierra Leone. The CCR Trust has two windows: one replicates the design of the previous Post-Catastrophe Debt Relief Trust to cover catastrophic natural disasters, while the new, second window assists countries hit by health disasters. Eligibility for support is limited to the poorest and most vulnerable countries (38 members). As the Ebola-affected countries seek to rebuild their economies, the Fund will provide continuing TA and program-based support.

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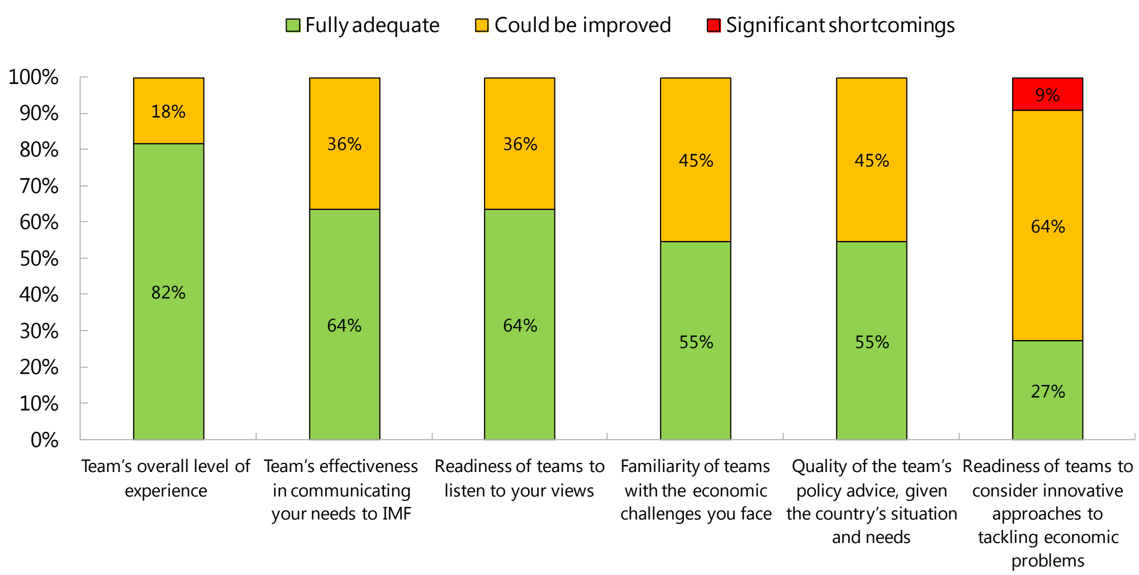
1/ Prepared by SPR.

C. Policy Support

The Fund's policy advice is viewed as high quality, though FS look for more innovative economic solutions drawing on deep FS experience. To add value to the Fund's policy advice, steps are being taken to provide staff with more tailored training, improve tools for sharing knowledge among staff teams, and strengthen incentives for staff considering FS assignments.

22. FS authorities give mixed ratings to the Fund's policy support. A large majority see Fund teams as bringing valuable experience and effectively communicating on their behalf. That said, one-in-two countries see room for improvement in the quality of the Fund's policy advice, given FS situations and needs, and more than two-thirds would like Fund teams to be more innovative in identifying economic solutions in an FS context (Figure 17). These views from member countries are not unique to fragile states: the 2014 Triennial Surveillance Review[12] also found that around half of the Fund's member countries would like to see more expert advice, backed by cross-country policy experiences.

Figure 17. Fragile States Authorities' Views on Fund Mission Teams



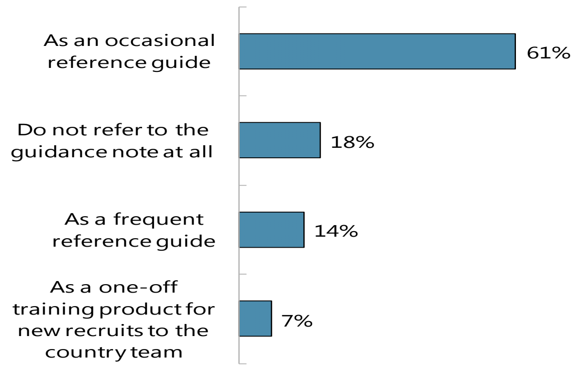
Source: Country authority survey results. Reflects 11 responses received out of 39.

23. The 2012 staff guidance note provides a useful reference for policy design. Three-quarters of FS staff teams refer to the guide frequently or occasionally (Figure 18). The note is

[12] See IMF (2014a).

particularly useful for staff working on FS issues for the first time. In addition, some mission chiefs and review department staff see the note to be a useful anchoring device for conditionality, particularly when either the country team or other departments might be proposing a degree of policy ambition that is at odds with the principles outlined in the guidance note. Some mission chiefs support building on the guidance note by providing examples of "good practice" engagement with FS members that could be referenced by other country teams.

Figure 18. Fund Mission Chief Views on Usage of the 2012 Staff Guidance Note



Source: Mission chief survey results. Reflects 28 responses received out of 39.

24. Good policy advice in FS is partly a question of understanding the political economy. One development partner noted that some Fund teams explicitly invest in understanding and adjusting policy design to political economy circumstances, though this did not always seem to be the case, which could undermine program success. Given that these skills are not in staff's core areas of expertise, Fund teams welcomed the recent expansion of internal training on political economy issues (Box 6). Even then, it should be noted that political economy issues tend to be complex, country-specific, and often subject to rapid and unpredictable change.

25. Good policy advice is also related to Fund staff experience with FS issues. One-in-two FS country authorities believe that deeper staff experience could help teams better understand the fragility in their country (Figure 19). In fact, general depth of experience is seen as more important than length of country assignment. Both FS authorities and some mission chiefs would welcome more frequent missions, which can help build traction on agreed policies and increase the effectiveness of capacity building efforts. Resident representative offices also play an important role in maintaining a close dialogue with country authorities and helping Fund teams develop tailored policy advice.

Box 6. Staff Training on Political Economy Issues 1/

The Internal Economics Training unit (IET) of ICD has taken the lead in Fund-wide training on political economy issues. In part, the current offering builds on courses that were successfully piloted in area departments. Other courses have been initiated and designed by IET itself.

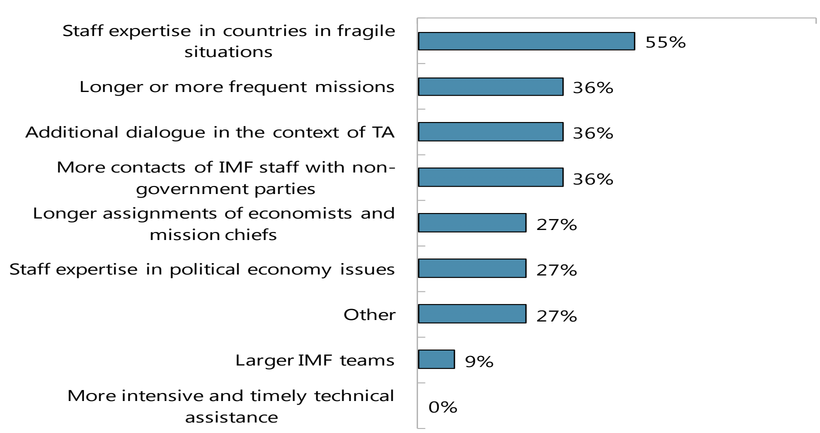
In FY14/15, ICD's Internal Economics Training (IET) unit offered two two-day courses on political economy issues. The first, on *"Political Economy in Action"*, was taught by the UK's Policy Practice. It provides a framework and hands-on approach to analyzing and tackling the political challenges impeding implementation of necessary economic reforms. The second, on *"Understanding and Fighting Corruption"* was taught by Prof. Klitgaard, author of the NYT best-seller "Tropical Gangsters." In this course, Klitgaard analyses highly successful anti-corruption initiatives such as Colombia (1998), Georgia (2004), and the Philippines (on-going). He identifies what made these initiatives successful and how they can be replicated elsewhere.

IET has also offered single-day courses and seminars, including:

- *"Can We Explain Chinese and Indian Development Exceptionalism?"*, about the institutional and political conditions fostering and hampering growth, by Arvind Subramanian
- *"Fragile by Design"*, about the political economy forces that shape the structure of banking sectors across the world, by Charles Calomiris, Columbia GSB
- *"Inclusive Growth"* by Philippe Aghion, Harvard.

1/ Prepared by ICD.

Figure 19. Fragile States Authorities' Views on Staff Understanding of Country Fragility



Source: Country authority survey results. Reflects 11 responses received out of 39.

26. **Ensuring appropriate staffing in FS and building the team's experience remains a significant challenge for personnel management at the Fund**. Many Fund staff are reluctant to work on FS and only a small minority are ready to specialize on FS issues through sequential country assignments. Mission chiefs report serious difficulties in finding well-suited candidates to fill vacancies for FS country economists and resident representatives. Thus, in the period 2011–2014, the average number of applicants for a FS desk economist vacancy was two in AFR and three Fund-

wide, compared to nearly six for all Fund desk economist vacancies. Similarly, during the past five years, there were four applicants on average for resident representative positions in FS and/or High Risk Locations (HRLs), compared to eight for other countries. In the view of mission chiefs, the main obstacles to hiring are the perceived impact on career prospects, concerns about security, and lack of financial incentives (Table 7).

Table 7. Mission Chief Views on Incentives for Fragile States Work

Do you believe that the following factors negatively affect staff decision on working on fragile states?

	To a great extent	To some extent	To a limited extent	Not at all
Promotion/career opportunities	48%	48%	4%	0%
Security concerns	46%	38%	8%	8%
Lack of financial incentives	41%	33%	15%	11%
Lack of data	11%	41%	33%	15%

Source: Mission chief survey results. Reflects 28 responses received out of 39.

FUND ENGAGEMENT WITH FRAGILE STATES STAKEHOLDERS

A. Fragile States Representatives

27. The Fund has increased its engagement with the g7+ group of countries in recent years. The g7+ organization was established in 2010 to represent FS interests in discussions with development partners. Members of the g7+ include 19 of the 39 countries covered by this review. Management has met with g7+ delegations in recent Spring and Annual Meetings, often in the context of forums or briefings on new aspects to the Fund's FS engagement. The Fund also organized seminars on fragility during the 2012 Annual Meetings and the 2014 and 2015 Spring Meetings, with participation of authorities from the g7+ group and from other fragile states.

B. Development Partners

28. The Fund actively engages with development partners on FS country and thematic issues. At a general level, the Fund has been working with the OECD and provided detailed inputs into their annual *Fragility Reports*. At a country level, collaboration is typically close between resident representatives and their resident offices and the local representatives of the development partner community, including official aid agencies, the World Bank and regional development banks.

29. Outreach to selected development partners suggests that engagement is good, albeit with a preference for strengthened interaction in some areas. In particular, development agencies place a very high value on the analytical and coordinating role played by resident representative offices in FS. The absence of resident representatives in a few countries that have recently undergone conflict, reflecting residual security concerns as assessed by the Fund's security policy, has raised concerns about the quality of engagement by some partners in the development community.

NEXT STEPS AND CONCLUSIONS

A number of steps can be taken to strengthen Fund engagement with FS. Based on priorities identified in this review, this section discusses steps that are already underway, or which are being considered. The focus is on capacity building, Fund facilities and program design, and policy advice.

A. Capacity Building

30. The effectiveness of the Fund's capacity building activities in FS could be further strengthened. The review finds a generic problem with "absorption capacity", with investments in capacity building seen as falling short in delivering real and lasting institutional change. A range of factors hamper traction. On the one hand, country ownership and resources dedicated to institution building by country authorities should be strengthened. On the other hand, while CB activities by RTACs appear to be better attuned to the needs and capabilities of FS, further progress is needed in tailoring HQ-based TA, which is sometimes seen as overly ambitious, insufficiently practical in orientation, and not adequately backed up by training. While resident advisors and RTACs often follow up on TA to ensure understanding on the part of public officials, this does not happen on a routine basis. While area departments and TA departments consult to determine CB priorities, country teams could play a stronger role in monitoring the impact on institution building, especially where there is a resident representative office. Last, the multiplicity of CB activities being provided by the Fund and development partners can overwhelm the resources of FS officials, hampering implementation.

31. More effective capacity building has the potential to strengthen macroeconomic performance and reduce poverty in FS. Institutional capacity is decisive for sustaining strong income growth, and will require multi-year investments in institution building. Against this background, staff sees merit in a new approach that puts capacity building more "front and center" in the Fund's engagement with FS to help them more emerge from stability earlier and on a more sustainable basis. This would require a holistic approach to strengthen the planning, delivery, coordination, monitoring, and follow through on capacity building. While FS needs could continue to be met on a case-by-case basis, a more standardized approach would be designed to emphasize institution building goals, strengthen traction, improve accountability through standardized RBM and reporting processes, and facilitate sharing of implementation lessons across countries.

32. Consideration could be given to a structured capacity building framework (CBF). This could have the following aspects:

- *Institution-building goals*. The CBF could define concrete goals for strengthening macroeconomic institutions over a period of at least two years and potentially up to five years. Priorities could be agreed between the FS authorities, Fund, and other TA providers based on a comparison of macroeconomic goals and institutional capacity in areas such as revenue mobilization, expenditure control, and financial sector oversight. The CBF could be spelled out in the form of an agreed CB strategy.

- *FS authorities' role*. The CBF would include an understanding with the authorities on their readiness to commit the necessary political support, staffing, and other resources to achieving the agreed institution-building goals, contingent on appropriately tailored capacity building support from partners.

- *CB investments*. In turn, the CBF could indicate intentions by the Fund to support CB over the period in question, taking into account the intentions of other development partners. It would also indicate the respective responsibilities of each CB institution and of RTACs relative to HQ-based teams, etc. The CBF could indicate specific CB plans for the immediate year and an indicative program for outer years consistent with the defined institution-building goals.

- *Outcome monitoring*. The new RBM initiative would be an integral part of the CBF.[13] Responsibilities for monitoring outcomes could be assigned to the resident representative office, in collaboration with RTAC advisors. Given the existing responsibilities of the RR team, this would require recruiting an additional person dedicated to managing the CBF. Traction of capacity building, including importantly in terms of institutional benchmarks, could be reviewed on a six-monthly basis. Based on the outcomes of the review, the capacity building program could be fine-tuned, and new goals established for institutional reform.

- *Documentation*. The CBF reviews could be documented, and shared with the authorities. Options for publication could be explored, with the authorities' consent.

- *Departmental roles*. Departmental roles would be geared to ensure effective implementation of the CBF. Country teams would lead in developing the CBF with FS authorities and would also lead in monitoring overall outcomes, supported by the new CBF manager. TA-providing departments and RTACs would participate closely in discussions on the design of the CBF and would retain the lead in delivering TA and training. Country teams, TA departments, and RTACs would jointly discuss how the CBF should be updated in light of RBM outcomes.

33. This approach could build on lessons from the Fund's recent capacity building support to selected FS. In South Sudan, the Fund has developed a multi-year capacity building program, financed by a dedicated donor trust fund (Box 2). Similarly, a three-year multi-donor trust fund has just been established to support capacity building in Somalia. TA to FS is also funded by a number of bilateral projects, most notably the recently completed DFID-financed five-year regional project

[13] See IMF (2013a) and (2014b).

"Enhancing Engagement with Conflict and Fragile States". This project placed long-term advisors in Afghanistan, Iraq, Libya, Sudan, West Bank-Gaza, and Yemen. In the case of Mozambique, a TA coordinator was recruited by the Fund, funded by development partners. In each case, an emphasis was given to coordination across TA providers, ensuring adequate resources, and outcome monitoring.

34. The CBF approach would need to be resilient against setbacks. A more structured approach to engaging with FS, including through hiring a dedicated CBF manager, would involve a more solid commitment to capacity building in FS while recognizing the likelihood of periodic setbacks on account of shifts in political, security, and other circumstances. In practice, the development process in FS will require sustained CB support in spite of such setbacks, though the CBF may need to be revisited in the event of setbacks that are significant and likely to be sustained, so that resources are better deployed elsewhere.

35. The CBF approach would have resource implications. Preliminary estimates suggest that for each country covered by a CBF, the minimum resource cost would be around $0.5 million (Table 8).[14] The largest cost would be to recruit a locally-based CBF manager who; however, would do more than coordinating, possibly sited in the resident representative office.[15] The manager would take the lead in communicating with the authorities and development partners, monitoring outcomes, and providing periodic reports. HQ back-stopping for the CBF manager would also be needed and greater participation by area department economists in TA delivery would help strengthen cross-departmental collaboration under the CBF. The cost estimates do not provide for any increase in overall TA provision by the Fund or any expansion in the number of resident advisors. If an increase in CB activity is targeted under the CBF, this would raise the overall cost envelope. These costs could be met by reprioritizing across countries within the existing Fund budget, or by identifying new external resources. To explore the benefits of this approach, while keeping resource costs to a minimum, it could be piloted over a multi-year period for a limited number of FS. Lessons from the pilot phase could inform a more sustained, and potentially broader roll out.

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[14] This compares to expenditure under the South Sudan Trust Fund of about $1.1 million per annum, including five long-term advisors who have each worked for extended periods during the life of the trust fund. The latter figure excludes trust fund management fees of about 7 percent of the total cost.

[15] Alternatively, in some countries where donors have a large field presence, the CBF costs could be reduced if groups of core donors take on the TA coordination role.

Table 8. Resource Cost Estimate for Capacity Building

Annual resource cost estimate for proposed capacity building framework per country (In thousand US dollars)1/

TA Coordinator	300
HQ Backstopping 2/	114
Travel cost for one desk 3/	25-75
Project management 4/	15
Total	454-504

Source: IMF Institute for Capacity Development.
1/ Does not include cost of resident advisor ($300,000) and additional need for training/TA.
Focuses on Fund areas of competency only.
2/ Support from headquarters by area departments and functional departments.
3/ Additional travel cost for one country desk to participate in 1-3 TA mission.
4/ Does not include possible trust fund management costs.

36. Staff intends to frame specific plans for the CBF approach drawing on Board feedback. Plans would reflect further consultation across Fund entities (area departments, functional departments, resident representative offices and RTACs). Further discussions would also be needed with the World Bank and other CB partners on their interest in participation, and with donors on possible funding for CBF pilots.

B. Fund Facilities and Program Design

Access to Fund financing

37. The proposals in the 2011 Board paper on introducing greater flexibility in the use of concessional and non-concessional assistance to FS have been broadly satisfactory. That said, further consideration should be given to the design of the Fund's instruments for engaging with FS that face a potentially protracted period of weak capacity. Specific concerns relate to the level of access under the Fund's concessional facilities.

38. Financing modalities for FS will be taken up in a forthcoming Board paper on PRGT access. This is being developed as part of the Fund's contribution to the 2015 Financing for Development (FfD) conference in Addis Ababa in July 2015.[16] Work is ongoing by staff to explore several options to increase Fund financial support to FS to better assist them implement institution building and tackle urgent financing needs (e.g., natural disasters). Staff is exploring options to tilt Fund concessional resources toward the poorest and most vulnerable countries, subject to maintaining the self-sustained lending capacity of the PRGT.

[16] For RCF, the concessional facilities review is likely going to be in 2018, while for the RFI staff will take stock of the need for a review in 2017 (three-years after the last review) and inform the Board of its views at that time.

Targets for priority spending

39. Further consideration should be given to the process of setting targets on social or priority spending. In some cases, these targets extend to a large share of the overall spending program, and safeguarding outlays in the context of fiscal pressures is difficult. More effective outcomes could potentially be achieved through more parsimonious definitions of priority spending focused on safety nets for the poorest and/or programs identified as fostering inclusive growth. These targets may need to be revisited and revised more frequently than is current practice, and expertise should be sought from the World Bank and other development partners. Fund teams should also seek to identify with the authorities contingency measures that would focus any needed spending cuts outside priority areas. Strengthened country ownership of the targets together with increased efforts to increase the quality of fiscal data will also be critical.

C. Policy Support

40. The review underlines the importance of policy advice that is tailored, flexible, and sufficiently attuned to political economy circumstances. This will require strong, experienced teams and an institutional commitment to meeting the needs of FS members. These factors are complementary: ensuring a strong institutional profile for FS work creates an environment in which staff are motivated to join FS teams. The steps proposed below focus on incentives, creating and sharing knowledge, and resources needs.

Incentives for FS assignments

41. Steps are being taken to strengthen the incentives for staff taking FS assignments. Management has indicated that steps to strengthen incentives to work on FS and HRLs are a priority, and an interdepartmental working group led by Human Resources Department (HRD) has examined options to address staff concerns about possible disadvantages of working on FS, HRLs, and LICs. A number of specific measures were approved by Management. To tackle stress faced by resident representatives and long-term experts based in HRLs and duty stations with the highest hardship classification (levels 6 and 7), usage of Rest and Recuperation (R&R) benefits will be strengthened. The current cash allowance will be replaced by a two-tiered enhanced R&R benefit with required certification of travel. HRD is looking further at how to ensure that professional advancement is not a factor deterring staff from FS assignments. To tackle career progression concerns for staff working on FS, HRL and LIC assignments, proposals will be developed that ensure that diverse work experience of this nature is recognized positively for purposes of professional mobility and advancement. These reforms will represent important progress. As new policies are adopted, it will be important to communicate these to staff and departments and to monitor implementation and outcomes (e.g., number of applicants for FS assignments).

42. Security concerns of staff are also being addressed. While not all FS are also HRLs, there is a significant overlap between the two groups. Security issues are addressed through the Fund's Security and Business Continuity Accountability Framework (SAF), a fourth edition of which will be published in the coming months. The updated SAF will provide a more comprehensive framework for engaging with countries that pose a higher risk, including by providing clearer guidance on the role of mission chiefs when leading teams to locations of different categories of risk. Depending on risk levels, support to staff could include pre-deployment security briefings, specialized equipment and transport arrangements, mission-specific security assessments, and the deployment of Mission Security Consultants. Decisions on whether to conduct mission in the HRL country or in alternative locations will be determined taking into account the criticality of the planned activity itself and the importance of conducting activities in the field. For HRLs, engagement will be underpinned by Country Engagement Plans.

Practical support to country teams

43. Staff training on political economy issues. ICD will continue to offer multi-day courses in the coming year and seminar offerings are being refreshed on a continuous basis. While Internal Economics Training (IET) has considered further expanding the multi-day course program, recent courses have been undersubscribed.

44. Building a community of practice. Based on the findings of this review, steps are being taken to establish a community of practice for staff working on fragile states.[17] SPR is taking the lead, working closely with AFR, MCD, and the World Bank who already has initiated a knowledge sharing platform where experiences in working with FS are disseminated. This initiative follows the successful example demonstrated by the staff's Small Islands Club, which fosters knowledge-sharing between staff working on small states through regular meetings and an intranet web platform. The target community for fragile states would include country teams, SPR and other reviewers, staff in capacity building functions and World Bank staff working on FS. An internal website on fragile states issues is being established on the Fund's Knowledge Exchange to provide ready access to analytical materials, guidance notes, other Board papers, good practice examples of Fund as well as World Bank engagement, training materials, databases, and useful external links. Meetings of the FS community of practice will provide a venue for more effective in-reach on the principles of engagement from the staff guidance note. Over time, these resources should help country teams put more emphasis on policy implementation constraints in their FS engagement; can help identify alternative paths/solutions tailored to the political economy; and would encourage reviewing staff to provide support, drawing on expertise in functional departments.

45. Travel resources. More frequent travel would help staff build closer working relationships with FS authorities, but the merits need to be weighed against costs, especially where resident representatives provide an alternative to more frequent HQ-based missions. A targeted approach could be adopted in which it becomes a standard practice for a desk economist to participate in Fund TA missions and for TA experts to participate to area department missions. This would have budgetary implications but help strengthen cross-departmental collaboration on institution building, including by facilitating more effective follow up on TA implementation during surveillance

[17] Communities of practice bring together staff with common professional interests to promote the exchanges of ideas and collaborative practices. They are widely used approach in knowledge-based institutions.

or program missions. It would also deepen the skill set and career prospects for desk economists working on FS assignments.

ISSUES FOR DISCUSSION

- Do Directors support further strengthening Fund engagement on fragility issues, in particular to support capacity building and resilience, both through more coordination with development partners as well as through regular consultation with representative fragile states bodies such as the g7+?

- Do Directors support efforts to put capacity building more "front and center" in the Fund's engagement with fragile states? Do Directors see merit in staff's proposals for a multi-year capacity building framework that would provide a more structured approach involving more emphasis on institution-building goals, closer involvement of area departments, and strengthened results based management?

- Do Directors see a need to strengthen outcomes for priority spending targets, including through more parsimonious specification of protected spending and use of contingency plans designed to better safeguard such spending from budget shocks?

- Do Directors agree that steps to strengthen training and knowledge sharing by Fund staff working on FS can play an important role in ensuring high quality policy support to FS?

Appendix I. List of Countries in Fragile Situations

Country	Region	IMF PRGT-eligible	WB Income Group 1/	Avg. CPIA FY13-FY15	Peacebuilding / Peacekeeping	WB FY15 List
Angola*	AFR		MIC	2.69		
Burundi	AFR	Y	LIC	3.20	P	Y
Central African Republic	AFR	Y	LIC	2.66	P	Y
Chad	AFR	Y	LIC	2.51		Y
Comoros	AFR	Y	LIC	2.73		Y
Congo, Republic of*	AFR	Y	MIC	3.00		
Congo, DRC	AFR	Y	LIC	2.75	Pk	Y
Cote d'Ivoire	AFR	Y	MIC	3.04	Pk	Y
Eritrea	AFR	Y	LIC	2.08		Y
Guinea	AFR	Y	LIC	2.86		
Guinea-Bissau	AFR	Y	LIC	2.66	P	Y
Liberia	AFR	Y	LIC	3.07	Pk	Y
Madagascar	AFR	Y	LIC	3.03		Y
Malawi*	AFR	Y	LIC	3.16		
Mali	AFR	Y	LIC	3.38	Pk	Y
Sao Tome & Principe	AFR	Y	MIC	3.05		
Sierra Leone	AFR	Y	LIC	3.28	P	Y
South Sudan	AFR	Y	MIC	2.11	Pk	Y
Togo	AFR	Y	LIC	2.98		Y
Zimbabwe	AFR	Y	LIC	2.23		Y
Kiribati	APD	Y	MIC	2.94		Y
Marshall Islands	APD	Y	MIC	2.68		Y
Micronesia	APD	Y	MIC	2.70		Y
Myanmar	APD	Y	LIC	2.95		Y
Nepal*	APD	Y	LIC	3.28	P	
Solomon Islands	APD	Y	MIC	2.94		Y
Timor-Leste	APD	Y	MIC	3.03	Pk	Y
Tuvalu	APD	Y	MIC	2.77		Y
Bosnia & Herzegovina	EUR		MIC	3.64	P	Y
Kosovo	EUR		MIC	3.51	Pk	Y
Afghanistan	MCD	Y	LIC	2.67	P/Pk	Y
Iraq	MCD		MIC	-	P	Y
Libya	MCD		MIC	-	P	Y
Somalia	MCD	Y	LIC	-	P	Y
Sudan	MCD	Y	MIC	2.35	Pk	Y
Syria	MCD		MIC	-	P	Y
West Bank & Gaza	MCD		MIC	-	P	Y
Yemen	MCD	Y	MIC	2.99		Y
Haiti	WHD	Y	LIC	2.88	Pk	Y
Total Countries	**39**					

Source: World Development Indicator, World Bank.

Note: * These countries dropped off the World Bank fragile states list in FY14 or FY15 because they no longer receive IDA allocations.

1/ Middle-income countries(MIC) have per capita annual income of between $1,046 and $12,745, Low-income countries (LIC) of $1,045 or less based on the World Bank Atlas method updated July 2014.

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