



March 2023

STAFF GUIDANCE NOTE ON THE IMPLEMENTATION OF THE IMF STRATEGY FOR FRAGILE AND CONFLICT-AFFECTED STATES (FCS)

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International Monetary Fund
Washington, D.C.



February 28, 2023

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EXECUTIVE SUMMARY

The [*IMF Strategy for Fragile and Conflict-Affected States \(FCS\)*](#) provides a framework and key measures to strengthen the Fund's assistance to its most vulnerable members.

Through long-term engagement and working with partners, the Fund will enhance its effectiveness in supporting FCS to achieve macroeconomic stability, strengthen their resilience, and promote inclusive growth to help them exit from fragility. While the Strategy will be rolled out gradually between FY22–25, its principles and measures become the framework for the Fund's engagement in FCS.

This note provides operational guidance to staff on the implementation of the FCS Strategy. The objective is to facilitate stronger Fund engagement that is recognized by authorities and stakeholders as better tailored to local conditions, more agile, and therefore more effective. To achieve these goals, the following guidance is provided to staff:

- **The Fund has adopted the FCS classification methodology of the World Bank.** The resulting FCS list will be public and updated annually. It will be used to monitor the implementation of the FCS Strategy, guide the prioritization of capacity development (CD) activities, as well as the Fund's Career Framework for Fungible Macroeconomists. Guidance is also provided to ensure that country transitions on/off the list are smooth. Since fragility and conflict are complex and not bound by a formalized list, staff can use this note to support all Fund members displaying signs of fragility and/or conflict regardless of FCS classification.
- **Staff should develop a general understanding of how fragility and/or conflict affect macroeconomic and financial sector policies.** Area Departments will lead the preparation of **Country Engagement Strategies (CES)** with inputs from Functional Departments. While the CES will vary in scope and depth depending on country contexts, it will identify the main fragility and/or conflict drivers and constraints to reform, including governance and corruption challenges. They will also outline the long-term macroeconomic policies needed to exit fragility and strategic priorities for CD support. CES will serve to: (i) better tailor Fund engagement to FCS conditions; (ii) support the integration of surveillance, CD, and lending; (iii) inform program design and conditionality; and (iv) dialogue with authorities and partners.

- **Tailored policy advice:** Consistent with institutional guidance on **surveillance**, policy advice in the context of Article IV consultations should take into account capacity constraints that may limit the traction and feasibility of policy implementation. Informed by the CES, staff should provide authorities with the best possible policy advice to address the macroeconomic and financial sector implications of fragility and/or conflict, with key issues and thematic focus reflecting the country-specific fragility context.
- **CD prioritization and delivery:** CD should be available to meet the demand and needs of FCS, responding to local circumstances and absorptive capacity. The note clarifies the basis of CD prioritization in the context of the FCS classification, including arrangements to ensure that a change in FCS status does not diminish support available to countries transitioning off the FCS list. Furthermore, the note provides advice to staff on developing realistic and implementable CD strategies and projects which can adjust swiftly to changes, when required.
- **Staff should make full use of existing flexibilities in the lending toolkit to better tailor program design and conditionality to FCS circumstances.** Consistent with existing guidance, this note focuses on: (i) enhancing the realism of macro-frameworks; (ii) tailoring structural and quantitative conditionality; and (iii) the concurrent use of Staff Monitored Programs (SMPs) with emergency financing.
- **Since FCS are highly diverse, specific priorities for Fund engagement will vary.** To support staff, the note offers guidance (including country examples of Fund support) on considerations for tailoring engagement in cases such as: (i) building institutions to exit fragility; (ii) addressing rising fragility risks in FCS or in countries at risk of becoming fragile and/or conflict-affected; (iii) remaining engaged with members affected by active conflict; (iv) dealing with FCS experiencing government recognition issues in the context of irregular changes in government; (v) supporting economic stability during post-conflict reconstruction; and (vi) responding to external shocks and spillovers (e.g., food insecurity, forced displacement).
- **While mindful of the Fund's role as a trusted advisor to authorities, staff should strengthen, where possible, partnerships with humanitarian, development, and peace actors.** As these actors are usually leading international support to FCS, their analytics and insights can help staff to better grasp the roots and impacts of fragility and/or conflict. The note focuses on opportunities to partner with the World Bank, multilateral development banks (MDBs), the United Nations (UN), and civil society.
- **FCS staff development:** The Fund's footprint in FCS will grow through the addition of local economists, Resident Representatives, and long-term resident advisors for CD. The note provides guidance to staff on navigating this enhanced field posture, including strengthening the role of country teams and learning opportunities.

This note supersedes the 2012 *Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations*.

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Abbreviations and Acronyms

AML/CFT	Anti-Money Laundering / Countering the Finance of Terrorism	MDBs	Multilateral Development Banks
BoP	Balance of Payments	MCM	Monetary and Capital Markets Department
CD	Capacity Development	MEFP	Memorandum of Economic and Financial Policies
CD-CSN	Capacity Development Country Strategy Note	MICs	Middle-Income Countries
CDMAP	Capacity Development Management and Administration Program	MTWs	Medium-term Work Plans
CES	Country Engagement Strategy	OECD	Organization for Economic Cooperation and Development
COM	Communications Department	PFM	Public Financial management
CPIA	Country Policy and Institutional Assessment	PPFG	Post-Program Financing Gap
CPI	Consumer Price Index	PRGT	Poverty Reduction and Growth Trust
CSOs	Civil Society Organizations	QPC	Quantitative Performance Criteria
CtR	Capacity to repay	RBM	Results-Based Management
DSA	Debt Sustainability Analysis	RCDC	Regional Capacity Development Center
ECF	Extended Credit Facility	RTAC	Regional Technical Assistance Center
EF	Emergency Financing	RCF	Rapid Credit Facility
FAD	Fiscal Affairs Department	RFI	Rapid Financing Instrument
FCS	Fragile and Conflict-affected States	RES	Research Department
FIN	Finance Department	RRA	Risk and Resilience Assessment of the World Bank
FSW	Food Shock Window	RTAC	Regional Technical Assistance Center
FY	Fiscal Year	RST	Resilience and Sustainability Trust
GDP	Gross Domestic Product	SBs	Structural Benchmarks
GRA	General Resources Account	SDRs	Special Drawing Rights
GRAM	Global Risk Assessment Matrix	SEC	Secretary's Department
HRD	Human Resources Department	SGN	Staff Guidance Note
HQ	Headquarters	SMP	Staff Monitored Program
ICD	Institute for Capacity Development	SPR	Strategy, Policy, and Review Department
IEO	Independent Evaluation Office	SSA	Sub-Saharan Africa
ITs	Indicative targets	STA	Statistics Department
LEG	Legal Department	TA	Technical Assistance
LICs	Low-Income Countries	UCT	Upper-Credit Tranche
LTX	Long-Term Expert	UN	United Nations

SECTION I: INTRODUCTION

1. The *IMF Strategy for Fragile and Conflict-Affected States (FCS)* was endorsed by the Executive Board in March 2022. The Strategy aims to achieve three interconnected objectives: (i) better tailored Fund engagement and core activities to the country-specific manifestations of fragility and/or conflict; (ii) closer proximity to our most vulnerable members and intensified country dialogue; and (iii) enhanced partnerships that amplify the impact of Fund support. While the Strategy is primarily focused on FCS, it is also relevant for countries at risk of becoming fragile and/or conflict-affected—whether due to internal factors or external shocks and spillovers.

2. This note provides operational guidance to staff on the implementation of the FCS Strategy. The objective is to facilitate stronger Fund engagement in FCS that is recognized by authorities and stakeholders as better tailored to local conditions, more agile, and more effective.

- **Section II** explains the Fund’s new FCS classification methodology, which has been aligned with that of the World Bank and provides details on the uses of the FCS list to inform core activities.
- **Section III** offers guidance on the preparation of CES. It covers the key steps in the process, including drafting and interdepartmental review, the integration of CES findings into core activities, as well as publication and communication with authorities.
- **Section IV** focuses on specific priorities for surveillance, CD delivery, and lending in FCS in full complementarity with existing guidance. Topics include: (i) ensuring that Article IV consultations are well-tailored to FCS capacity constraints and address the economic implications of fragility and/or conflict; (ii) CD prioritization in the context of the new FCS classification and adjusting delivery to FCS environments; and (iii) making full use existing flexibilities in the Fund’s lending toolkit for tailored program design and parsimonious conditionality.
- **Section V** offers advice to staff on a wide range of situations where priorities for engagement may include: (i) building institutions to exit fragility; (ii) addressing rising fragility risks; (iii) remaining engaged during active conflict; (iv) dealing with government recognition issues in the context of irregular changes in government; (v) supporting post-conflict reconstruction; and (vi) responding to external shocks (e.g., food insecurity, forced displacement).
- **Section VI** includes information to help staff expand the range of partnerships in FCS, particularly with the World Bank and UN, but also with CSOs where appropriate—with due regard for the Fund’s role as a trusted advisor to authorities.
- Lastly, **Section VII** offers advice to staff on navigating the shift towards an enhanced FCS footprint, including strengthening the role of country teams.

3. **Annexes provide information on:** key issues for CES analysis (**Annex I**); governance and corruption challenges in FCS (**Annex II**); considerations for program design and conditionality such as post-program financing gaps (PPFGs) and assessing the realism of macro-frameworks (**Annex III**); and country examples of Fund engagement in FCS (**Annex IV**). This note supersedes the 2012 *Staff Guidance Note on the Fund’s Engagement with Countries in Fragile Situations*.

SECTION II: FCS CLASSIFICATION

This section explains the new methodology for compiling the Fund's FCS list, which includes additional criteria and thresholds. It further outlines how the FCS list will be used by staff in the roll-out of CES, CD prioritization, and in the implementation of the Career Framework for Fungible Macroeconomists. The section also covers provisions for countries added to (or removed from) the FCS list, and its annual publication.

A. Revised Fund Methodology, Criteria, and Thresholds

4. The Fund has adopted the methodology, thresholds, and criteria for FCS classification used by the World Bank at the time when the Fund issued the FCS Strategy in 2022.¹ The World Bank's FCS list is public and updated annually.² It reflects a differentiated approach to FCS which captures the typology and severity of challenges faced by this heterogenous group of countries (**Table 1**). Countries are divided in two categories:

- **Countries suffering from high levels of institutional and social fragility due to:** (i) the relatively poor quality of economic management and governance, structural policies, public sector institutions, and social inclusion policies—as measured by a **CPIA score of below 3.0**;³ or (ii) the flight across borders of **refugees** recognized internationally as in need of protection;⁴ or (iii) the deployment of a *UN peace operation*, reflecting a decision by the international community that a significant investment is needed to maintain peace and stability.⁵ These challenges are often compounded by external shocks, such as climate change and natural disasters, especially for small island and developing states.

Table 1. IMF Methodology for FCS Classification

Criteria	Thresholds
Country Policy and Institutional Assessment (CPIA) for IDA countries; or	A score of below 3.0 from maximum of 6
Presence of United Nations peacekeepers; or	A UN peace operation in the past 3 years
Flight of refugees in need of international protection across international borders; or	2,000 or more / 100,000 population
The number of conflict-related deaths	Absolute and relative thresholds (<i>see Footnote 6</i>)

Source: World Bank (2022a).

¹ See Chair's Summing Up—[The IMF Strategy for Fragile and Conflict-Affected States](#) (2022). March 11, 2022.

² See World Bank (2022), [Classification of Fragility and Conflict Situations for World Bank Group Engagement](#). The World Bank's FY23 FCS list is available [here](#).

³ The World Bank, African Development Bank, and Asian Development Bank prepare their own CPIA country scores. The FCS classification methodology chooses the lowest score for the most recent year in which data are available.

⁴ This criterion refers to flight across borders of people who are internationally regarded as refugees in need of international protection according to United Nations High Commissioner for Refugees (UNHCR). Refugees are people who have fled war, violence, conflict or persecution and have crossed an international border to find safety in another country.

⁵ Only UN peace operations are considered—the methodology does not include UN Special Political Missions or peacekeeping operations operating under a Chapter VII mandate that are led by regional organizations.

- **Countries in conflict** are identified based on the number of conflict deaths in absolute terms and relative to their population.⁶ The two sources for data are the Armed Conflict Location and Event Data Project ([ACLEDD](#)) and the Uppsala Conflict Data Project ([UCDP](#)).

5. The Fund’s new methodology for FCS classification is the same as the World Bank’s at the time when the Fund adopted the FCS Strategy, and its application results in an identical FCS list. However, the Fund will always maintain autonomy and ownership both in the choice of methodology and in its application. It will also publish the FCS list annually. The Fund may update its methodology (in consultation with the World Bank, as appropriate) if this is considered necessary. It will also retain autonomy to decide whether any future methodology changes made by the World Bank should also be adopted by the Fund.

6. Regardless of FCS classification, the Fund supports all members: engagement would not necessarily be deprioritized due to a change in the status of a country in the FCS list.⁷

The 2018 IEO Report on [The IMF and Fragile States](#) emphasized that there is no universal definition of FCS and no fixed list of fragile states. Some countries not classified as FCS may share elements of fragility and may slip into conflict when they cannot effectively manage stresses. Other countries may be classified as fragile for decades due to persistently weak governance and economic performance, which makes them more susceptible to external shocks such as those induced by climate change. Staff should be mindful that no classification methodology can fully capture the complex factors and circumstances that lead countries to become fragile and/or conflict affected.

B. Uses of the FCS List

7. As stipulated in the FCS Strategy, the new FCS classification methodology becomes effective with the approval of this Staff Guidance Note. The resulting FCS list will be especially important for the rollout of CES, the prioritization of CD delivery and reporting on CD to the Board, as well as in the implementation of the Career Framework for Fungible Macroeconomists. The list will also be used to monitor and report back to the Board on an annual basis on the implementation progress of the FCS Strategy, as well as for analytical work.

8. Historical experience indicates that membership on the FCS list does not vary significantly each year. Except for the one-time significant change that takes effect with the adoption of the new FCS classification methodology, year-on-year variations on the FCS list are incremental and driven primarily by changes in the number of conflict-related deaths. The following arrangements are established to ensure that countries that will no longer be formally considered

⁶ The countries in conflict are (i) those with (a) an absolute number of conflict deaths above 250 according to ACLED and 150 according to UCDP; and (b) above 2 per 100,000 population according to ACLED and above 1 according to UCDP; or (ii) countries with a rapid deterioration of the security situation, as measured by (a) an absolute number of conflict deaths above 250 according to ACLED and 150 according to UCDP; (b) a lower number of conflict deaths relative to the population between 1 and 2 (ACLEDD) and 0.5 and 1 (UCDP) and (c) more than a doubling of the number of casualties in the last year.

⁷ The Fund has maintained an internal FCS list of 42 economies representing about 20 percent of IMF membership. This internal list, which was updated in FY19, will be discontinued following the publication of this Guidance Note.

FCS will continue to receive the support they require—the objective is a smooth transition and avoiding undue and disruptive staffing shifts in response to FCS status changes.

9. Country Engagement Strategies: As a new requirement for all countries on the FCS list, CES will be rolled out across FCS according to the timeline presented in the FCS Strategy.⁸ The following transition arrangements will apply:

- **For countries removed from the FCS list:** Staff will not be required to conduct a CES but may choose to do so if they judge that fragility risks persist and warrant continued attention.
- **For countries added to the FCS list:** A country must be present for two consecutive years on the FCS list before the requirement for a CES takes effect in accordance with the timeline of the FCS Strategy. However, a CES may be undertaken at any point once a country is included on the list if staff assess there is a business need.

10. Capacity Development: The FCS list will help guide the prioritization of CD activities in FCS, which is one of the Fund’s institutional priorities. A change in FCS status will influence prioritization of new projects but will not impact ongoing CD. In the annual work-planning exercise and subject to country demand, members on the FCS list will receive higher priority for new projects compared to those that are not in the list provided there is adequate absorptive capacity and traction. However, staff will apply judgment in responding to the needs of members who display signs of fragility (e.g., weak institutional capacity, extreme poverty) but which are not officially considered FCS—especially if country ownership is strong. In that sense, the application of the FCS list for CD delivery will not be mechanistic and will factor in priorities established in the CD Management and Administration Program (CDMAP)⁹ and reflected in Medium-Term Workplans (MTWs). Specific provisions to ensure that transitions on/off the list are smooth and CD support is evenhandedly delivered are discussed in **Section IV.B**.

11. Career framework: Effective July 2023 and in line with the FCS Strategy, the Fund’s [Career Framework for Fungible Macroeconomists](#) requires that staff members gain or have relevant experiences with direct operational engagement in low-income countries (LICs) or FCS in order to be promoted to managerial levels, as specified in the policy implementation guidelines. The FCS list will be used by the Human Resources Department (HRD) to determine if this requirement has been met through country-team assignments, missions, or a combination thereof.

12. Implications for human resource allocation: The complement of local staff (40 additional local economists, 4 new Resident Representatives between FY23–25) agreed as part of the FCS Strategy is expected to cover medium-term needs for strengthened field presence in FCS. The country allocation of local staff is the prerogative of each Area Department. The 30 CD long-term experts (LTX) will be hired by CD Departments, with their location and work programs prioritized by

⁸ In line with the FCS Strategy and circumstances permitting, it is expected that within 18 months of the issuance of this Guidance Note, country teams will finalize CES for about half of countries classified as FCS (about 20 countries).

⁹ CDMAP automatically tags projects in FCS with the “Fragile and Conflict-affected States” growth area. This growth area tag can be used to identify the CD budgets and spending for work on FCS.

Area Departments. As such, any new demands stemming from year-to-year changes in the FCS list will be handled as part of Departments' annual budget negotiations.

13. Implications for financing: The FCS list will not determine eligibility or qualification for Fund financing under the Fund's lending instruments and facilities, which are subject to the Articles of Agreement, relevant trust instruments on concessional financing and debt relief, and respective Fund policies governing the access and use of financing under such instruments and facilities. That said, FCS would benefit from the updated guidance on the lending toolkits and program design, including conditionality to address specific circumstances that FCS typically face. Details are provided in **Section IV.C** focused on program design and conditionality.

C. FCS List Publication

14. Annual publication of the Fund's FCS list. The update and publication of the FCS list will be managed by the Strategy, Policy, and Review (SPR) Department. The World Bank publishes an updated FCS list during the first two weeks of each fiscal year, which at the Bank starts in July. Staff in SPR will hold technical discussions with the Bank in advance of the annual update to ascertain the potential changes to the list. The list will be submitted to management for approval. The Fund will publish its FCS list on the IMF [thematic FCS website](#) on the same day as the World Bank. The FCS list becomes effective on the date of publication.

15. Communication with country authorities: Country teams could consult SPR regarding changes to the FCS list from the previous year as needed. Mission Chiefs and Resident Representatives will receive support if requested by authorities to explain a change in country status.

SECTION III: ROLLING OUT COUNTRY ENGAGEMENT STRATEGIES IN FCS

This section provides an overview of the CES preparation stages, outputs, and review process, including communication with authorities. More specific guidance on issues to be covered in the CES is provided in Annex I. Staff are encouraged to tailor the content and length of the report to the country context and available resources, benefiting from flexibility in the analysis and recommendations.

16. In line with the Strategy, CES will be rolled out across FCS. Led by Area Departments and benefiting from inputs of Functional Departments, CES will serve as a strategic anchor for engaging with FCS, providing the Fund's assessment of challenges and key macroeconomic policies and reforms needed to exit fragility. While aiming for a common framework for CES undertaken across the Fund (**Box 1**),¹⁰ staff should adapt the analysis to the country-specific manifestations of fragility and conflict, as per **Annex I**.

¹⁰ See [The IMF Strategy for Fragile and Conflict-Affected States](#) (2022), pp. 22–26 for a discussion on the rationale and contents of CES.

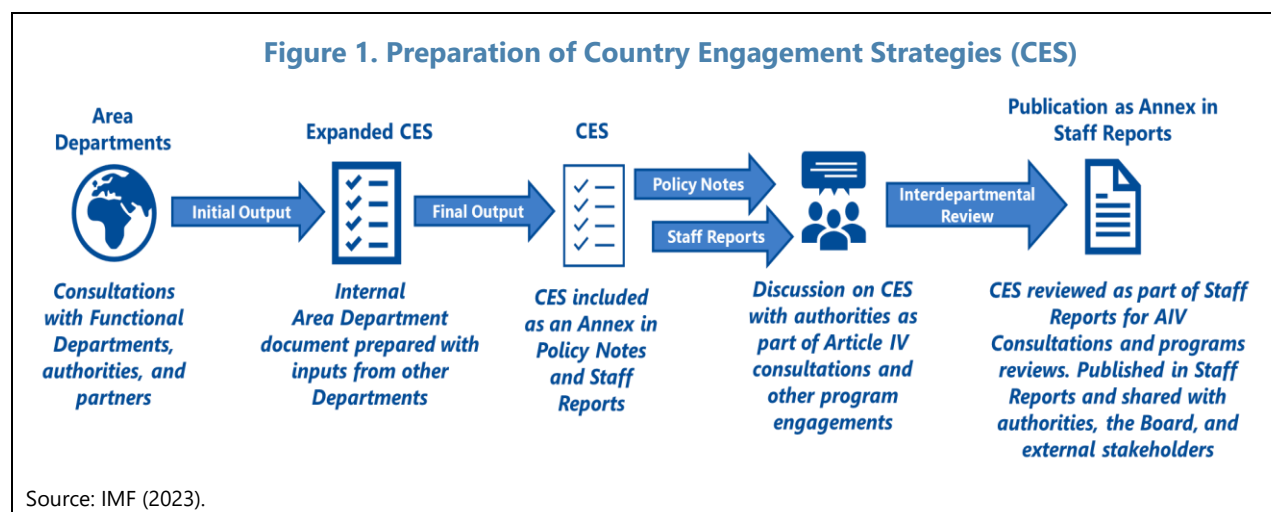
Box 1. Issues To Be Covered in the CES

- A candid **assessment of fragility and conflict drivers**
- An overview of **possible constraints to reform implementation**
- An overview of **policies and reforms needed to improve macroeconomic outcomes** and resilience
- An outline of **sequenced CD priorities**
- The scope for strategic **partnerships**
- An identification of the **main risks to Fund engagement** (over 3 years)

17. Rolling out CES is an explicit commitment to the Executive Board and is required for countries included on the Fund’s FCS list. However, a CES may be helpful to inform Fund engagement in non-FCS where fragility and/or conflict risks are rising and may entail macro-critical implications—especially where the prevention of escalating fragility and/or conflict risks is an important priority for the international community.

A. CES Preparation Process, Outputs, and Confidentiality

18. The preparation of the CES will result in two output documents. The key preparation steps are explained below and summarized in **Figure 1**.



19. First, to ensure a candid assessment of fragility and conflict drivers and constraints to reform, the Expanded CES is developed for internal use only. As a preliminary document, it will not undergo the interdepartmental review process although consultations with Departments during preparation are strongly encouraged to benefit from various perspectives. Furthermore:

- **Process and accountability:** The development of the Expanded CES will be led by the Mission Chief, who will organize the drafting process with the country team.¹¹ The report will be shared informally for consultations with other Departments and may be informed by analytical work of

¹¹ The Mission Chief may delegate the drafting process to the Resident Representative or other country team members.

staff, such as selected issues papers. The Expanded CES may incorporate insights or comments obtained during consultations on fragility and conflict issues with the World Bank, UN, and local stakeholders such as CSOs. The key takeaways from the World Bank’s Risk and Resilience Assessments (RRAs, see **Annex I**) are especially relevant at this stage. Upon completion, the report will be approved by the Area Department Front Office and be classified as confidential. The Expanded CES is available to Management upon request to the relevant Area Department. It may be shared by Area Departments with staff on a need-to-know basis or as additional background documentation during the review for Staff Reports and Policy Notes.

- **Scope:** Consistent with the FCS Strategy, the critical issues that may be analyzed in the Expanded CES are discussed in **Annex I** (e.g., the key drivers of fragility, constraints to reform, macroeconomic policies needed to exit fragility). Teams should maintain flexibility on the issues examined in the report—it is important to keep the drafting process agile and tailor the scope, depth, and length of the report to the level of team resources and the country context.
- **Frequency:** The Expanded CES will be prepared at least once every three years. Depending on staff judgment, more frequent updates may be warranted if fragility and/or conflict trends or other events significantly alter the parameters of Fund engagement (e.g., the country has reached a “pivotal moment”) and the conditions for implementing reform priorities.

20. When preparing the Expanded CES, country teams are encouraged to organize consultations with staff from other departments (e.g., SPR, FAD, MCM, ICD, STA, RES, LEG, FIN, and COM). The goal is to promote a country-tailored approach leading to a shared understanding of drivers of fragility and/or conflict, constraints to reform, and policies needed to exit fragility. To that end, country teams may share early drafts, presentations, or other materials as needed. Fund CD providers and Regional Capacity Development Centers (RCDCs) would be expected to participate and contribute to these internal consultations.

21. The Expanded CES will help inform, but not pre-determine, the reforms that would eventually be agreed upon in the context of IMF-supported programs following discussions with the authorities and internal review. As such, the prioritization and sequencing of specific reforms will be determined in the context of IMF-supported programs—guided by principles for successful design and implementation of Fund-supported programs, including parsimony in the application of conditions—and CD planning and delivery. Given its long-term focus, the preparation of the CES therefore offers an opportunity for staff to engage in discussions on challenges and policies to address fragility and/or conflict outside the requirements of a Fund-supported program or CD project.

22. Second, for each new or updated Expanded CES, a summary of about 3 pages will synthesize the findings of the full report and will be subject to formal interdepartmental review. Considered as the CES, the 3-page summary will be incorporated as an Annex¹² in Policy Notes or Staff Reports for use of Fund resources, Article IV consultations, and other relevant country reports. It will also be reviewed through the regular interdepartmental review process as part of the

¹² The Annex containing the CES will not be included in the wordcount of the Staff Report or Policy Note.

Policy Notes or Staff Reports into which they are incorporated. The CES will reflect the findings of the departmental report and may follow its framework, while the shorter length—in line with Fund standards for crisp documents—will facilitate effective engagement with stakeholders. CES will also reflect comments and feedback received during the review process. In addition:

- **The main elements of a CES that has not yet been issued to the Executive Board should be discussed with country authorities as part of Article IV consultations and program reviews.** Accordingly, staff may organize presentations sessions, workshops, or seminars (as appropriate) to share their understanding of the country-specific manifestations of fragility and/or conflict, and their impact on key reforms, and the long-term macroeconomic policies needed to exit fragility. Input from authorities may be reflected in Back to Office Reports and/or within the content of the updated CES annex in Staff Reports. Prior to its issuance to the Executive Board as part of a Staff Report, the CES as a document should not be shared with authorities in order to preserve the independence of staff advice in line with current institutional guidance to staff.¹³
- **As a product subject to the regular interdepartmental review process, the CES represents staff’s collective views.** Relevant feedback obtained during review could be reflected in the Expanded CES when it is updated. The CES will be approved by Management as part of a Policy Note or Staff Report and will follow the relevant rules for dissemination and publication applicable to Policy Notes and Staff Reports.
- **The CES should feature a brief section on CD, in line with the approach of the 2022 [Guidance Note on Surveillance under Article IV Consultations](#).** This section should include: (i) a snapshot of previously provided Fund CD, complemented by a short assessment of traction, implementation, and absorptive capacity constraints; (ii) a limited number of sequenced CD priorities and associated workstreams reflecting demand from the authorities, with an explicit linkage with surveillance and program objectives; and (iii) a summary of engagement with other CD providers to enhance collaboration, leverage synergies, and avoid duplications. A separate CD Country Strategy Note (CD-CSN) will not be required if a CES is in place (see **Annex I**).

B. Communication with Country Authorities

23. CES: As previously mentioned, the main elements of a CES that has not yet been issued to the Executive Board are discussed with authorities during Article IV consultations and/or program reviews. Since the CES will be embedded in Staff Reports for Article IV consultations or program documents following the review process, it will only be shared with authorities, Executive Directors, and external stakeholders as part of these reports, upon issuance of the staff reports to the Board, and in accordance with the rules applicable to country documents stipulated in the Transparency Policy and with the Transmittal Policy.¹⁴

24. Expanded CES: While this is a confidential document used for internal purposes only, staff should—to the extent possible—engage with authorities during the preparation process. Staff

¹³ See the 2014 [Updated Guidance Note on the Fund’s Transparency Policy](#), Box 2.

¹⁴ Dissemination of information to the World Bank should be made in accordance with the 2022 [Guidance Note on Information Sharing between IMF and World Bank Staff](#).

should strive for candid discussions with national counterparts on the challenges related to fragility and conflict, and their impact on macroeconomic developments and policies.

- **When feasible, the aim will be to build a shared understanding of medium-term reform priorities that steer the country towards resilience.** This can be done through dedicated sessions with key policymakers or by seeking authorities' written comments on the macroeconomic challenges associated with fragility and/or conflict that are discussed in the report. These exchanges should also focus on what can credibly be achieved and delivered to build momentum for macroeconomic policy measures that can help support efforts to exit fragility. Staff are at liberty to organize these conversations depending on the cycle of Article IV consultations, program reviews, or other considerations related to country team workflow.
- **The Expanded CES should avoid highlighting a long list of actions based on a purely external diagnosis.** Instead, it should aim to leverage priorities articulated by (or coordinated with) the authorities and recognize their constraints.
- **Staff analysis in the Expanded CES can be shared with authorities, Executive Directors, or external stakeholders as part of the broad consultative process led by Area Department country teams¹⁵—provided that no confidential information is disclosed unless it is in accordance with existing Fund policies.¹⁶** The Expanded CES report is an internal confidential document and will not be shared with Executive Directors, country authorities, or partners.

C. Additional Considerations on CES, Staff Reports, and Policy Notes

25. **When including the CES into Policy Notes and Staff Reports, staff should be mindful of the following considerations:**

- **The CES should not duplicate the Policy Note.** Instead, the CES should provide a medium- to long-term view on needed reforms and a framework for engagement with the authorities on the reform priorities, in the context of fragility and/or conflict. In particular, the CES should not lock staff into specific policy lines or program design choices that will continue to be tailored to the country's needs at the specific point in consultation with Functional Departments.
- **For Policy Notes and Staff Reports, country teams should consult the Expanded CES for the relevant background diagnostics on political, social, security, and other structural issues, including downside risks.** Country teams will therefore draw on the Expanded CES for overall diagnostics, laying out considerations related to political economy, the possible sequencing of reforms, or the tailoring program design and conditionality to country contexts.
- **The inclusion of the CES as Annexes in Policy Notes will provide useful background for reviewers and Management.** The CES should help reviewers and Management to better understand selected reform priorities and their sequencing and incorporate the country's fragility and/or conflict context into the assessment of the proposed policy lines and realistic

¹⁵ See [The IMF Strategy for Fragile and Conflict Affected States \(FCS\)](#), para. 42.

¹⁶ See Appendix IX of the 2014 [Updated Guidance Note on the Fund's Transparency Policy](#).

program conditionalities. Reviewers would also be able to ensure that the CES informs surveillance and program considerations in an evenhanded way.

- **New or updated CES:** Once a new CES has been approved following the review process, it will be included in the forthcoming Policy Note and/or Staff Report. It will then be referenced in subsequent Policy Notes and Staff Reports.
- **Countries where engagement is constrained:** For countries where the Fund’s engagement has been limited and with excessively delayed Article IV consultations—such as those experiencing active conflict or government recognition issues—there would be no expectation that the CES will be published, given the absence of a publishing platform. However, staff may carry out or update the Expanded CES that would support quick reengagement should in-country conditions change. In such cases, the issues covered in the report will be adapted to the availability of data and team resources, drawing also from partner insights.

D. Integration of the CES into Core Functions

26. The CES will help ensure that decisions on program design and conditionality are informed by an assessment of country-specific fragility and conflict dynamics. The CES will provide the critical context for the policy advice and reform strategy underpinning the IMF surveillance, CD delivery, and lending, as summarized in **Table 2**, and discussed in **Section IV**.

Table 2. Linking the CES with Core IMF Functions

Surveillance	Capacity Development	Programs
<ul style="list-style-type: none"> • Inform the diagnostics and thematic focus of Article IV consultations. • Provide the fragility and/or conflict context to tailor policy advice, e.g., sequencing of structural reforms. • Identify the capacity constraints that limit the adoption of policy recommendations. • In FCS where the Fund’s engagement has been limited, CES could present a contingency plan for re-engagement if and when such opportunity arises. 	<ul style="list-style-type: none"> • Delineate a list of sequenced priorities, with objectives and outcomes clearly mapped to surveillance and program priorities, and reflecting demand from the authorities. • Distinguish and sequence medium and longer-term reform needs from more immediate priorities, including those originated from shocks. • CES would also support complementarity of medium-term CD plans in close collaboration with Functional Departments, and with technical support provided by partners. 	<ul style="list-style-type: none"> • Provide the context to tailor the program design to the country’s fragility and conflict drivers, e.g., calibration of macro-adjustment. • Facilitate the identification of a parsimonious set of quantitative indicators and reform priorities to inform program conditionality. • Map out capacity development to support reform implementation. • Inform internal discussions on program risks.

Source: IMF Strategy for Fragile and Conflict-affected States (FCS) (2022).

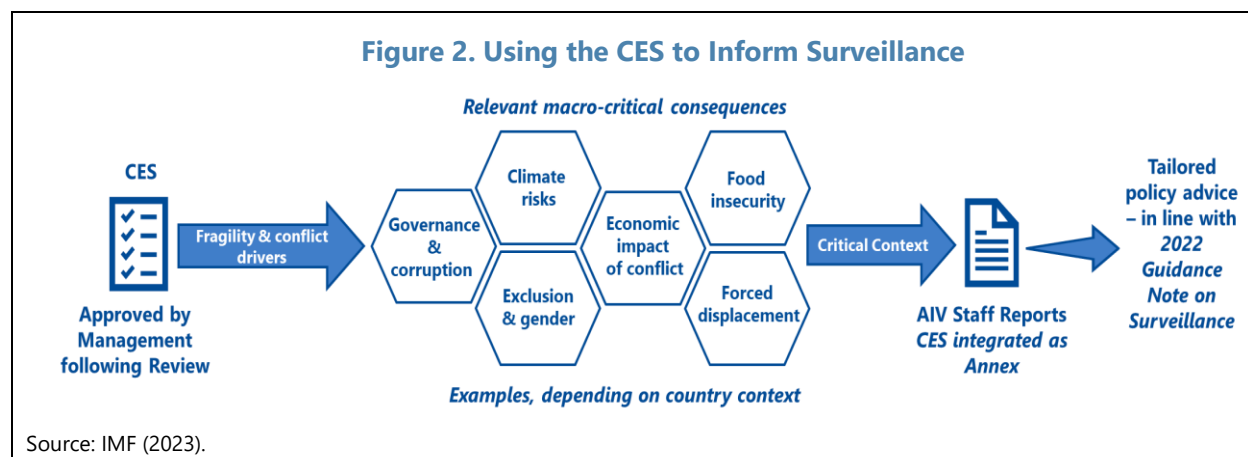
SECTION IV: PRIORITIES FOR IMF CORE FUNCTIONS

Article IV consultations should be tailored to capacity constraints in FCS and address the macroeconomic implications of fragility and conflict more systematically. Guidance on CD focuses on prioritization, adapting delivery to absorptive capacity, and adjusting project implementation to changing country circumstances. Guidance on the lending toolkit focuses on taking advantage of the flexibility of instruments, as well as: (i) enhancing the realism of macro-frameworks; (ii) tailoring structural and quantitative conditionality to FCS conditions; and (iii) the concurrent use of SMPs with emergency financing instruments. Recommendations are consistent with institutional policies and guidance governing core activities.

A. Surveillance

27. When conducting surveillance in FCS, staff should follow the [2022 Guidance Note for Surveillance under Article IV Consultations](#). As FCS are equally subject to Article IV and the framework provided by the Integrated Surveillance Decision as other members, the minimum obligations and requirements of surveillance must be observed by FCS, and staff must follow generally applicable guidance. According to the *Guidance Note*, surveillance in FCS is expected to be well-aligned with the objective of the FCS Strategy, which is to support FCS to achieve macroeconomic stability, strengthen their resilience, promote sustainable and inclusive growth, and help them exit from fragility. Article IV consultations should therefore be well-tailored to FCS specific circumstances. This section expands on Annex II of the 2022 *Guidance Note* to provide additional advice on aspects relevant to the implementation of the FCS Strategy.

28. Staff should proactively use the CES in all aspects of Article IV consultations such as: (i) informing diagnostics and thematic focus; (ii) providing the context for tailoring policy advice (see **Figure 2**); (iii) identifying capacity constraints that prevent the adoption of policy recommendations to integrate CD with policy advice; and (iv) facilitating re-engagement when opportunities arise. When Article IV consultations are combined with program reviews, staff should discuss economic challenges arising from fragility and/or conflict with country authorities, in line with the CES.



29. If Article IV consultations are excessively delayed due to country circumstances such as active conflict or government recognition issues, staff should maintain appropriate dialogues with relevant stakeholders to seek ways to remain actively informed.¹⁷ In the absence of Article IV consultations, staff can prepare informal “Economic Developments” reports to the Board that may also discuss fragility and conflict trends; such briefings must be provided when required under the framework to address excessive delays in the completion of Article IV consultations. Examples of informal briefings on economic developments include Yemen (2021), Venezuela (2020), Haiti (2018), and DR Congo (2018). These briefings—while not accompanied by published materials in most cases—help to inform Executive Directors on developments and to underpin engagement with country authorities and external stakeholders such as the World Bank and the UN.

Article IV Consultations in FCS

30. Country teams should clearly identify the capacity constraints that may limit the traction and implementation of policy recommendations in FCS. FCS more often face political and social instability, weaker capacity of institutions, and lack of data than non-FCS. They may require an intensified dialogue and have a higher need for tailored Article IV consultations. Therefore, staff should use the CES to ensure that Article IV consultations and policy advice are sufficiently sequenced, prioritized, and adjusted to country circumstances. For example, seeking complementarities and coordinating on key messages with partners, where appropriate, can help staff to develop targeted policy advice and encourage implementation. For Article IV consultations in FCS, the following aspects carry a heightened relevance for staff to consider given the unique policy contexts in FCS such as:

- **FCS can benefit from staff’s early identification of capacity constraints that must be addressed to implement policy recommendations.**¹⁸ When providing policy advice, staff should therefore factor in CD priority measures that address key capacity constraints to facilitate the adoption of reforms and policy recommendations. Building on the *Guidelines on CD prioritization and work planning*, ad-hoc needs that are critical to enhance traction of policy advice could be addressed for example through leveraging HQ and RCDCs, long-term resident advisors, and cross-country expertise.
- **Making greater use of innovative tools can help staff adjust engagement to severe constraints of availability and quality of data in FCS.** Because data availability in FCS is often limited or other uncertainties exist, staff should explore the innovative application of frameworks and tools to find tangible and accessible solutions as outlined in **Box 2**. Staff should keep in mind that data provision requirements under Article VIII, Section 5 remain applicable to FCS, though members would not be found in breach of obligations for non-provision or inaccurate provision of data occasioned by a lack of capacity.¹⁹ Following the *Guidance Note for Surveillance*

¹⁷ See proposed steps to address excessive delays in [Decision No.15106-\(12/21\)](#) as amended.

¹⁸ See IMF (2021), *Operational Guidelines for Integrating Capacity Development with Surveillance and Lending*.

¹⁹ See the IMF (2000), [Data Provision to the Fund for Surveillance Purposes—Operational Guidance Note](#).

under Article IV Consultations, in FCS staff should ensure a strong focus on how CD can best be leveraged to enhance support for authorities based on identified key data weaknesses.²⁰

- **Enhancing FCS-specific analytical work throughout the Article IV cycle on macroeconomic and financial sector policies affected by fragility and conflict drivers.** When possible, staff are encouraged to use the opportunities of Staff visits and Article IV missions to expand their country-specific knowledge of fragility and conflict issues, and facilitate focused dialogues or seminars on fragility-specific issues (e.g., on governance challenges, natural resource management, fiscal impact of security crises, etc.).²¹ Staff are encouraged to pursue analytical work to complement discussions on emergent topics such as macro-economic policies related to social spending, forced displacement, food security, or the fiscal impact of security sector expenditures (e.g., [Selected Issues Paper on Social Spending in Haiti 2019](#), [The Economic and Policy Implications for the WAEMU of Insecurity in the Sahel, 2021](#)).

Box 2. Assessing Risks and Uncertainties in FCS Article IV Consultations

Strategic Foresight Tools—Using qualitative structured approaches to explore risks. This process involves the systematic exploration of multiple plausible futures to inform present decisions. Further guidance on how to implement Strategic Foresight can be found [here](#). The Macro-Risk Unit within the Strategy, Policy, and Review Department can be consulted on a case-by-case basis for optimal application of these tools. Options include:

- **Scenario planning:** Existing sets of scenarios can be tailored to country-specific contexts to inform current policy guidance and create synergies with more traditional economic analysis (e.g., empirical analysis and theoretical modeling). For an example, see [2018 Regional Economic Outlook on the Future of Work in Sub-Saharan Africa](#).
- **Risk Assessments:** Staff can conduct them on policy guidance (both baseline and contingent), imagining an adverse outcome should Fund staff recommend a certain policy approach and the authorities adopt it (e.g., if the authorities adopt a fuel subsidy reform that prompts mass unrest). Such exercises include discussions on potential pitfalls or errors that could cause unintended negative outcomes and refinement of proposed policies, their sequencing and associated risks.

Addressing the Macroeconomic Implications of Fragility and Conflict

31. A key pillar of surveillance in FCS is developing policy advice to address macroeconomic consequences of fragility and/or conflict based on the CES. Article IV consultation reports should assess the impact of fragility and/or conflict on macroeconomic stability and economic growth prospects to design tailored policy recommendations. Taking into account the

²⁰ See the 2022 [Guidance Note for Surveillance under Article IV Consultations](#), para. 14. See also Medina Cas et al. (2022). Staff should keep in mind that data provision requirements under Article VIII, Section 5 remain applicable to FCS, though members would not be found in breach of obligations for non-provision or inaccurate provision of data occasioned by a lack of capacity, as per the 2000 [Data Provision to the Fund for Surveillance Purposes—Operational Guidance Note](#).

²¹ Following the [Guidance Note for Surveillance under Article IV Consultations](#), Section E.

CES analysis of constraints to reform and limitations to the policy space imposed by fragility and/or conflict, staff should strive to provide the best possible policy advice to authorities.

32. Policy advice could focus on policies aimed at promoting growth and job creation, building resilience, stabilizing and enhancing functionality in usually thin financial sectors, and ensuring debt sustainability to achieve macroeconomic stability.²² As outlined in the FCS Strategy, these are areas where FCS country authorities face sharp tradeoffs which may be closely interlinked with the root causes of fragility and/or conflict.²³ In the different policy context of FCS, trade-offs increase between rising spending needs, the difficulties in raising extra revenue, and elevated debt levels in the context of shortened time-horizons for policymakers. In turn, macroeconomic policies can affect the evolution of fragility and/or conflict. For example, the distributional consequences of fiscal reform across interest groups or reforms in sectors related to weak governance and corruption such as mining can disrupt a volatile balance of power potentially enhancing risks of instability. Thus, in addition to the overarching focus on macroeconomic stability, policy advice in FCS should include issues such as inclusive growth, institution building, and governance and corruption.²⁴ Furthermore, topics in Article IV consultations in FCS may entail the macro-critical implications of climate change,²⁵ gender,²⁶ food security, or forced displacement.²⁷

33. Within the Article IV consultation process, the authorities may be hesitant to cover some policies that are relevant for the Fund's engagement in FCS. If these policies are within the Fund's expertise and staff judge them to be macro-critical for the member, they should be covered. Such policies may include the fiscal implications of security expenditures that may impinge on budgets and the availability of fiscal space for social and development spending,²⁸ policies that could help prevent further escalating fragility, corruption and AML/CTF or economic inclusion of vulnerable groups (e.g., forcibly displaced, women and girls, youth, other minority groups facing economic exclusion). Staff should seek expertise from other organizations where needed to complement and inform policy advice on these topics. Furthermore, coordination with partners may be helpful to align messages on analysis and policy advice. Staff are encouraged to use innovative tools to better understand implications of the above-mentioned drivers of fragility, for example by assessing risks of social unrest in an FCS (**Box 3**).

²² See Box 2 of [Guidance Note for Surveillance Under Article IV Consultations](#).

²³ See [The IMF Strategy for Fragile and Conflict Affected States \(FCS\)](#), p. 11.

²⁴ See Box 13 of [Guidance Note for Surveillance Under Article IV Consultations](#).

²⁵ *Ibid.*, Section L.

²⁶ *Ibid.*, Section M.

²⁷ See [The IMF Strategy for Fragile and Conflict Affected States \(FCS\)](#), p. 39.

²⁸ While the Fund requires that members report on aggregate data on fiscal expenditures (including military expenditures, even if not separately identified), the Fund should not advise on the appropriate level of military expenditures.

Box 3. Measuring Social Unrest

The Fund offers a social unrest module that showcases trends in the risk of social unrest over time, key drivers, and relative comparisons of country risks.

- **Background:** The Social Unrest Module is part of the Fund’s Vulnerability Exercise (VE). It leverages [machine-learning tools](#) and considers over 300 indicators covering a range of macro-financial, socioeconomic, development and political variables. It forecasts social unrest one-year ahead.
- **Usage:** Drivers of social unrest are heterogenous, disparate, and interact in complex ways. Country teams should use underlying data and qualitative findings across Article IV surveillance documents and feed into policy guidance. **Note:** the model’s quantitative results can only be used in policy notes; do not use explicit risk category (low/medium/high) in Article IV Staff Reports.

B. Capacity Development

34. Capacity Development is a cornerstone of the Fund’s engagement in FCS. In line with the FCS Strategy, CD provision is expected to increase further, continuing the upward trend from the last decade. The objective of the Fund’s enhanced engagements is to ensure that CD is readily available to meet the growing needs of FCS and respond to local circumstances and absorptive capacity, while adjusting swiftly to changes when required.

Prioritization of CD Delivery for FCS

35. As part of the Fund-wide institutional priorities, FCS are explicitly targeted for increases in CD delivery, provided there is adequate demand and absorptive capacity. As such, within the Fund’s current CD prioritization framework, Area Departments are expected to give high priority to FCS projects in the annual medium-term work-planning exercise. Medium-term workplans (MTWs) are finalized each year after the Spring Meetings and approved by Management in early summer.²⁹ The CD Management and Administration Program (CDMAP) is used to facilitate this prioritization. The Committee on Capacity Building (CCB) will continue to assign the highest weight in the Fund priority scoring to FCS (along with program countries), and Area Departments will continue to assign FCS high values in their own regional priority scoring in CDMAP.

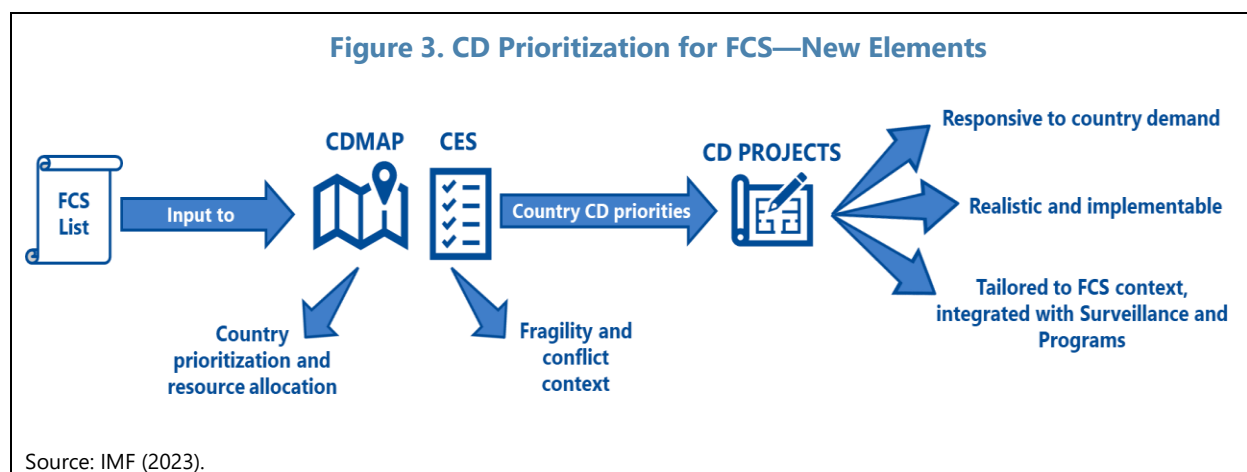
Uses of the FCS List for CD Prioritization

36. A change in FCS status can influence prioritization of new projects but will not impact ongoing CD. The FCS list will be updated each year. Countries on the FCS list will receive higher priority for new projects than those not in the list, but this is unlikely to have abrupt impacts on the level of CD delivery to a given member—the objective remains to ensure adequate support to authorities. Area Departments typically assign high priority to members that display many signs of fragility but are not officially included on the list. Staff will therefore apply judgement in responding

²⁹ See paras. 14–33 of the *Staff Guidelines on CD Prioritization and Work Planning* and paras. 37–40 as well as paras. 50–58 of [New Ways of Working in CD](#). To ensure the demand-driven nature of CD, project delivery can only begin after the receipt of an official request from a senior official of the member country.

to the needs of members who display signs of fragility (e.g., weak institutions, extreme poverty) but which are not officially considered FCS—especially if country ownership is strong. More specifically:

- **For countries transitioning off the list:** Staff will continue to deliver projects that have already been prioritized and/or are ongoing, as planned. New FCS projects will be considered alongside others from non-FCS, but are expected to be treated favorably, particularly in cases where they are essential for stability and recovery. Overall, for countries with large needs and adequate absorptive capacity that have shown ownership and traction, CD delivery could be expected to remain substantial, in line with the long-term nature of institution building, with potentially only marginal reductions.
- **For countries transitioning to the list:** Staff will continue to deliver ongoing projects as planned. New projects will receive higher priority as described above. For these countries, an increase in CD delivery could thus be expected, conditional on adequate demand and absorptive capacity. Previously proposed projects that could not be initiated due to competing demands in the region could also be rekindled if they are in line with the priorities of the CES (**Figure 3**).



37. Even after approval, MTWs can be adjusted throughout the year to reflect relevant changes in circumstances or in member’s CD needs: As mentioned above, this applies particularly to FCS where country-tailoring must adapt to rapidly evolving conditions. The Fund’s CD prioritization framework ensures that CD Project Managers are free to make operational changes to project size, which enables agile adaptation.³⁰ Workplan flexibility is further enhanced by the possibility that central reserves—i.e., uncommitted resources from the carry-forward for IMF02 resources—are prioritized to accommodate FCS demands.

Adapting to Absorptive Capacity

38. While there is “no one-size fits all” strategy for capacity building in FCS, staff can broadly follow the steps discussed below to facilitate country-tailored CD implementation.

³⁰ For details, see paras. 22, 28, and 35 of the *Staff Guidelines on CD Prioritization and Work Planning* and paras. 65–67 of *New Ways of Working in CD*.

These steps entail calibrating the pace, volume, and ambition of CD consistent with the domestic capacity and FCS-specific challenges. Assessing absorptive capacity requires careful thought and judgement of the current context, but staff should draw on past traction and results, and views of field staff and partners, when available. Overall, flexibility and innovation on delivery methods, instruments, and training modalities should be a constant feature of CD support to FCS.

(a) Developing Realistic Reform Strategies Based on FCS-specific Analytics

39. First, staff should draw on relevant guidance and analytical materials to identify the most appropriate reform strategy given the nature of a country's fragility and conflict context. Country teams should draw on illustrative frameworks, analytical materials, and diagnostic tools³¹ to help them define the priorities of the country CD strategy in the CES,³² and for CD Departments (CDD) teams in designing projects for implementation. Existing frameworks have been expanded with a focus on FCS contexts and important guidance for staff to develop realistic reform strategies. These include: (i) [Building Fiscal Capacity in Fragile States](#); (ii) [Building Capacity in Monetary and Financial Policies in Fragile and Conflict-Affected Countries](#); and (iii) [Building Statistical Capacity in Fragile and Conflict-Affected States](#). They should be always complemented with staff's own diagnostic and judgement on the ground, and intensive consultation with country authorities and development partners.

(b) Designing Implementable Projects in FCS

40. Second, staff should translate the reform strategy into implementable projects that reflect country conditions. They should involve country authorities and leverage field presence in the design process, adjusting to limited availability and quality of data. Close involvement of national counterparts is essential to build trust and help staff understand what can be achieved and what needs to be postponed, thereby setting realistic objectives:

- **Training is usually the first element of this process:** In the most challenging stages of fragility, training is a key CD modality that helps build absorptive capacity—for instance, before strengthening PFM or tax collection functions, a minimum understanding of fiscal frameworks or fiscal policy analysis are required. To this end, staff should coordinate with ICD and RCDCs.
- **The sophistication of CD support should increase gradually:** Staff should first target basic needs such as setting up simple tax return filing and payment processes in tax administrations, developing the basis for liquidity management at central banks, reviewing the legal framework for governance/anti-corruption or basic statistical data needs. In the early stages of reform, light hands-on assistance often delivered by RCDCs, or resident advisors may often prove more effective than large multi-year projects and diagnostic missions (see **Box 4**).

³¹ Such as the Financial Sector Stability Review (FSSR), Governance Diagnostics or Public Investment Management Assessment.

³² Separate CD strategies will not be necessary if a CES is in place (see Annex I).

Box 4. Leveraging RCDCs to Tailor Capacity Development to FCS Contexts

By dedicating more FCS support in the African Regional Technical Assistance Centre in West Africa (AFRITAC WEST), staff has been able to provide more intensive CD support to Guinea, Niger, and Togo. These FCS pilot countries were selected based on their challenges with tax administration and the implementation of CD recommendations within the Capacity Building Framework Initiative (CBF) in AFR launched in FY2018. The CBF initiative offers more intense technical assistance (TA) compared to a more traditional approach. It allows the Fund to intensify its assistance in FCS with weaker implementation capacities (e.g., via regular HQ and AFW missions accompanied by regular follow-up advice by dedicated AFW resident advisors) through: (i) a focus on improvements in the implementation of the core functions of a tax administration, based on the strategy tailored by the Fiscal Affairs Department in close coordination with the country authorities; (ii) hands-on advice and coaching of the staff; and (iii) more frequent and longer missions and continuous support between them provided by the AFW resident advisors.

The increased Fund presence was critical to provide the support needed for the country authorities to implement CD recommendations. As highlighted above, a dedicated tax administration resident advisor was deployed on the ground, sharing his time evenly between the three countries. The resident advisor received continuous support from HQ-based staff, who provided guidance to address difficult issues that emerged (including, in one country, the establishment of a powerful office set up outside the tax administration to perform parallel tax administration functions). An additional advisor has been placed in Abidjan to focus on supporting Burkina Faso, Guinea, and Togo in the areas of Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS).

CD provided through this CBF initiative leveraged the RCDC effectively to provide advice specific to the FCS context while remaining flexible across countries. It helped the authorities start the challenging process of cleaning-up tax arrears and supported organizational reforms that led to the creation of the first headquarters units (including one focused on tax arrears management). These HQ units are critical to sustain the progress of reforms in the medium-term.

41. When the required conditions are in place in an FCS, staff should cautiously shift the focus on more demanding, but achievable, medium-term projects. In line with the FCS Strategy, staff are advised to gradually address more demanding objectives in subsequent stages, such as setting up a medium-term budgetary framework, developing toolkits to preserve price and financial stability, or a multi-year project for the re-basing of national accounts. Resident Representatives and RCDC staff have a key role to play in ensuring that CD project managers are kept up to speed with changing conditions in the field to adapt accordingly.

42. Staff are encouraged to leverage the enhanced field presence of RCDCs and country-based LTX to design implementable projects based on the country's context. The increase in field presence of CD experts under the FCS Strategy should allow staff to invest more in consultations with authorities and partners to better understand possible FCS-specific constraints to CD, such as cultural barriers, social norms, readiness to engage or political limitations. In addition, there is a premium in FCS on strengthening the effectiveness of donor coordination, for example through coordination between country teams, CDDs, and RCDC directors and staff with key bilateral and regional donors. **Box 5** outlines the development of realistic CD projects by leveraging national agendas and tailoring the implementation to the FCS-specific needs.

Box 5. Tailoring CD Design and Implementation in South Sudan

Aligning CD with reform priorities identified in conflict resolution agreements: After the Transitional Unity Government was formed in February 2020, South Sudan established the high-level Public Financial Management (PFM) Oversight Committee in April 2020. The government then launched a strategy to address the priority reforms defined in the Revitalized Agreement of the Resolution of the Conflict in South Sudan (R-ARCSS) of September 2018.

Fund response: Following request of the Ministry of Finance and Planning (MoFP) to assist them in developing the PFM reform strategy, the Fiscal Affairs Department (FAD) conducted a remote CD mission in July 2020. The mission recommended to direct the scarce resources on a small number of achievable objectives with the focus on R-ARCSS priorities, for which development partners' CD support could be secured. A follow up mission in November 2020 assisted the authorities in developing the PFM Reform Strategy Concept Note. This included: (i) an Immediate Action Plan containing the reform measures to be implemented in 2021, each supported by identified technical assistance; and (ii) a road map for preparing the medium-term PFM Reform Strategy, noting that it will require the full engagement and support of line ministries and development partners.

Collaboration with the World Bank: The collaboration between the Fund and the World Bank has helped effectively coordinate PFM CD and assist the MoFP to set a realistic PFM reform strategy. The successful collaboration was facilitated by the World Bank's participation in Fund staff missions, the Bank's sharing their CD plans with Fund staff, and regular bi-monthly meetings.

43. Besides realistic objectives and well-paced steps, projects in FCS should rely on appropriate delivery modalities that take account of the different levels of risks and institutional capacities. This typically involves:

- **Staff should reflect the FCS-tailored approach to projects in the respective Results-Based Management (RBM) log frames.** An FCS log frame should generally have no more than 2-3 milestones per year; objectives and outcomes that are attainable; less ambitious indicator targets compared to non-FCS; and possibly allow for longer project duration.³³ However, given that in FCS traction for reform can abruptly change, staff should consider frontloading several reform milestones under special circumstances (e.g., when a new government comes in or a Fund program begins). Results log frames should be designed jointly with the authorities, taking account of absorptive capacity constraints. While the authorities are not required to approve all aspects of the log frame, they should be aware of (and agree with) the results being targeted.³⁴
- **While leveraging HQ or RCDC experts allows flexibility, in-country resident advisors can be deployed when intensive support is required, conditional upon strong ownership and adequate absorptive capacity.** RCDC or HQ experts allow rapid adjustment to changing local circumstances and help ensure continuity of staffing. When major institutional reforms require support that RCDCs cannot provide, considerations should be given to placing in-country resident advisors to support implementation.

³³ See *RBM Governance Framework and Operational Guidelines* for further details.

³⁴ For further details see *RBM Governance Framework*, Box 2.

- **Integrating technical assistance activities with corresponding training and coaching programs.** This can serve as an effective way to sustain capacity building in FCS. Given the unique conditions of many FCS, standard courses prepared for a broader audience are generally less effective than customized training, which should be preferred whenever possible. This could be done also by leveraging the benefits of remote delivery, conditional on adequate connectivity.³⁵
- **In FCS with high security risks, staff should use flexible modalities to deliver CD.** In some FCS, placing a resident advisor is not an option or travel to those destinations is discouraged. These high-risk FCS have nevertheless been significant CD recipients (e.g., Yemen, Somalia) in the past. Therefore, staff are encouraged to fully make use of third-country missions and remote missions where possible.

(c) Adjusting Implementation to Changing FCS Contexts

44. Third, staff often need to maintain a higher level of flexibility in FCS than in standard CD implementation to adjust to changing local circumstances. CD Project Managers are responsible for making the adjustments necessary to preserve country-tailoring as FCS circumstances and capacities evolve, following the timelines and procedures illustrated in the *Staff Guidelines on CD Prioritization and Work Planning and* implemented through CDMAP. **Box 6** illustrates how staff have adapted to changing circumstances in FCS.

45. Following the Fund’s reengagement after conflict or when government capacities have eroded due to sustained fragility, CD delivery is likely to include an element of capacity supplementation. Capacity supplementation refers to a hands-on approach with intense involvement in day to day work to ensure basic operations of critical state functions. It draws on normal CD resources, including experts based in regional centers and in exceptional circumstances dedicated country experts. Staff should also use synergies among countries in the region when supplementing capacity, including the use of common tools, methods, and where possible data sources. In order to pursue a more traditional CD approach, capacity levels should be raised appropriately requiring close coordination with country authorities.

³⁵ See Box 8, p. 30 of [The IMF and Capacity Development](#).

Box 6. Haiti: Adaptation of CD to Limited Absorptive Capacity and Changing Circumstances

CD support in Haiti has focused on enhancing governance, building institutions, fiscal policy, and PFM reforms. International best practices had to be adapted to the low absorptive capacity in the country, and the risks posed by the dire local economic and political circumstances. More specifically:

- **Gradual adaptation:** CD started gradually in the form of short-term missions by a peripatetic advisor in 2017 through a MCM technical assistance program. The mission was converted to a full-time resident mission in 2019 due to the country's demand. Thus, the advisor became a full-time in-country resident advisor to the central bank, achieving observable progress and ensuring continuity of support. Given the deterioration of the security situation, missions shifted to remote mode.
- **COVID-19 modifications:** Delivery modalities were adjusted with better progress for desk-based work, to ensure continuity in the country support. The same expert has remained in the country team.
- **Drivers of fragilities are broad based:** Natural disasters and political instability are among important drivers. Nonetheless, the authorities are making meaningful efforts to overcome the multiple challenges facing the country strongly supported by Fund's CD and strong engagement.

The authorities and staff have adapted flexibly to the changing circumstances. Despite the challenges, staff is continuing to provide capacity building to supervisors through remote CD. The authorities have remained strongly engaged through regular support, such as remote workshops. At the request of the authorities, staff is exploring the possibility of hosting cross regional peer-learning events with francophone countries in West Africa.

46. In some cases, the Fund's engagement with a member country may be on pause or CD cannot be delivered according to plan due to security reasons. In such cases, the Area Department country team and Functional Departments must find an agreement on whether and how to reallocate the corresponding resources, reflecting the situation on the ground and other regional concomitant needs. For example, a remote technical assistance mission in 2020 to Yemen addressed missing observations in the Consumer Price Index (CPI). The mission suggested methods to measure price changes for items whose price collection was suspended for security and then COVID-19 reasons. The mission also provided guidance on priority areas to further enhance CPI coverage by expanding price collection to non-food items, which the authorities plan to do.

C. Lending, Program Design, and Conditionality

47. This sub-section elaborates on Fund lending to FCS, with a focus on program design and conditionality. It aims to support staff in assisting FCS to develop robust and successful programs to address their BoP problem, achieve macroeconomic stability and foster inclusive growth, and ultimately exit from fragility. The guidance focuses on: (i) harnessing existing flexibilities of the Fund toolkit to better tailor program design to country specific needs and capacity; (ii) enhancing the realism of macro-frameworks; and (iii) clarifying the cases for the concurrent use of SMPs with emergency financing instruments. With regard to the discussion of conditionality, the guidance should be read in light of the [2002 Guidelines on Conditionality](#) and the conclusions of the [2018 Review of Conditionality](#). Additional information on assessing the realism of

macro-frameworks and considerations on post-program financing gaps (PPFGs) is provided in **Annex III**.

48. Successful program engagement with FCS generally requires appropriately prioritized policy measures and realistic macro frameworks. While this is true also for Fund engagement with non-FCS, it becomes crucial when engaging with FCS. The challenge for the authorities and staff is to develop a coherent policy package that addresses the most critical priorities in a carefully sequenced manner, rather than seeking to resolve all issues over the program period. Strict prioritization, coupled with timely and well-targeted CD support, is critical to avoid overburdening country authorities with very limited implementation capacity and ensure traction. Fund-supported programs for FCS should be informed by CES findings, and take into account social issues, in view of elevated levels of poverty and the high risk of failure if adjustment measures are socially infeasible.³⁶

49. Tailored program design and parsimonious conditionality are vital to ensure that Upper Credit Tranche (UCT)-quality programs for FCS focus on the most critical measures to achieve the program goals.³⁷ Program conditionality for FCS, like for all other members, should be designed to achieve or restore macroeconomic stability while addressing underlying structural challenges. Hence, streamlining conditionality in FCS arrangements should not compromise the strength of the UCT-standards—on the contrary, it should help promote ambitious programs, integrating CD activities to support a member’s limited capacity on the most critical measures. Finally, program design should be adaptable to fast-changing circumstances, such as changes in political ownership of reforms, while safeguarding the overarching goals of the program.

Fund Financial Engagement with FCS

50. Staff need to carefully assess the appropriate choice of instruments given the member’s fragilities, the nature of its BoP need, and other specific circumstances. The Fund does not have a lending toolkit dedicated to FCS, who can use all Fund financing instruments and facilities if they are eligible and meet the policy requirements. If the authorities are assessed not to currently have the capacity to implement a UCT-quality program, staff should discuss options for non-UCT engagement such as SMPs, possibly combined with emergency financing (see below). For those members able to implement UCT-quality programs, the Fund’s principal mode of financial engagement for the PRGT-eligible FCS is through the Extended Credit Facility (ECF), which can often be repeated, given the need for long-term engagement to help members attain a stable and sustainable macroeconomic position. However, the Standby Credit Facility (SCF) would be

³⁶ The 2002 *Guidelines on Conditionality* state in para. 4 “In helping members to devise economic and financial programs, the Fund will pay due regard to the domestic and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems and their administrative capacity to implement reform. Conditionality and program design will also reflect the member’s circumstances and the provisions of the facility under which the Fund’s financing is being provided

³⁷ Program-related conditions are to be established on the basis of variables or measures that are either critical to the achievement of program goals, or critical to monitoring implementation of the program, or necessary for the implementation of specific provisions under the Articles of Agreement.

appropriate for countries with short-term BoP needs and absence of a protracted BoP problem, including for FCS seeking precautionary arrangements.³⁸

Program Design and Conditionality—Addressing Key Challenges in FCS

51. Program design and conditionality need to be well-tailored to the specificities of each country, taking into account key manifestations of fragility and/or conflict. FCS face different types and degrees of fragility, including conflict in some cases, and they are generally characterized by limited institutional capacity, weak governance, heightened security risks, and unstable political environments. In many countries, these challenges are compounded by high vulnerability to economic and climate shocks, given limited policy buffers with weak reserve positions or high debt sustainability risks. These constraints should guide the selection of critical, specific, and feasible reforms to facilitate program success, typically less frequent in FCS than in other countries.

52. Coherent, well-tailored, and realistic conditionality is critical in FCS contexts. The structural reform agenda underpinning program design and conditionality in FCS needs to be adapted to: (i) the country's capacity to implement required policies; (ii) binding political economy constraints, including elite capture and other governance weaknesses and associated vulnerabilities to corruption (see **Annex II**); and (iii) the lingering impact of conflict and other fragilities, to the extent that the conditionality remains appropriately ambitious to achieve the program objectives. Tailored conditionality would allow the program to focus on governance weaknesses and associated vulnerabilities to corruption that are critical for successful implementation of a Fund-supported program.

53. Tailoring Fund-supported programs to FCS involves a delicate balancing act. Staff must strike the balance between realism and ambition, parsimony and granularity, gradualism and speed, as well as debt operations and fiscal adjustment – with the discussions informed by CES. The program needs to be ambitious to achieve or restore macro-stability and address underlying structural challenges while fully taking into consideration fragility issues and capacity constraints.

54. Parsimonious use of conditionality in the presence of fragility should not compromise the strength of the UCT-standard of reforms. Streamlining implies that staff systematically scrutinizes proposed conditionality and avoid the inclusion of non-critical measures.³⁹ This applies to quantitative targets as well as to structural benchmarks. This helps promote ambitious programs by targeting the member's limited capacity and integrated CD activities to the most critical areas. Parsimony should not be interpreted as a quantitative limit to the number of conditions, but rather as an approach to identify measures most critical to program success. As discussed in **Section III**, the CES analysis shall underpin, but not predetermine, the Fund-supported program engagement.

³⁸ In addition to the PRGT facilities, the Resilience and Sustainability Facility (RSF) under the Resilience and Sustainability Trust (RST) will be accessible for FCS, if qualified, to build resilience to external shocks and ensure sustainable growth, contributing to their longer-term balance of payments stability. FCS that are not eligible to PRGT have access to GRA instruments (e.g., EFF and SBA).

³⁹ A judgment that a condition is of critical importance means that if it was not implemented, it is expected that the goals would not be achieved or that program monitoring would not be possible.

55. Well-designed conditionality can promote and strengthen ownership, demonstrating the authorities' commitment to a course of action. Ownership, as much as capacity to implement reforms, is a critical determinant of success. Program targets should be aligned with the authorities' reform plans (e.g., national reform plans and PRGT country strategy).

56. Fund financial and non-financial engagement can help catalyze concessional financial support from other donors. The Fund's integrated support to FCS—through surveillance, CD, and programs—provides the donor community with a degree of assurance that their financial support would be used effectively. Given the rapidly changing circumstances surrounding FCS, sustained engagement by the Fund provides an anchor for macroeconomic policy. On the ground, mission teams and Resident Representatives should maintain a close relationship with other donors to ensure efficient information flows and continued support (see **Section VI**).

Program Engagement—Specific Guidance on Flexibility and Tailoring

57. Staff should make full use of the existing flexibility of the lending toolkit in designing programs and streamlining conditionality. In addition to the CES, staff will also benefit from the FCS Community of Practice (see **Section VII**), which will serve as a platform for regular exchanges of best practices and lessons learned.

(a) Flexibility Under the Extended Credit Facility

58. The ECF offers significant flexibility for PRGT-eligible FCS. ECF arrangements have a duration of 3-5 years and can be used consecutively to accommodate the needs of members with protracted BoP problems where longer-term engagement is warranted. In the case of heightened uncertainty, policies and reforms supported by the arrangement can be developed progressively, with a near-term focus in the context of credible medium-term objectives. Programs with FCS supported by an ECF arrangement follow the standard Fund policies for lending to LICs⁴⁰ and typically contain the following additional elements:

- **Initial focus on stability:** In the immediate aftermath of violence and in volatile security environments, a short-term focus in the initial stage could help the authorities implement measures to ensure stability. In turn, successful implementation of program measures at an early stage could help to achieve political buy-in, thereby enhancing the authorities' program ownership. As the macroeconomy stabilizes and capacity improves, a comprehensive reform agenda would become more appropriate.
- **The structural reform agenda and related conditionality would reflect capacity constraints and prioritization of immediate stabilization objectives.** The medium-term framework, subject to higher uncertainty, should refer to the potential need to adapt medium-term policy objectives, given the high levels of uncertainty. Specific policies and measures after the first 12

⁴⁰ These include but are not limited to: capacity to repay (CtR) and debt sustainability requirements, assessment of BoP needs, catalytic role of the Fund, Poverty Reduction and Growth Strategy (PRGS).

months will be defined in the context of future reviews, in line with the current provisions of the ECF.

- **Medium-term program objectives should enable the member to make significant progress toward a stable and sustainable macroeconomic position, consistent with strong and durable poverty reduction and growth.** Such progress could be evidenced, for example (depending on the relevant macroeconomic vulnerabilities) by stronger fiscal or external positions, reduced debt vulnerabilities, higher levels of foreign exchange reserves, and/or more contained inflation, coupled with a higher and more inclusive growth.
- **FCS programs must be aligned with standard program requirements.** These include financing assurances, as well as Capacity to Repay (CtR) and debt sustainability requirements. Fragility and political contexts should be considered in these assessments. Considerations should be given to how political economy situations could affect the strength of the program, how fragility and conflict could affect other donors' financing, and how access and its phasing is aligned with the country's BoP needs and expected timeline of reform implementation.
- **Capacity building:** The program should aim to strengthen institutional capacity to implement appropriate macroeconomic policies.
- **Poverty Reduction and Growth Strategy (PRGS):** This would normally be expected by the time of the second review, but the member may request Board approval for an extension of this deadline in case it has limited institutional capacity.

59. Programs supported by the ECF can assume post-program financing gaps (PPFGs) if additional time is recognized as necessary to resolve protracted BoP problems and adequate safeguards are in place. Fund-supported programs are required to be fully financed, and financing gaps would not be expected to re-emerge after the program.⁴¹ However, for ECF arrangements (whether for FCS or other members), it may not be feasible to fully resolve the protracted BoP problem within the program period. In this context, the existence of PPFGs could be more explicitly recognized with appropriate safeguards. PPFGs can be justified when the sensitivity analysis confirms that capacity to repay remains adequate and debt remains sustainable under realistic financing assumptions, including level of funding on non-concessional terms to close the post-program financing gaps.

60. In this vein, the ECF differs from other Fund-supported programs in that it is designed to address protracted BoP problems. These problems may not necessarily be resolved during the program period, though programs supported by an ECF arrangement should be designed to help the member make significant progress towards a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Therefore, by explicitly recognizing the existence of PPFGs under appropriate safeguards, staff could strengthen realism in the Fund's engagement with FCS (see **Annex III**). PPFGs, while they are not necessarily present in an

⁴¹ Under the financing assurances policy, the Fund needs to be satisfied that program financing is adequate to fill financing gaps: (i) during the program period to ensure viability as well as (ii) during the post-program period to ensure that the member is in a position to repay the Fund.

ECF arrangement, mean that sources to meet the financing needs in the post-program period (e.g., 3-4 years later) are not fully identified. However, financing gaps could be closed ex-post, without economic disruptions, through a combination of post-program policy adjustment and additional financing.⁴²

(b) Realistic Macro-Frameworks

61. Realistic macro-frameworks are essential foundations for successful Fund engagement with all members, especially in FCS contexts given the high risk that overly ambitious adjustment paths may undermine social dynamics. These macroeconomic frameworks should seek to reflect the structure of the economy, internalize implementation capacity constraints, take into account the risk of reform reversals, and incorporate contingency buffers to account for heightened uncertainty in FCS contexts (where appropriate). Furthermore:

- **In addition to realistically projecting GDP growth, staff should assess the social and political realism of fiscal adjustment paths, drawing on the CES findings and the expertise of partners and other institutions on the ground.** Establishing overly optimistic macro-frameworks risks inadvertently program failure as the latter aspire to achieve unrealistic targets within constrained environments.
- **The goal of realism checks is not to be prescriptive, in the sense of requiring macro-frameworks to converge to rules-of-thumb, history, or comparator's experience.** Rather, the objective is to highlight key sources of tensions (deviations) from the norm that require reasonable justification in FCS engagements. It is also important to improve program design by carefully assessing the robustness/feasibility of monitoring modalities (for example, on domestic arrears accumulation) and analysis of unintended consequences. Further guidance on realism assessments, including the use of realism tools, is presented in **Annex III**.

62. The pace and composition of adjustment in Fund-supported programs for FCS should carefully factor in the implications for socio-political stability. For instance, distributional impacts of fiscal adjustments and risks of undermining political stability should be carefully assessed. Country teams could usefully draw on the Poverty and Social Impact Analysis (PSIA) carried out by other institutions such as the World Bank. Program conditionality, such as an indicative target (ITs) on social spending and structural benchmarks (SBs) to enhance the efficiency of social spending, could support targeted spending to vulnerable groups.⁴³ While the Fund will not take a view on the appropriateness of military and security spending, such spending should be considered in the context of a broader assessment of fiscal policies and the required adjustment path. When used, measures or targets associated with a floating tranche, as part of conditionality, should be consistent with the primary macroeconomic objectives of Fund-supported programs.

⁴² Any financing gaps in the post-program period for an ECF arrangement need to be such that, notwithstanding the gaps, the Fund is assured that the member has the capacity to repay the Fund (irrespective of a successor arrangement), and that any gaps are consistent with a sustainable debt path (see Reviews of the Fund's Sovereign Arrears Policies and Perimeter, Annex I, footnote 11). See also Annex III.

⁴³ General guidance on social spending issues is found in IMF (2019) [A Strategy for IMF Engagement on Social Spending](#).

Well-designed floating tranches (**Box 7**), on top of periodic reviews, can give the authorities greater flexibility in setting the timetable for critical structural reforms and may enhance ownership.

Box 7. The Operation of Floating Tranches

Floating tranches (FTs) are defined as purchases or disbursements whose availability is contingent on the implementation of specific structural measure(s) or observance of specific performance target(s) that meet certain requirements, rather than being tied to a fixed Board review schedule or a specific date. An appropriate use of FTs would provide flexibility in the timing of the reform implementation, FTs could therefore complement conditionality under the program to monitor structural reforms (e.g., structural benchmarks) without eroding the overall strength of the program or safeguards or undermining the principle of parsimony.

FTs are released once the associated measures have been implemented or targets observed. The specific measure or target and associated access would typically be decided at the approval of an arrangement, with the Board approving the commitment of the FT ex-ante. The disbursement under the FT would be approved by management on staff recommendation that the associated reform has been completed. The disbursement/purchase can be made available only if the program is on track. FT can be considered where certain criteria are met:

- There is **unavoidable uncertainty about the timing of the implementation of the measure or observance of the target**, or an upfront commitment on specific timing is undesirable, e.g., because implementation is not required for immediate external stabilization, or it depends on international agreements or other factors outside the authorities' control.
- **Measures or targets underlying FTs need to strengthen the external position in the medium-term**, while creating an additional BoP need in the short term. Some examples are provided below.
- **Policies linked to the fixed-tranche macroeconomic component would need to constitute a viable, albeit not first-best, program even if the policies linked to FTs were not implemented.** Thus, measures or targets associated with a FT should not be required for immediate external stabilization, but they still need to be critical for achieving other program objectives.

Careful consideration is needed as to whether a measure is more suited for a Structural Benchmark (SB) or attached to FTs. SBs would generally be more suited for measures that are required for immediate external stabilization or where sequencing of multiple reforms is important. The restrictive criteria for use of FTs suggest that they are appropriate for a small set of measures in Fund-supported programs (for more discussion, see SM/05/81 on Review of the 2002 Conditionality Guidelines). Candidates for FT measures could include trade liberalization, civil service reforms, social safety net reforms, or other measures that meet the above criteria.

(c) **Structural Conditionality**

63. The Fund's longstanding practice involves judgement in determining whether a particular measure should be established as a structural benchmark.⁴⁴ In some cases, landmark reforms are assessed through a single Structural Benchmark (SB). In other situations, a reform can be broken down into multiple granular steps, each associated with individual SBs, in light of the

⁴⁴ This is provided that such measures are critical for the achievement of program objectives, either by themselves or because they represent key components of a broader reform measure that is judged to be critical.

authorities' limited capacity of implementing a large reform at once. While the latter approach could entail a number of SBs, the program would still be regarded as parsimonious if it is consistent with the principles set forth above, and this could be a preferable approach to support the authorities. Conversely, measures that are deemed important but not so critical as to be conditions—including those requested by the authorities or donors—could be appropriately articulated in the memorandum of economic and financial policies (MEFP) as the authorities' policy commitments. Thus, rather than limiting the number of structural conditions, reinforcing parsimony requires staff and the authorities to focus on a set of key priorities and targets for the country concerned that are critical, fragility-sensitive, and tailored to its implementation capacity. Conditionality and program design should also reflect the provisions of the facility under which the Fund's financing is being provided (see 2002 *Guidelines on Conditionality*, para. 4).

64. Given the rapidly changing policy environment and fluid situation in FCS, critical policies identified by staff and the authorities may need to change over the life of the program. Staff should always be prepared for situations when events do not go as planned. Flexibility can be warranted to adjust policy priorities and conditionality to focus on the most important and impactful measures that are critical to program success. In the meantime, contingency planning would enhance the preparedness of the authorities and staff to address both anticipated and unanticipated shocks. Staff and the authorities need to reach understandings on a set of policy responses for adverse scenarios. This collaborative process places the authorities in a stronger position to consider a range of options in a timely manner, should risks materialize. It also allows the country team to think ahead about possible shifts in the program strategy. A contingency plan is not intended to identify a precise response to a particular future scenario with defined triggers, but rather is a risk-management tool that identifies pressure points and a set of possible responses.

65. The pace and timing of Fund-supported macroeconomic adjustment and structural reforms should be flexible and calibrated to the political and social context, while meeting applicable Fund policy requirements. In some cases, full-fledged structural reforms may not be optimal or feasible at the beginning of the program when extensive support across the political and social context has yet to be entrenched. As discussed above, the ECF offers adequate flexibility to develop policies and reforms progressively, with a near-term focus in the context of credible medium-term objectives (see para. 58 above).

66. The Fund's engagement in a Fund-supported program should also take into account the level of country ownership, transparency, and accountability in FCS. Strengthening ownership and leveraging the authorities' plans under their longer-term development agendas—such as increasing employment rates or advancing Sustainable Development Goal (SDG) targets—can facilitate the implementation of policies and reform options. Assisting authorities in their communication and outreach to the population and external stakeholders can also help strengthen ownership. Country teams could also consult with other partners to better understand best practices in the engagement with FCS and lessons learned from past engagement (see **Section VI**).

67. Program implementation deserves careful assessment. FCS often face unparalleled risks of unanticipated shocks and capacity constraints. The assessment of program implementation should be conducted against the key question as to whether the program remains viable. While many FCS authorities have made tremendous efforts to keep their program implementation on track, the risk of programs going off-track is high. If an SB is not observed, it could be reset or modified to more realistic targets or may be even dropped provided that staff assesses the non-observance of the SB would not undermine program objectives.⁴⁵ Similarly, if adjustment to SBs is needed owing to changes in economic conditions, staff may propose to the Board to modify SBs ahead of time.

(d) Quantitative Conditionality

68. Quantitative conditionality, which is essential to monitor program implementation, should be appropriately ambitious while consistent with a socially and economically feasible adjustment path. In developing targets (i.e., quantitative performance criteria and ITs) and discussing them with the authorities, staff should consider the implications for social dynamics and confirm the authorities' capacity to achieve the envisaged quantitative targets. Staff should pay particular attention to the authorities' commitment and capacity to meet indicative targets for social spending, including the risks of spending cuts in the event of donor shortfalls or overruns elsewhere.

69. Heightened uncertainty and limited capacity may justify greater use of indicative targets (ITs) under certain circumstances.⁴⁶ Consistent with the conditionality guidelines, variables may be established as ITs for the part of an arrangement for which they cannot be established as quantitative performance criteria (QPCs) because of substantial uncertainty about economic trends. ITs may also be established in addition to QPCs as quantitative indicators to assess the member's progress in meeting the objectives of a program in the context of a program review. ITs would be replaced gradually by QPCs as uncertainty abates or program implementation helps stabilize the macroeconomic situation and build capacity over time. Fund-supported programs should include QPCs on macroeconomic indicators deemed so critical to the achievement of program goals or to monitoring implementation that disbursements under the program should be interrupted in cases of nonobservance⁴⁷. When a key macroeconomic indicator is set as an IT due to heightened uncertainty (e.g., primary balance), it could be complemented by setting QPCs for more predictable and controllable indicators (e.g., expenditure). This greater use of ITs needs to be carefully analyzed on a case-by-case basis and clear justification should be presented in program documents.

⁴⁵ A measure may be set as a prior action when it is critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures.

⁴⁶ For references on the review-centric monitoring of quantitative conditionality, advocating for a shift towards greater use of ITs under heightened uncertainty conditions, see *Fund's Pandemic Response Lending Options to Support Members During the Next Stage of the Crisis*, September 3, 2020.

⁴⁷ The PRGT instrument provides that performance criteria shall be applicable specifically to each disbursement, together with appropriate monitoring of key financial variables in the form of indicative targets and structural benchmarks for critical structural reforms.

70. Greater use of ITs, as appropriate, at a certain stage of the program does not necessarily imply a loosening of UCT standards. The macro-framework would still need to meet the UCT standards of Fund-supported programs. A robust assessment of performance relative to the program macro-framework would, as in all cases, inform management’s decision on whether to recommend completion of a review, based on whether the objectives of the program remain on track, considering past performance under QPCs, ITs and structural benchmarks. In case of substantial deviations from program targets (including ITs) and insufficient corrective actions, staff and management may not recommend the completion of a review.

(e) Addressing Undue Misreporting Risk

71. Programs for FCS should be designed to minimize the undue risks of misreporting.⁴⁸ If misreporting occurs, even due to capacity constraints, resolution can be cumbersome for the authorities, entailing substantial delays in the resumption of Fund financing. As FCS are generally at greater risk of misreporting due to weak capacity, staff needs to factor in these risks at the program design stage.

72. Staff should help the authorities to navigate these challenges. The Technical Memorandum of Understanding (TMU) should define QPCs clearly, with full consideration of the authorities’ capacity to report data accurately and promptly. Prior actions also need to be defined clearly, and country teams are advised to share background material with relevant functional departments before determining whether prior actions have been met. In considering whether to establish continuous QPCs that are not explicitly required under Fund policy, staff should take into account the reporting burden and associated risk of misreporting and consider whether regular periodic QPCs would be an acceptable alternative to ensure adequate monitoring of performance.

Non-UCT Engagement: Concurrent Use of SMPs and Emergency Financing

73. SMPs are available for members that cannot implement UCT-quality programs and that need to establish or re-establish a track record prior to moving to or resuming use of Fund resources.⁴⁹ An SMP is an informal agreement between national authorities and Fund staff to monitor the implementation of the authorities’ economic program,⁵⁰ and it has often been used by FCS. In the FCS context, a track record could be sought, including but not limited to, in cases of weak capacity or post-conflict reconstruction; in countries with no prior or recent experience on UCT-quality programs; or when Fund-supported programs have gone off-track. FCS often need

⁴⁸ The misreporting policy applies to quantitative performance criteria, standard continuous performance criteria and prior actions, and to information provided in the context of requests for waivers.

⁴⁹ For general guidance on the use of SMPs, see [Staff-Monitored Programs—Updated Operational Guidance Note](#), June 24, 2022.

⁵⁰ In September 2022, the SMP policy was amended to introduce [Program Monitoring with Board Involvement \(PMB\)](#) that allows for limited Executive Board involvement in opining on the robustness of a member’s policies to meet their stated objectives under an SMP and monitoring its implementation in narrowly tailored circumstances. The PMB policy will be reviewed no later than end-September 2023.

extended time under SMPs coupled with well-integrated CD activities to advance track-record building reforms.

74. For FCS facing urgent BoP needs that qualify for emergency financing and need to (re)establish a track record towards a UCT-quality program, the concurrent use of SMPs and emergency financing (EF) could help the country address such urgent BoP needs while moving towards a UCT-quality program. EF is designed to address urgent BoP needs that, if not addressed, would result in immediate and severe economic disruption. The SMP can provide a concrete anchor for a track record building and policy implementation, given that EF lacks ex-post conditionality to provide rapid financial assistance.⁵¹ When the repeated use of EF is necessary to address continuing urgent BoP needs associated with fragility and/or conflict, SMPs could support the authorities' policy implementation to demonstrate a sufficient track record.⁵² Moreover, while building a track record with SMPs, a lack of financing could force the authorities to undertake excessive adjustment, run domestic arrears, or postpone essential reforms, whose risk could be mitigated by combining SMPs with EF.

75. If applicable conditions are met, LIC FCS can request repeat disbursements under the Rapid Credit Facility (RCF). The number of disbursements in any 12-month period is capped at two. If a member has received an RCF disbursement in the preceding three years, another disbursement is possible only if: (i) the BoP need was caused primarily by a sudden, exogenous shock ("exogenous shocks" window or "large natural disaster" window); or (ii) the member has established a track record of adequate macroeconomic policies for at least six months prior to the request ("regular" window). Even in situations of fragility where a member may rely on a track record of performance for a repeat disbursement, a second RCF disbursement cannot be pre-committed at the approval of the first disbursement.⁵³

76. For non-LIC FCS facing urgent BoP needs that qualify for emergency financing, including due to an inability to design or implement a UCT-quality economic program, the concurrent use of SMPs and Rapid Financing Instrument (RFI) could also help the country address the urgent BoP needs while moving towards a UCT-quality program. Under current policies, the concurrent use of SMPs and RFI is also possible although past cases of concurrent use only involved the RCF. The RFI policies also accommodate a repeat use within three years if: (i) the

⁵¹ Despite the lack of ex-post conditionality, ex-ante policy undertakings have to be outlined in the member's letter of intent (LOI) requesting financing under the RCF or RFI, where the member must set out the policies it plans to pursue to address its BoP difficulties, and its commitment not to introduce measures or policies that would compound these difficulties. Relevant safeguards for the EF, including DSA and CtR assessment, are also required.

⁵² If a country seeks to build a track record for a UCT-quality arrangement or for repeated use of EF where track record requirements apply, the preferred approach is to use an SMP to build such a track record concurrently with EF. Under Fund policy, an RCF with appropriate policy undertakings can also be used to build the policy track record. BUFF/16/84, the Chairman's Summing Up—Financing for Development: Enhancing the Financial Safety Net for Developing Countries—Further Considerations, Executive Board Meeting 16/103, November 16, 2016.

⁵³ In addition, [a food shock window](#) is available during a 12-month period from its approval in September 2022 for members that meet a set of qualification criteria related to the global food shock. Repeated use of the food shock window within the access limit over the 12-month period is also possible in case of recurring or ongoing urgent BoP needs.

urgent BoP need was caused primarily by an exogenous shock; or (ii) the member established a track record of adequate macroeconomic policies over a period of at least six months immediately prior to the request. Under the RFI, there is no limit on the number of disbursements in a twelve-month period, provided that qualification conditions are met.

77. If a track record of adequate macroeconomic policies is required for a repeat use of RCF/RFI, it can be satisfied by an SMP or other track record modalities. When the RCF/RFI is requested concurrently with an SMP, each request should be justified on its own, and follow respective policy, procedural and documentation requirements. In these cases, the Policy Note or Staff Report could be combined with that for an SMP review, in which staff should assess the authorities' policy implementation under the SMP and adequacy of the track record.

SECTION V: CONSIDERATIONS FOR TAILORING FUND ENGAGEMENT TO SPECIFIC FCS SITUATIONS

This section provides staff with guidance on operationalizing principles of engagement outlined in the FCS Strategy. These include calibrating the pace and timing of reforms to political and social factors, taking into account the distributional impacts of macroeconomic adjustments, strengthening good governance, and promoting country ownership of key reforms. The following situations are examined: (i) building accountable and effective institutions to exit fragility; (ii) rising fragility and conflict risks; (iii) engagement with members experiencing active conflict; (iv) dealing with government recognition issues in the context of irregular changes in government; (v) post-conflict reconstruction; and (vi) responding to spillovers and shocks, such as forced displacement, food insecurity, and climate risks.

A. Building Accountable Institutions to Exit Fragility

78. Building institutions capable of implementing macro-fiscal and monetary policies is a core ingredient of the Fund's comparative advantage in FCS. In line with the FCS Strategy, the strength of institutions and constraints to reform implementation should be identified in the CES (see **Section III**) and inform tailored CD provision in areas such revenue management, PFM, banking supervision, and central bank operations. More specifically:

- **Strengthening the macroeconomic knowledge base of FCS country authorities:** Technical assistance and training on developing macroeconomic frameworks can help officials in FCS to implement programs and interact with the Fund during surveillance missions. Furthermore, developing basic tools to analyze and project debt dynamics and basic macroeconomic forecasting can help authorities in implementing policies, document and analyze the effects of shocks and policies, and engage more effectively with the Fund and development partners.
- **Country teams can build on (and adapt) frameworks for CD delivery in FCS developed by Functional Departments (Table 3).**⁵⁴ Drawing on the CES, staff can use these frameworks to orient CD provision broadly, recognizing that progress is seldom linear. Support should be

⁵⁴ See *Building Fiscal Capacity in Fragile States* (2017). MCM's Board Presentation on *Building Capacity in Monetary and Financial Policies in Fragile and Conflict-Affected Countries* (2021); Medina Cas et al. (2022).

therefore phased-in gradually, first focusing on the basic elements of fiscal and monetary policy to respond to urgent country priorities and then gradually shift towards institutional modernization.

- **Most FCS need better data to implement policies.** Economic and financial statistics in FCS are particularly weak on import/export price indices, national accounts, the CPI, and government finance statistics. About 70 percent of countries with serious data shortcomings that hamper Fund surveillance are FCS.⁵⁵ Especially in cases of low-capacity, staff should ensure that CD provision includes hands-on training on data compilation and establishing basic reporting systems. As mentioned in the section on CD delivery, staff should leverage RCDCs' field presence to ensure continuous assistance and support the participation of FCS in the Fund efforts such as the Data Standards Initiatives, as well as in the completion of data surveys such as the International Survey on Revenue Administration (ISORA) and the International Survey on Customs Administration (ISOCA). Furthermore, in discussions with development partners, staff should emphasize the need to provide financing for the digitalization of statistics in FCS.
- **Promoting good governance is a cross-cutting priority in FCS.** For instance, staff research has shown that poor governance is linked to a higher probability that a country enters fragility, given a 2 percent contraction in GDP.⁵⁶ In post-disaster and post-conflict situations, minimizing corruption risks can help consolidate state legitimacy and safeguard reconstruction efforts. In line with the [Framework for Enhanced Engagement on Governance](#) (2018), the Fund can deliver CD to authorities in a wide range of areas such as fiscal governance, central bank governance, financial sector oversight, market regulation, AML/CFT, and rule of law (see **Annex II**). In addition, the Fund's [strategy on Anti-Money Laundering \(AML\) and Combating the Terrorism Financing \(CFT\)](#) focuses on supporting members to tackle proceeds of corruption, fraud, and tax evasion as well as related confiscation and asset recovery efforts. Especially in conflict-affected countries, terrorism financing risks related to the operation of terrorist groups may be elevated on the policy agenda while efforts to suppress terrorism financing could be prioritized.
- **SMPs can also help strengthen institutions in FCS.** Countries may not be able to implement a UCT-quality Fund-supported program for reasons that may include limited institutional capacity and domestic fragility or instability. SMPs can help FCS establish a track record of policy implementation resulting from improved institutional performance, such as increases in domestic revenues, the capacity to implement budgets and greater fiscal transparency, which can pave a way for potential Fund financial support (see **Annex IV** for country examples). As members progress in implementing the reform agenda, with the goal to transition towards an IMF financial arrangement, the incremental yet demonstrable improvement in institutions can lead to a further catalytic financing effect from donors and creditors.

⁵⁵ Medina Cas et al. (2022).

⁵⁶ Akanbi et al. (2021).

Table 3. Building Fiscal and Monetary Institutions in FCS—A Two-Step Approach

	Short run: Priorities for immediate recovery	Medium-to-long run: Priorities for exiting fragility
<i>Building Fiscal Institutions</i>		
Revenue	<ul style="list-style-type: none"> Focus on revenue collection through custom duties on imports and large sectors (e.g., telecom, banking, the agro-industry). Aim for simple organizational structures and the establishment of basic processes, including on human resource management and strengthening communication across agencies. 	<ul style="list-style-type: none"> Establish a medium-term revenue strategy, enhance taxpayer base, introduce corporate and value-added taxation, establish compliance strategies, set up taxpayer offices, modernize the tax payment environment, and strengthen the management of the natural resources companies.
Expenditure	<ul style="list-style-type: none"> Focus on budget preparation and basic payment systems to allow for proper budget execution that can speed up public service delivery. Consolidation of cash resources to allow immediate government obligations to be met. 	<ul style="list-style-type: none"> Build the medium-term PFM capacity development strategy, a medium-term expenditure framework, internal controls, accounting standards, annual financial statements, and the capacity for cash and debt management.
Debt management	<ul style="list-style-type: none"> Build institutional structure to facilitate effective debt management. 	<ul style="list-style-type: none"> Develop domestic debt markets, implement a medium-term debt management strategy.
<i>Building Monetary and Central Banking Institutions</i>		
Central bank operations	<ul style="list-style-type: none"> Ensure that the key principles for monetary policy implementation and lender of last resort are defined in central bank law. Develop the basis for liquidity management. 	<ul style="list-style-type: none"> Develop the operational toolkit and advice towards price and financial stability objectives.
Regulation	<ul style="list-style-type: none"> Establish prudential rules, reporting on capital adequacy, credit, market, and liquidity risks, including for AML/CFT. Set up a licensing framework for banks, risk measurement and management practices, build robust governance. 	<ul style="list-style-type: none"> Modernize regulatory framework through a medium-term strategy. Sequencing of regulatory reforms adjusted to low but gradually improving, administrative capacity.
Supervision	<ul style="list-style-type: none"> Set up and formalize the supervisory function, assess prudential reports, build basic elements of the supervisory toolkit. 	<ul style="list-style-type: none"> Move from compliance-based to risk-based supervision. Strengthen legal framework; improve risk reporting, assessment, and monitoring; and take remedial actions.

Source: FAD (2017), MCM (2021).

B. Rising Fragility and/or Conflict Risks: Focus on Prevention

79. In line with the FCS Strategy, staff should explore ways of supporting members at an early stage when fragility risks are emerging or intensifying. These risks may manifest in countries already classified as FCS or in those that display facets of fragility that could be exacerbated by shocks such as food price inflation, natural disasters, and climate-related risks.

80. Preventative activities are those that help build the resilience of institutions, economies, and livelihoods to manage fragility and/or conflict risks. Prevention is typically addressed in development projects financed by the World Bank, bilateral donors, and other MDBs. The UN and regional organizations support political dialogues and crisis management efforts. While remaining focused on the Fund’s mandate and comparative advantage, country teams should become generally familiar with these activities and seek ways to complement their impact, where feasible. More specifically:

- **Determining if a country is at risk of becoming fragile and/or conflict-affected requires consultation with partners working on prevention activities.** From an economic standpoint, staff can compare trends in poverty, GDP growth, inflation, and conflict between countries that may be on the verge of entering fragility and their non-FCS economic peers. Resident Representatives and field-based country team members can play an important role in making qualitative assessments, focusing on issues such as the persistence of social and economic grievances, the degree polarization in society, levels of insecurity, state legitimacy, or a legacy of past conflict. Insights and political economy analysis from partners are particularly useful (see **Section VI**). If countries are not classified as FCS by the Fund, Area Departments can still prepare a CES and check if other institutions (such as the [OECD](#)) classify at-risk countries as FCS.
- **Some factors associated with a high probability of social instability depend on the implementation of macroeconomic and structural policies and may be examined in Article IV Staff Reports.** These include severe economic imbalances and in particular income inequality across groups, the inability of the state to provide adequate and inclusive social spending, or a large share of natural resource rents to GDP.⁵⁷ Through the CES process, staff should gain an understanding of the interlinkages between economic, social, and political forces that may generate crises. The preparation of a carefully designed reform strategy by authorities is especially important in countries where risks of fragility and/or conflict are high. Key elements should include sequencing and pacing of reforms that are politically difficult to implement, analysis of the distributional impacts on vulnerable populations and potential mitigation measures, as per the 2019 [Strategy for IMF Engagement on Social Spending](#). Where feasible, staff could also assist authorities to design communication campaigns to help build awareness of the need and benefits of reforms and to strengthen country ownership.
- **Staff can benefit from Fund research and analysis focused on social risks.** IMF [working papers](#) have found that episodes of past unrest, along with inflation for food and oil prices, and contagion from neighbors are correlated with the probability of future unrest. Article IV consultations for both FCS and non-FCS can provide opportunities to assess aspects of prevention through using innovative tools such as [strategic foresight](#) or the Social Unrest Index.
- **Leveraging partners is helpful to monitor evolving dynamics and improve economic forecasting.** Staff are encouraged to engage with partners on early warning analytics and—where feasible—integrate partner insights into IMF core activities to enhance contingency planning.

⁵⁷ United Nations and World Bank (2018).

C. Active Conflict: Remaining Engaged

81. When countries experience active conflict or a period of political instability, the Fund should strive to remain engaged. In line with the obligations of Article IV, the Fund should continue to conduct surveillance where feasible. As per the FCS Strategy, the Fund may continue to provide capacity development (CD) if the authorities can absorb such advice and could lend subject to adequate safeguards and other policy requirements.⁵⁸ Within the confines of its mandate and comparative advantage, the Fund could support conflict-affected members in preserving the functionality of macroeconomic policy institutions and maintain a modicum of economic stability. This is especially important given the volatility of development aid and the overreliance on humanitarian systems to assist vulnerable populations.

82. Armed conflicts alone do not preclude Fund engagement with FCS, unless they involve irregular changes in government that trigger recognition issues by the international community (see below). Guided by the CES, Area Departments should assess the following aspects to determine the scope of engagement in Article IV consultations, CD delivery, and programs:

- **Surveillance is an obligation for both the Fund and the member.** Article IV consultations have been conducted with the membership except in cases where the authorities have been unwilling or situations where civil unrest, insecurity, or the quality of data make them infeasible. If there is a full-scale conflict and missions may not be possible, Article IV consultations may be delayed until authorities are ready to engage. Article IV consultations can also take place virtually or in third-party locations.
- **When conflict is severe, staff should consider integrated policy advice and CD that preserve the functionality of key economic institutions and reduce stress on the population.** Continuously monitoring the impact of conflict on growth, inflation, and poverty is essential at this stage to support country authorities in managing the macroeconomic and fiscal framework. Article IV consultations should also assess the extent to which conflict hampers the ability of the government to implement fiscal, monetary, and financial sector policies. For instance, BoP problems may arise due to rationing of foreign exchange to finance imports of food and fuel, which are essential for the population's livelihood. Fund policy advice can help improve monetary and exchange rate policies, including removing exchange rate misalignments and freeing up the availability of foreign exchange.
- **CD needs are significant in conflict-affected countries, including because of the loss of the human capacity, while absorption capacity should also be carefully assessed, to maximize traction.** Ensuring basic payment systems ran by the monetary authority is especially important to facilitate relief provided by social safety net mechanisms or aid agencies to conflict-affected populations. Banks can break correspondent relationships with countries in conflict and do not immediately reestablish them after conflict ceases (for profitability, reputational, operational, regulatory and financial integrity reasons, other legal and political reasons, including targeted financial sanctions imposed by the United Nations Security Council). Payment networks may also

⁵⁸ See [The IMF Strategy for Fragile and Conflict-Affected States](#), para. 29.

disconnect from FCS during conflicts and reestablishing connections takes time. This could exacerbate instability if payments to suppliers of critical equipment needed in humanitarian responses cannot be made or if people cannot receive remittance. In line with the Fund's engagement on [correspondent banking relationships](#), AML/CFT risk-based supervision of banks and remittances that could reduce the risk of outgoing illicit flows may reassure and ease the pressure from correspondent banks. Safe payment corridors for proven low-risk remittances could also be considered. Support to fiscal authorities in the management of revenues and expenditures (especially salary payments for state employees, public service delivery) is also critical to preserve state functions. Staff should also closely coordinate engagement and CD efforts with other international financial institutions and development partners, including on ways to preserve reliable macroeconomic statistics.

- **If appropriate conditions are met, the Fund may provide emergency financing under adequate safeguards to Fund resources.** In accordance with its mandate, the Fund may also work with bilateral partners to establish international assistance mechanisms benefiting a conflict-affected member (see **Annex IV, Somalia** and **Ukraine** examples).

83. Country teams should maintain dialogue with authorities and partners, where feasible.

Regular contact with partner institutions present on the ground will serve to: (i) maintain, as much as possible, an understanding of economic, social, and political developments and structural constraints; (ii) assess the capacity and commitment of country authorities to implement reforms; and (iii) provide well-grounded macroeconomic policy advice when opportunities arise. It is therefore critical to use all available avenues to engage with key policymakers, including in the context of conferences hosted by donors, public fora, and the media. Depending on circumstances, country teams should aim to:

- **Keep lines of communication with international and regional organizations:** While working with the authorities, also maintain contact and exchange information with international partners on economic, political, and security developments and to better understand the evolution of conflict trends and political dynamics. This can be particularly relevant to Fund surveillance and policy advice, as security and humanitarian crises can significantly affect policy space.
- **Conduct outreach through think tanks, academics, and opinion shapers.** Such interactions are vital to deepening knowledge of political and geopolitical issues, briefing key audiences on economic developments and Fund work, and, indirectly, influencing the debate on how to improve economic policymaking in the country.

84. Certain operational challenges and constraints may arise if the Fund is dealing with a government that does not exercise control over the entirety of the member's territory.

These situations include cases of ongoing conflicts where a government loses effective control over parts of its territory to a competing faction. In such circumstances, access to Fund resources, surveillance and technical assistance to the government would need to be tailored to the specific circumstances of the member, considering the portion of the territory that is under its effective control and related economic policymaking activities (see **Annex IV, Libya** and **Yemen** examples). From a legal perspective, the general principle under the Fund's approach to government recognition applies

(see below). Operationally, staff should adapt support to the implications of conflict on the government's ability to implement key reforms and sound policies.

85. In such situations, staff may establish lines of communication with competing sides of the political divide only if authorized by the government with which the Fund deals. For instance, if staff meet and engage with *de facto* regimes in areas outside of the effective control of the government that the Fund is dealing with—or in third-country locations or virtually—the government that the Fund is dealing with must be informed and authorize such contacts.

D. Dealing with Recognition Issues in the Context of Irregular Changes in Government

86. Irregular changes in government, such as military coups, may occur in countries in active conflict or experiencing political and social instability. When facing such challenges, staff should consult with LEG and SEC on the implications under the Fund's approach to government recognition. This approach, which is highly nuanced and country-specific, is summarized below.

The Fund's Approach to Government Recognition

87. The Fund's approach to government recognition applies to all members regardless of FCS status. It has developed historically based on precedents and staff should be aware that there is no "one size fits all" solution to a country's situation. In summary:

- **The Fund's approach consists of: (i) a general principle**—the Fund deals with authorities in effective control of the member; and **(ii) an exception**⁵⁹—engagement is paused when there is clear evidence (e.g., public statements) that the international community (as represented by a majority of the total voting power) refuses to deal with the regime of a member. Dealings are also paused where a critical mass of the international community refuses to deal with a new regime, but there is not full clarity in the views of the international community.
- **The general principle also applies in cases when, following an irregular change in government, the situation on the ground is very fluid and there is uncertainty about the position of the international community.** *In such situations, there is no legal preclusion to engage with the new regime in effective control. Rather, engagement is a policy or judgment call by Area Departments.*

88. Following an irregular change in government, it is therefore critical for staff to ascertain the views of the international community. Should questions of government recognition arise, country teams should consult LEG and SEC to ascertain the status of Fund relations with the member, and the resulting consequences in terms of Fund engagement. Country teams should also consult LEG and SEC if the views of the international community evolve on a member's government recognition.

⁵⁹ During the 1992 Annual Meetings, the Chairman of the Board of Governors decided to deny the credentials of the delegation of a military regime then in effective control of a member. Instead, the Chairman accepted the credentials of the ousted government-in-exile, even though up to that point the Fund had been dealing with the military regime in effective control of the member.

89. For illustrative purposes, this note provides general operational guidance on two scenarios that staff may encounter. This guidance and scenarios are particularly relevant for conflict-affected countries but may apply to other FCS affected by political and social instability. Specific country examples are included in **Annex IV**.

Scenario I: Irregular Changes in Government and High Uncertainty

90. There are cases where, further to irregular changes in government (such as military coups), the situation is fluid and the views of the international community have not formed yet. Staff should be mindful of the following aspects:

- **From a legal perspective, the Fund’s general principle of dealing with the regime in effective control still applies.** *The Fund’s approach to government recognition offers staff considerable flexibility on evaluating the scope of activities that can be undertaken in these situations.* However, staff are advised to proceed cautiously with such dealings because developments are too recent, are unfolding in a fluid manner, and the views of the international community have not been fully formed yet. To understand how these views evolve, country teams should consult with LEG and SEC.
- **Operationally, engagement is a policy or judgment call made by the relevant Area Department.** In recent cases, country teams have remained engaged in such cases primarily through “low-level CD delivery” at first (see **Annex IV, Burkina Faso, Guinea, and Mali** examples⁶⁰). This encompasses technical assistance to authorities on PFM issues such as cash management and control,⁶¹ training sessions on public accounting, or the establishment of information systems to track public expenditures. In all cases, support was usually delivered by CD experts on the ground in collaboration with virtual missions conducted from RCDCs and HQ.

91. Country teams may hold targeted sessions with representatives from Area and Functional Departments, as well as LEG to explore potential ways to remain engaged. Overall, country teams should seek to customize the guidance provided to teams under sub-section C (Active Conflict) to cases of high uncertainty where dealings with the regime continue until the views of the international community are formed.

Scenario II: Paused Engagements

92. When the international community refuses to deal with the regime of a member, Fund dealings with the member are paused. In such cases, the member cannot access Fund resources or SDRs and the Fund cannot conduct surveillance or provide CD to the regime of the member in question. Likewise, the member cannot perform acts of representation at the Board of Governors or

⁶⁰ This determination of low-level engagements in the area of CD referred to in this paragraph, as well as in Annex III, has been made by the relevant ADs in country-specific cases. Country Teams are invited to consult LEG on whether or not contemplated engagements can be considered as low-level dealings in the area of CD until a common understanding is reached on what low-level engagements in the area of CD constitute.”

⁶¹ Following the 2012 irregular change in government in Mali, the Fund assisted the transitional government in setting up a Treasury Single Account (TSA) See Racheeda Boukezia and Benoit Taiclet, “[Implementing an Effective TSA Account in Mali](#),” *IMF PFM Blog*, December 2, 2014.

participate in regular elections of Executive Directors, nor attend Spring and Annual Meetings (see **Annex IV, Afghanistan** example).

93. In such cases, staff may consider collaboration with other international organizations, especially those that have maintained a presence on the ground such as United Nations agencies. Country teams should consult LEG and SEC on the conditions of such collaboration.

- **Staying informed about political developments and conflict dynamics will remain essential, especially if opportunities arise for stepped-up engagement.** The World Bank may maintain an active portfolio of operations in such situations. Outreach to UN entities, as well as think tanks, CSOs, and academia can provide updated information on the fluid political and security developments.
- **Staff can consider the preparation of papers with the World Bank and the UN to explore country scenarios.** Such exercises can help determine conditions in which low-level Fund support can make a difference and enhance readiness to reengage when conditions permit.
- **Coordination between Area and Functional Departments to assess contingency plans for reengagement of Fund activities is also important.** Contingency planning—while relevant for all FCS situations—may be especially needed given fluid conflict trends that can affect policy decisions and lift the pausing of Fund dealings with the member. Contingency planning can take a variety of forms, depending on circumstances—for instance, staff can assess potential challenges and responses once Fund engagement is expected to resume, e.g., maintaining the policy dialogue and delivery of CD when a Fund-supported program is infeasible.

94. Staff should exercise caution when invited to participate in conferences, seminars, workshops, or similar events involving members with whom dealings are paused. In such cases, staff engagement should be guided by the following considerations:

- **In cases where the Fund takes part in a conference or meeting which is also attended by an administration representing a member with paused dealings, the question arises whether the Fund's participation implies recognition.** In principle, Fund participation at such events may be interpreted by third parties (including the authorities of the member) as recognition. Therefore, the Fund must take certain actions to clarify its position and/or prevent misperception of recognition.
- When the international conference or meeting is about the **specific member with paused dealings**, staff have been advised not to attend such meetings to avoid a perception that the Fund is dealing with the member.
- When there is a **general meeting organized or co-hosted by the Fund**, staff have been advised that no representative of a member with paused dealings should be invited to participate in such events.
- **There are other cases, however, where international conferences or meetings are of a general nature where no specific issues about a member with paused dealings expected to be discussed or involved.** Fund Management and staff can attend these meetings even if representatives of member with paused dealings are also attending. An example is for instance

the meeting of the UN General Assembly (or Annual Meetings of the ASEAN+3) where the Managing Director and Senior Fund Management attend regardless of whether representatives of members with whom Fund dealings are paused are also in attendance.

95. Low-level engagement such as fact-finding may be permitted where relations have been paused. What constitutes “low-level engagement” will be a matter of judgment for staff, based on the considerations articulated above (particularly the risk that the Fund’s participation in such meeting may be misconstrued as recognition). The following guidelines should be considered:

- **Low-level engagement would only include technical staff (such as economists) from both the Fund and the member.** It does not include any high-level/senior staff from the Fund (e.g., Heads of Department, Mission Chiefs, Front Office staff). Instead, staff may share with low-level representatives of the regime relevant off-the-shelf technical assistance reports that have already been published, as well as links to training courses on the Fund’s website.
- **In general, it is preferable that low-level engagement be carried out in writing.** Emails facilitate record-keeping and allow the agenda to be clearly delineated.
- **In contrast, meetings (in person or virtual) should generally be avoided, even if they are between low-level/technical staff.** There is a higher risk that meetings between Fund staff and the authorities (even if between low-level/technical staff) would give rise to the misperception of recognition. It is also more difficult to control the agenda in a live meeting.
- **There are rare circumstances where meetings may be permissible, in the context of low-level engagement.** For example, if there are “fact-finding” meetings organized by other international organizations (e.g., UN or World Bank) with the authorities—with only technical staff from both sides participating—Fund staff may participate as “observers” only or in “listening mode.” Fund staff can pass along questions to the International Organizations (IOs) before the meeting, so that the relevant IOs can raise them with the authorities. As Fund staff are non-participants in such meetings and did not organize them, the risk of any misperception is correspondingly lower.⁶²

E. Post-Conflict Reconstruction: Recovery, Economic Stability, and Growth

96. In countries emerging from conflict, it is important for the Fund to support the development of economic and financial stability. Post-conflict countries contend with interlinked objectives related to economic stabilization and inclusive growth; prioritizing spending and financing reconstruction sustainably; and gradually rebuilding institutions.⁶³ The challenge is to do so sustainably without jeopardizing long-term growth and stability.

⁶² There are additional considerations if such meetings are held in person. Under N-Rule 16(c)(i), official travel by Fund staff to a member’s territory shall be undertaken only after consultation with the relevant ED. Therefore, Fund staff will not be able to attend such meetings that are held in the member’s territory (e.g., Kabul in the case of Afghanistan), since relations are paused and consultation with the relevant ED cannot be undertaken. Therefore, such in person meetings can only be attended by Fund staff (pursuant to the guidelines above), if they are held in a third-party member’s territory.

⁶³ Rother et al. (2016).

97. The Fund can assist authorities and partners to determine financing needs for post-conflict construction. For example, staff can take advantage of opportunities to participate in [Recovery and Peacebuilding Assessments](#) (RPBAs) undertaken by the World Bank, UN, and the European Commission to evaluate reconstruction costs and assist governments in planning, prioritizing, and sequencing expenditures and recovery activities in the short and medium-term. These assessments also help ensure that international and national interventions are aligned through a common platform. Leveraging its catalytic role in FCS, Fund analysis could also highlight risks to growth associated with lack of financing, which could reignite social unrest. Depending on the country context, the IMF can also work with partners to organize pledging conferences.

98. Article IV consultations should focus on policy advice to balance short and long-term policy objectives. As in cases where countries are recovering from natural disasters, this is a highly complex task given the political economy and governance challenges. Though the specifics will vary depending on the country context, staff should consider the following issues for policy advice:

- **In the immediate recovery stage:** In the months following a peace accord, public expenditures must cover the minimum needed to run basic government services, maintain a safety net, provide security, and maintain basic infrastructure (e.g., electricity, water, and transportation). In addition, maintaining functional payment systems is essential to ensure the integrity and effectiveness of public spending, but also to facilitate humanitarian relief efforts and reignite commercial activity. Countries should also resume the production and publication of reliable macroeconomic statistics. CD delivery at this stage should focus on increasing revenue collection and improving expenditure management.
- **In the reconstruction stage:** Assuming the country maintains political and social stability, fiscal policy will need to accommodate the higher spending necessary for the reconstruction of physical infrastructure. As external financing flows into the country, good governance is critical to preserve value for money of aid and investment. With Fund CD support, public financial management (PFM) systems must strengthen accountability and reduce corruption risks. Sustainable financial deepening can be an important driver of growth, while financial inclusion facilitated by digital money and fintech can help increase resilience to shocks for the population and the private sector. Fiscal, monetary, and exchange rate policies that foster currency stability will be needed to promote lower inflation, price stability, growth, and investment.

99. Where needed, an IMF-supported program may be a key component to stabilizing the economy, supporting the development of conditions for financial and economic stability and catalyzing donor finance. BoP imbalances often occur during conflicts and can trigger strains and crises, thereby affecting the provision of public goods. In addition to existing guidance on Fund instruments and facilities, staff should follow additional recommendations outlined in **Section IV** on lending, program design and conditionality. **Annex IV** also provides examples of Fund-supported programs tailored to diverse post-conflict contexts in **Solomon Islands** (post 2017), and **South Sudan** (post 2018).

F. External Shocks and Spillovers: Strengthening Resilience

100. Fragility and conflict also create spillovers for neighboring countries. These include the direct economic impacts (including on output, inflation, employment, and trade), as well as indirect economic impacts such as forced displacement and cross-border violence. For instance, forced displacement can generate inflationary pressures due to excess demand from the large refugee population and a limited short-term supply response.⁶⁴ Civil wars can disrupt trade and transportation corridors, while diminishing business confidence and driving up security sector expenditures. Inter-state wars that affect agricultural production and global supply chains can exacerbate food price inflation and energy costs—and therefore the risk of social instability.

101. FCS are particularly vulnerable to external shocks linked to natural disasters and other climate-related risks. Most of the 35 countries considered vulnerable to climate change are FCS.⁶⁵ Greater exposure to such shocks has important macroeconomic effects resulting in lower GDP per capita, higher poverty, and a more volatile revenue base.⁶⁶ In the absence of adaptation measures, these challenges exacerbate fragility and/or conflict risks.

102. The Fund can play a supportive role to boost resilience to shocks and promote inclusive economic growth through policy advice, CD delivery, and programs. Staff should consider the macroeconomic and financial sector impacts related to the following aspects:

- **Forced displacement:** When refugee inflows are significant, Article IV consultations and staff analysis may focus on assessing positive and negative economic impacts. Staff can also help authorities identify policies and structural reforms necessary to respond. Depending on the context, policy advice may recommend addressing impediments for large refugee populations to take part in the labor market and supporting private sector-led job creation, while also promoting formal employment—particularly for women and youth. When appropriate, financing programs can also include a floor on social spending to support education, health, and social protection investments needed to assist refugees, but also host communities. Similar social spending policies can be explored in cases when forced displacement consists primarily of internally displaced persons (IDPs) in the context of inclusive growth policies. Overall, the macroeconomic consequences of displacement will have to be addressed while also taking into account the needs of the host population. The Fund’s work in Colombia and Jordan (**Annex IV**) shows how the IMF can support non-FCS affected by refugee flows along these lines.
- **Fiscal implications of insecurity:** When violence spreads across borders, public finances can come under pressure from higher security spending needs and lower tax collection. Fiscal pressures may risk over-indebtedness, crowding out of social and development spending, and macroeconomic instability. Through policy advice, staff can explore with authorities and partners issues such as: (i) assessing the loss of economic output to insecurity and the impact of

⁶⁴ Chami, Espinoza, Montiel (2021). *Macroeconomic Policy in Fragile States*. Oxford: Oxford University Press.

⁶⁵ Notre Dame Global Adaptation Initiative (2019).

⁶⁶ See IMF (2016). [Small States Resilience to Natural Disasters and Climate Change – Role of the IMF](#). International Monetary Fund, Washington, DC.

additional security expenditures on fiscal space; (ii) creating fiscal space and raising spending quality to safeguard macroeconomic stability and protect space for essential development expenditures; and (iii) policy coordination with neighboring countries. For instance, in 2019, the Fund’s ECF program in Mali created fiscal space to safeguard social and infrastructure spending, while accommodating security expenditures and preserving macroeconomic stability.⁶⁷

- **Food insecurity:** Given the potential of food insecurity to exacerbate fragility and/or conflict risks, the Fund can support well-coordinated actions by the international community to relieve the burden on the most vulnerable countries. As per the [IFI Action Plan to Address Food Insecurity](#), these actions aim at maintaining open trade, support vulnerable households, ensure sufficient agricultural supply, and address financing pressures. Staff can monitor the impact of higher food prices on external balances and public debt burdens to identify the countries with the most pressing financing pressures. Tailored policy advice to country authorities can focus on measures to improve social safety nets that help protect vulnerable households. When feasible and depending on the country context, Fund lending can provide assistance to address BoP needs faced by countries due to higher energy and food prices and catalyze concessional support from development partners.
- **Natural Disasters and Climate Risks:** The Fund has set up the [Resilience and Sustainability Trust](#) (RST), which will provide longer-term affordable financing to address structural challenges such as climate change and pandemic preparedness. The RST is a potential additional source of financing for eligible FCS, conditional on an on-track UCT-quality program and strong set of reforms.⁶⁸

103. In addition, staff should invest in efforts that can maximize greater coherence of action among partners. MDBs or UN agencies have expertise and on the ground staff to support the assessment of security and economic linkages that can cause spillovers from shocks in FCS in neighboring countries. Mission Chiefs and Resident Representatives should liaise with relevant humanitarian, development, and peace actors. They should also discuss the impacts of fragility and conflict spillovers with IMF teams of neighboring countries. For example, in **Colombia**, Fund staff cooperated with the UN High Commissioner for Refugees (UNHCR), Inter-American Development Bank, and the World Bank to quantify the potential macroeconomic impact of migration and forced displacement from Venezuela based on shared analysis (see **Annex IV**).

SECTION VI: LEVERAGING PARTNERS IN FCS

Strengthening partnerships with humanitarian, development, and peace actors is a core principle of engagement adopted by the FCS Strategy. In line with Fund’s mandate, its role as a trusted advisor to authorities, and the comparative advantage of other institutions, staff should develop partnerships that

⁶⁷ See IMF (2019), “[Mali: Supporting Growth in the Face of Security Challenges.](#)” IMF Country Focus. Fund analysis showed that Mali had lost more than 20 percent of its GDP to insecurity.

⁶⁸ The Operational Guidance Note on the RST is forthcoming in 2023. Based on early experience from the pilot phase, policies supported by the RST include both mitigation and adaptation measures. PFM-related measures to improve transparency and accountability and incorporate climate considerations in public spending; and disaster risk management and financing policies may be of particular interest to FCS.

bring added value to Fund activities in FCS. This section provides guidance on: (i) seeking opportunities for meaningful partnerships; (ii) expanding the range of partners; and (iii) enhancing reciprocity with other actors. Country examples are included in Annex IV.

A. Seeking Opportunities for Partnerships

104. Mission-driven partnerships are essential to amplify the Fund’s impact in FCS. While partnerships are important in many Fund engagements, the various facets of fragility and conflict make them critical to strengthening the Fund’s effectiveness in FCS. Strategic partnerships with humanitarian, development, and peace actors—who are often the lead providers of support to FCS—can help generate stronger country ownership of reforms, build momentum, and enhance the outcomes and traction of Fund core activities.

105. The preparation of the Expanded CES is an opportunity for stakeholder engagement (Annex II), drawing on the identified key drivers of fragility and/or conflict. This is especially relevant for the World Bank, whose RRAs and other diagnostics, as well as broader footprint in FCS can provide Fund staff with valuable insights into the country context. Critical areas of potential thematic collaboration are outlined in the FCS Strategy⁶⁹ and include forced displacement, food security, peace and security, climate change, gender and inclusion, as well as digitalization.

106. Staff should be aware of potential risks and limitations of enhancing partnerships. For instance, engagement with partners may raise expectations of what the Fund can provide. Staff should handle closer exchanges with partners carefully. Balancing expectations applies particularly to elements of strengthening reciprocity, donor platforms, and messaging. Overall, staff need to ensure that the Fund’s role as a trusted advisor to authorities is not impeded.

Enhancing Donor Coordination

107. When institutional capacity is limited, close donor coordination can help FCS make progress on Fund-supported programs and broader development outcomes. While partners such as the World Bank, MDBs, and the UN are usually leading efforts to support FCS, the Fund can play an important role in coordination between the authorities and donors in its areas of core expertise, including in the use of trust funds on specific topics for technical assistance supported by donor financing. While mindful of the Fund’s role as a trusted advisor to authorities, Mission Chiefs, Resident Representatives, and RCDC/RTAC directors should explore opportunities to participate in (or possibly lead) such coordination efforts, provided this adds value to the Fund’s engagement (see examples on Guinea Bissau and DR Congo in **Annex III**).

108. Improved donor coordination is especially important to increase efficiency of CD delivery and ease burdens on authorities.⁷⁰ To strengthen effective collaboration with other donors, staff should aim to reach broad agreements among partners on the objectives, tasks, and

⁶⁹ See FCS Strategy, para. 95 for detailed overview of thematic areas of cooperation, including examples.

⁷⁰ See [2018 Review of the Fund's Capacity Development Strategy](#), p.34

responsibilities of each provider.⁷¹ Where relevant, resident CD advisors can be appointed to monitor CD engagements and ensure closer dialogue with other CD providers. Effective CD coordination also requires a mapping of CD provision by the main CD providers in each FCS.

109. Staff should seek value-adding opportunities for IMF-led donor coordination based on mandate and areas of core expertise. While the Fund may not always assume the role of lead coordinator, it can play a catalytic role through its financing and the establishment of a consistent macroeconomic framework. Where appropriate, Resident Representatives should actively promote setting-up donor coordination groups. Issues to focus on include:

- **Ensuring a shared understanding among donors and country authorities of fragility and/or conflict challenges that are relevant for economic stability and growth.** When possible, assessments of the macro-critical implications of fragility and/or conflict drivers should be communicated and agreed upon with partners.
- **Helping to keep donor engagement focused, including by prioritizing key objectives of Fund activities, while working closely with country authorities.** Where feasible, staff may explore the use of common conditionality matrices, which target a limited set of complementary reforms supported by the country's development partners. To the extent possible, staff should ensure there are no overlaps between CD projects provided by the Fund and those funded by other donors. Where feasible, opportunities for joint CD delivery with specialized bilateral donor agencies should be explored. In addition, the results of Fund CD missions should be disseminated with partners.
- **Discussing countries' financing needs.** It is helpful to remain updated on donors' financing commitments—also outside program relationships—in relevant areas pertaining to the Fund's engagement in FCS, and where possible try to clarify where financing is on or off-budget.
- **Working with donors and sector-specific partners to help quantify financing implications of the identified reforms.** Wherever possible, these assessments could be incorporated into the authorities' budget and the Fund's macroeconomic framework.
- **Engaging with donors on the use of budget support as an important and flexible mode of delivery of donor assistance.** In countries that already have multi-donor trust funds (MDTFs) in place or where the establishment of MDTFs is under consideration (at the World Bank, other IFIs, or bilateral donors), Fund staff should strive to remain fully informed of the process and study the opportunity for a donor budget support window that could link to Fund engagement.

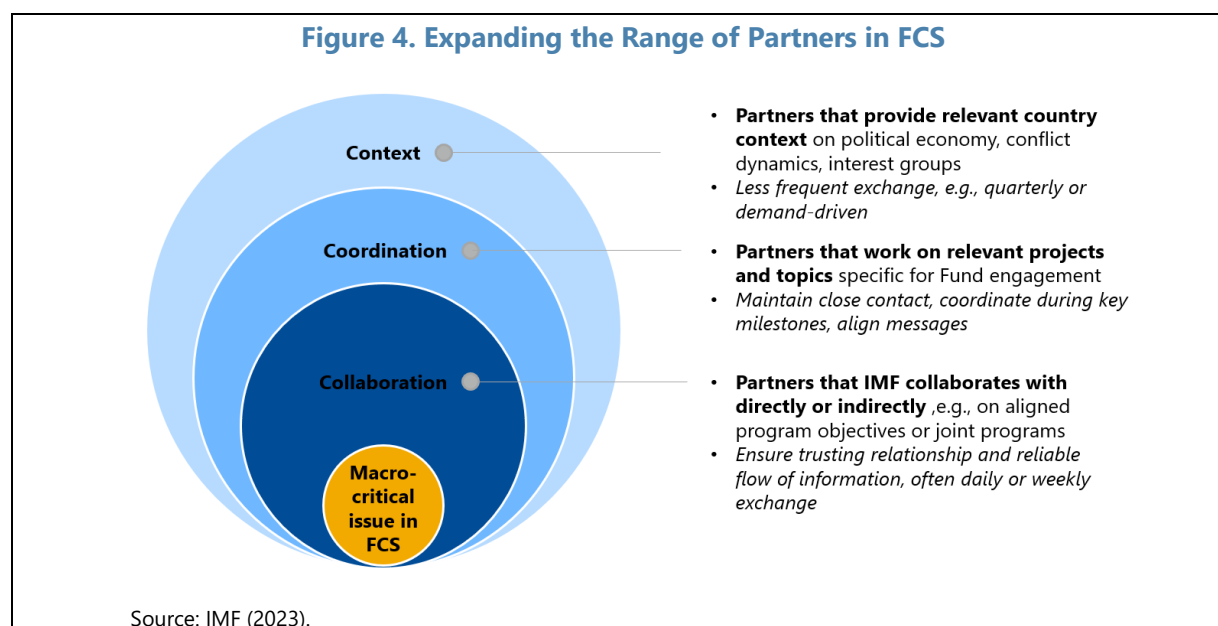
B. Expanding the Range of Partners

110. Addressing the country-specific manifestations of fragility and/or conflict may require staff to diversify their engagement with institutions and actors that have complementary expertise to the Fund. Staff should therefore adopt a targeted approach that is focused on the key

⁷¹ See [Background Paper: The IMF and Capacity Development—Coordination and Collaboration with Partners](#), International Monetary Fund, Washington, DC, p.18.

topics of Fund engagement in FCS and assess the benefits and risks of a broader network of partners to help advance Fund goals (**Figure 4**). Strategically expanding partnerships may entail:

- **Identifying the potential for new partners.** This can be done by examining: (i) the actors that can provide relevant contextual information; (ii) the partners that work on related projects or topics but who may not closely align with Fund activities; and (iii) the actors with whom the Fund can collaborate more closely, share data, and potentially align core messages.
- **Building relationships with new partners:** Staff should explore additional activities that can enhance the understanding of Fund activities and engagement in the country. Staff can also ask for briefings by partners to better understand their level of engagement to identify areas of cooperation and its limits.
- **Tailoring engagement to priorities and resources:** Resident Representatives and long-term experts (when present) should seek to meet key stakeholders regularly but are encouraged to adjust frequency and intensity of contacts depending on priorities. Standing dialogues in the country can help increase efficiency when time and resources are constrained.⁷²
- **Mapping stakeholders regularly:** Country teams should develop appropriate tools to map key actors and ensure consistency in Fund relations over time. Resident Representatives should include a focus on the range of relevant partners in their handovers for staff transitions. Staff can work with COM to develop outreach strategies using well-established networks and channels, including traditional media and social media.



⁷² See the 2014 [Revised Operational Guidance to Staff on Conditionality](#).

111. Staff are also encouraged to explore strengthening outreach to key bilateral donors.

They tend to be represented in-country either through development agencies and/or embassies. Significant bilateral donors in FCS provide development and peacebuilding funding and maintain close relationships with authorities. They are also valuable sources of information on sources of fragility and conflict, as well as constraints to reform.

112. Multilateral Development Banks and other international organizations are among the key partners in FCS.⁷³ MDBs are actively working in FCS and can provide operationally relevant

sectoral expertise and regional knowledge on fragility and conflict drivers. The European Commission is also present on the ground in many FCS, supporting authorities on issues as diverse as responding to climate change, forced displacement, security sector reform. Staff are encouraged to build trusted relationships with these actors strengthen cooperation, as appropriate.

The World Bank

113. The World Bank is typically one of the main partners of the Fund in FCS. The Fund's FCS Strategy and the World Bank's [Strategy for Fragility, Conflict, and Violence 2020-2025](#) share common principles that staff can capitalize on. These include: (i) tailoring engagement to the country-specific manifestations of fragility and conflict; (ii) building institutions and systems that can deliver inclusive growth; and (iii) strengthening dialogue with country authorities and partners.

114. Staff are encouraged to actively consult and integrate, where appropriate, World Bank analytics and advisory services (ASAs) to inform the Fund's engagement in FCS. Collaboration should be within the framework of the 2022 [Guidance Note on Information Sharing between IMF and World Bank Staff](#). Bank expertise on structural reforms is especially important to support developing tailored and parsimonious conditionality, including on social safety nets, subsidies, labor markets, public procurement, and distributional analysis. The Bank has also developed expertise on other macro-critical issues such as the impact of climate change, inclusion and gender, private sector development and jobs, and public sector governance, security sector public expenditure reviews. Risk and Resilience Assessments (RRAs), which assess drivers of fragility and conflict are particularly relevant for the Fund's engagement, in addition to [Recovery and Peacebuilding Assessments \(RPBAs\)](#) implemented with the UN and European Commission and forced displacement analytics.

115. Fund staff should also seek to strengthen the operational dialogue with the Bank to ensure greater complementarity of financial and non-financial engagements. Subject to the [Guidance Note on Information Sharing between IMF and World Bank Staff](#), staff from the two institutions should discuss the overall strategy to help the country transition out of fragility, including program design and CD needs. Coordination of CD planning and delivery are especially important in FCS, where flexibility and synergies are essential to react to changing local circumstances. Engagement on issues such as public debt follows existing guidance, such as the

⁷³ These include African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), and Islamic Development Bank (IsDB).

[2018 Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries](#) and the [IMF-WB Multipronged Approach to Address Debt Vulnerabilities](#).

116. Staff should collaborate with the World Bank when prioritizing reforms and identifying quick wins that can be integrated into Fund-supported programs, where possible.

The preparation of the CES is a good opportunity to strengthen dialogue on factors that can shape the outcomes of Fund-supported programs, such as the political process, the role of institutions in shaping political and economic competition, and social inclusion. Mission Chiefs and Resident Representatives should strive to gain an understanding of the political situation and social context and exchange views with the Bank informally.

The UN System

117. The UN is a key partner for the Fund in FCS, especially in conflict settings. At country-level, Resident Representatives with support from local economists should actively engage with the UN Resident Coordinator (RC). The RC should be the first contact and typically is the most senior official of the UN Development System in a country.⁷⁴ RCs facilitate the coordinated engagement of the UN with strategic partners and often act as convener of donor coordination mechanisms. UN agencies such as the United Nations Development Program (UNDP), World Food Program (WFP), UNHCR, the United Nations Children's Fund (UNICEF), and UN Environmental Program (UNEP) can provide valuable analytics on issues such as food security, social spending, forced displacement, humanitarian emergencies. Engaging with peacekeeping missions and the UN Department of Peace Operations (DPO) and can shed light on the evolution of key security trends.

118. When feasible, opportunities for partnership can also be explored at regional and HQ levels. Relevant UN bodies include regional economic commissions, development coordination offices, and regional headquarters of UN agencies. Special Political Missions provide a forward platform for preventive diplomacy and other activities across a range of disciplines, helping prevent and resolve conflict through regional strategies. At headquarters, different elements of the UN Secretariat engage regularly with their IMF counterparts, including the Development Coordination Office and the Department of Political and Peacebuilding Affairs (DPPA) and the Peacebuilding Support Office (PBSO).

Civil Society Organizations, Think Tanks, and Academia

119. CSOs but also local think tanks and academia, can be critical partners for gaining contextual insight on the political economy and societal dynamics in FCS. Building on the 2015 [Guidelines on the IMF Staff Engagement with Civil Society Organizations](#), CSOs can contribute to constructive public debate on policy options that can help build a greater understanding of

⁷⁴ The UN Resident Coordinator does not represent any specific UN agency but rather the UN Development System as a whole. When acting as a designated official, the RC has a direct reporting line to the UN Secretary-General. The RC leads the UNCT, which is comprised of the country directors/representatives of all UNCT entities operational in the country (including UN entities with no physical presence in-country, but with ongoing programmes. The RC may also serve as the Humanitarian Coordinator (HC).

IMF-backed measures, promote citizen oversight by engaging various constituencies, and enhance IMF accountability and legitimacy through a more transparent dialogue. Service-providing CSOs or local academic institutions and think tanks may have relevant survey and household level data that can help contextualize or support Fund policy advice and improve decision-making.

120. Staff should seek to support authorities in broadening support for sound policies. As per the 2014 [Revised Operational Guidance to Staff on Conditionality](#), in program engagements, staff should support the authorities' efforts to engage in a transparent participatory process in developing a policy framework. Staff should be prepared to assist the authorities, including by giving seminars, providing training to officials, and meeting with various interest or political groups (parliamentary committees, business groups, and CSOs).

121. When engaging with CSOs and other non-traditional partners, staff should be aware of the authorities' views on staff contact with domestic groups and follow the 2015 [Guidelines on the IMF Staff Engagement with Civil Society Organizations](#). Resident Representatives (and local economists) should lead on guiding the best way to engage with CSOs at the country level. COM can provide useful support on engagement with CSOs.

C. Strengthening Reciprocity with Partners

122. Depending on country context and feasibility, staff should explore entry points to strengthen reciprocity with partners. Reciprocity is vital to build trust and maintain robust relationships, with due regard for the Fund's obligations as a trusted advisor to authorities. For instance, to strengthen reciprocity staff could: (i) facilitate knowledge exchanges and briefings for key audiences, thereby shaping the policy debate; (ii) maintain regular contact with partners, including during Management and Mission Chief visits; and (iii) support partner messages, if these are consistent with the Fund's mandate and the objectives of Fund-supported programs. In programs, **Table 4** outlines entry-points of mutually beneficial exchange through consultations.

Table 4. Entry-Points for Enhanced Partnerships in Fund-Supported Programs in FCS

Pre-Mission	During Mission	Post-Mission
<ul style="list-style-type: none"> • Early consultations: Conduct targeted consultations with stakeholders to assess implications on fragility drivers, social cohesion and political economy dynamics of the instruments that are under consideration. • Policy Note: Provide details of coordination in the areas of overlap, including a clear delineation of analytical responsibilities (in line with the lead agency principle.); If applicable, update with information from CES. 	<ul style="list-style-type: none"> • While in the field: Missions should coordinate closely with other multilaterals, donors, and experts both to understand the political and social context, and to formulate an aligned reform agenda that better considers the financial and social implications of reforms. 	<ul style="list-style-type: none"> • Back-to-Office Report (BTO): The BTO should highlight any developments with respect to the strategy, including program design and issues related to fragility, political developments, and donor coordination. • Staff Report: Mention, where relevant, coordinated partnerships and aligned interventions on sectoral issues (e.g., as Box or weblinks to publications by partners). • Lessons learned: Share best practices with partners.

Source: IMF (2022).

SECTION VII: FCS STAFF DEVELOPMENT

This section provides guidance to help staff navigate the shift towards an enhanced footprint in FCS. In line with the FCS Strategy, the Fund's field presence will gradually increase through the addition of local economists, Resident Representatives, and resident advisors for CD delivery. Staff skills will be strengthened through a dedicated FCS learning curriculum and FCS Community of Practice.

A. Enhanced Role of Country Teams

123. Given the multiplicity of challenges in FCS, staff must adapt to an intensive engagement with country authorities. The coordinated delegation of tasks and responsibilities can create efficiency gains in such challenging contexts. Country teams are thus encouraged to optimize the roles of newly added and existing team members. More specifically:

- **Mission Chiefs:** Mission Chiefs in FCS will lead the CES preparation, with inputs from Resident Representatives, local economists, and Functional Departments. For the Expanded CES that will remain an internal document (see **Section III**), this process requires familiarity with fragility and conflict drivers, and their associated constraints to policy implementation, as well as dialogue with partners who can provide data and insights. Mission Chiefs can decide how to best engage

authorities during the preparation of the Expanded CES, taking into account factors such as the commitment to reform, the potential for traction, and team resources. Mission Chiefs should also lead consultations with Functional Departments in preparing the Expanded CES and should actively solicit input from local economists. Lastly, Mission Chiefs should ensure that the main elements of the CES are discussed with authorities during Article IV consultations and/or program reviews, thereby informing Fund engagement across all activities.

- **Resident Representatives:** As per the FCS Strategy, Resident Representatives reporting to the Mission Chiefs are expected to assume an enhanced role in FCS.⁷⁵ They play an important role in ensuring that Fund engagement on the ground is informed by CES findings, maintaining close contact with the Mission Chief, authorities, and relevant partners. Building on existing staff guidance,⁷⁶ this includes: (i) liaising with national counterparts; (ii) bringing in political economy considerations; and (iii) coordination with humanitarian, development, and peace partners. Furthermore, Resident Representatives should play a key role in CD delivery, the design of realistic and implementable CD projects, and strengthening country ownership. They are also encouraged to actively facilitate knowledge exchanges with HQ and other country teams, including on challenges faced by country authorities to help shape Fund policies and practices. This role is relevant for program and policy discussions with the country authorities. It is good practice to have Resident Representatives join all milestone meetings of Fund activities (e.g., Policy Consultation Meetings, strategy, or review meetings) to provide clarifications and information related to the country's drivers of fragility and/or conflict.
- **Local economists:** They can provide effective support on strategic partnerships and donor coordination that advance the Fund's objectives, as well as country-specific knowledge that can be highly beneficial to include in the prioritization and sequencing of Fund activities. The country office should explore enhanced tasks for local economists, with a focus dedicated to monitoring and analyzing the critical challenges pertaining to fragility and/or conflict and increasing the Fund's network of partners.
- **Capacity Development:** CD missions should regularly check in with country teams through debriefing sessions and include the Resident Representatives during field visits. During these meetings, the country team is expected to draw the attention of the CD missions to the local manifestations of fragility and/or conflict, and their potential impact on the planned CD activities (e.g., limited absorptive capacity), and to clarify how the CD activities can participate to addressing some of the identified fragilities. The FCS Strategy provides for the allocation of 30 additional LTX to FCS, but in cases where local circumstances make residency difficult, Area and CD Departments may explore the deployment of peripatetic experts engaging both on and off-site. Potential advantages include: (i) flexibility to adjust to evolving circumstances (e.g., changes in traction, limited windows of opportunity for on-site visits); (ii) a potentially larger pool of available experts; (iii) complementarity with RCDC resident advisors; and (iv) cost efficiency.

⁷⁵ See *IMF Strategy for Fragile and Conflict Affected States (FCS)*, p. 43.

⁷⁶ See the 2022 *Guidelines on Management of the AFR Resident Representatives Program*.

124. Country teams should be supported by stepped-up safety and security for staff.⁷⁷ Staff working in and traveling to FCS classified as high-risk locations (HRLs) are required to successfully complete four security courses before or at the beginning of their assignments. Staff are also provided with in-country security support in FCS, which follows the Fund's general overseas security support structure and uses that of partners and will receive support from dedicated Local Security Coordinators (LSCs).

125. Administrative support: Services such as overseas real estate, information technology systems, language, and security will need to align with the operational priorities set forth by the FCS Strategy. Implementing departments should consult closely and in a timely manner with the Corporate Services and Facilities (CSF) and Information Technology (ITD) departments to allow for an adequate equipment and outfit of working spaces and corresponding services.

B. Staff Learning

126. A dedicated FCS learning curriculum will be developed in FY23 to support staff in implementing the key measures of the FCS Strategy. This includes CES preparation, issues pertaining to program design and conditionality, and strategically enhancing partnerships with humanitarian, development, and peace actors in FCS. The design and different elements of the curriculum will be periodically updated to reflect lessons learned from staff experience and respond to staff needs as they emerge. The curriculum will be part of the Internal Economics Training (IET) and a new FCS Seminar Series that will be offered regularly by ICD.

127. All staff are strongly encouraged to participate in the ongoing FCS Community of Practice. The initiative will accelerate the dissemination of knowledge and best practices, capturing key lessons learned that can be unique to FCS contexts. It will also serve as a forum for staff to discuss FCS-specific challenges and enhance the visibility of their FCS work. The objective is to facilitate a space for networking, problem-solving, and learning for staff working in or on FCS within and across departments. Key activities which have already started include seminars offered in partnership with the IET program, peer-to-peer meetings through practice-oriented workshops, presentations from partners working in FCS, and the development of a staff-driven FCS knowledge depository on the intranet.

⁷⁷ The Fund's *Security and Business Accountability Framework* lays out the security-related roles and responsibilities of all Fund employees.

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Annex I. Expanded CES: Key Issues to Be Covered

This annex provides country teams with guidance on the topics that may be assessed in the Expanded CES. The scope, depth, and length of the report will vary according to the country context—while a common structure for CES is encouraged, Area Department teams may adapt this framework and its application to reflect the country-specific manifestations of fragility and/or conflict. The approximately 3-page summary that will undergo formal interdepartmental review may also follow this framework.

Issue 1: Fragility and Conflict Drivers

1. The Expanded CES should start with an analysis of the most salient fragility and/or conflict drivers. Depending on country circumstances, these may include political, social, economic, financial, governance weaknesses environmental, and security sector issues. There is no universal methodology to assess fragility and conflict, and other institutions—such as the [OECD](#), the [Fund for Peace](#), and the [Commission on State Fragility, Growth, and Development](#)—have developed useful frameworks. Staff are encouraged to do their own research and organize the length and depth of this section as they best see fit.

2. The World Bank’s Risk and Resilience Assessments (RRAs) are highly relevant for the Fund because they are written from the perspective of an international financial institution.

The RRA is a multidisciplinary analysis of fragility and conflict drivers focused on four main areas: (i) political economy and governance; (ii) land, natural resources, and climate-related risks; (iii) the quality of public service delivery; and (iv) security and justice. RRAs also provide recommendations on how to address drivers of fragility, support resilience, and seize opportunities for prevention through World Bank engagements in FCS. Fund staff are encouraged to build their analysis of fragility and/or conflict on the RRA findings. More specifically:

- **Access to the RRAs is governed by the [Guidance Note on Information Sharing between IMF and World Bank Staff](#).** The request to obtain an RRA should be initiated by the Mission Chief through either the World Bank Country Manager (or Country Director) or the Practice Manager (or Senior Director) of the Bank’s [Fragility, Conflict and Violence Group](#). The confidentiality status of RRAs may place restrictions on who can access the reports but should not interfere the sharing process.
- **Discussions on RRAs are a good opportunity for Fund and World Bank staff to conduct informal brainstorming sessions.** As a matter of good practice, Fund staff at HQ but also in-country should reach out to Bank colleagues and exchange views on fragility drivers. Resident Representatives can play critical role to facilitate these discussions. Dialogue with the World Bank can be especially beneficial when the Bank is part of multi-donor arrangements and can also convey perspectives of bilateral partners.
- **RRAs also identify sources of resilience.** These may be informative for Fund staff in designing CD support efforts that help to progressively build macroeconomic policy institutions in FCS.

Issue 2: Constraints to Reform Implementation

3. The report can briefly articulate the constraints to reform and policy challenges associated with fragility and conflict. Specific situations will vary, but constraints to reform may include the instability of bargains needed to implement new policies (including passing legislation), governance and anti-corruption challenges (see **Annex II**), limited human capital and institutional capacity (e.g., fiscal institutions and the central bank), as well as ongoing conflict in some cases.

4. Staff can draw on the [2021 Comprehensive Surveillance Review—Ensuring Economic Sustainability Background Paper](#) for examples of how socio-political factors influence balance of payments (BoP) needs or economic stability. Socio-political factors such as domestic political systems and social movements can affect sustainability. Understanding the socio-political context is therefore crucial to the scope and realization of reforms. Fraying social contracts between government and the population, growing dissatisfaction with limited voice and accountability, and declines of living standards can become drivers of instability and conflict.

5. The Expanded CES can also reflect specific issues that may undermine the pace and scope of reform efforts. These may include: (i) past failed reform efforts or reform reversals that may be relevant for the implementation of current reform priorities (e.g., subsidy reforms, exchange rate flexibility); (ii) capacity constraints—e.g., lack of sufficient staff, lack of adequately trained staff, high turnover, lack of adequate information systems; and (iii) political economy dynamics, governance weaknesses, and the extent and nature of corruption.

Issue 3: Macroeconomic and Financial Sector Policies to Escape Fragility

6. The report should outline in broad, strategic terms, the staff’s high-level view of the macroeconomic and financial sector policies needed for a country to escape fragility and/or conflict and progressively build stronger institutions. Depending on the country context and subject to staff judgment, the Expanded CES may include high-level recommendations such as:

- **Fiscal policy may need to preserve fiscal sustainability and protect development and social spending.** This usually requires revenue mobilization, strengthening fiscal governance, and boosting the level and effectiveness of pro-growth and pro-poor spending—including to finance infrastructure that could facilitate trade integration. In many FCS, strengthening social protection by creating fiscal space for social safety nets may help ensure a more equitable sharing of growth dividends and enhance resilience to shocks. Inclusive fiscal policy reforms can strengthen resilience and address challenges of social cohesion and inequality.
- **Monetary and financial sector reforms may need to strengthen the central bank’s capacity to effectively carry out monetary policy and the resilience of the banking sector.** This requires addressing central bank operations including cash currency and reserve management, liquidity management, and foreign currency management, as well as weak banks, reforming state-owned banks, and promoting strong oversight of payments. Developing capacity for supervising and regulating the banking sector and the relevant non-bank financial intermediaries is also important. AML/CFT supervision of the financial sector should focus on compliance with preventative measures and customer due diligence, in particular for politically exposed persons

and beneficial ownership to properly mitigate the risk of outgoing illicit financial flows emanating from various financial crimes and the impact of targeted financial sanctions.

- **Governance reforms are essential to improve transparency and the effectiveness of key state functions (Annex II).** Beyond reforms in fiscal and financial sector oversight, this may also require the operationalization of anti-corruption and the anti-money laundering regimes, boosting asset declaration systems, and improving the business environment and institutions.

7. The report can also be tailored to highlight the macroeconomic challenges that must be overcome to exit fragility. For instance, measures that improve economic efficiency for growth are particularly relevant in low-income FCS with high levels of poverty and insufficient aggregate income for redistributive policies and social protection. Structural reforms that improve growth and employment are especially relevant, such those in health, education, taxation, and critical infrastructure. Depending on the level of ambition and resources, the report may also explore the impact of sound macroeconomic policies on reducing fragility risks.

Issue 4: An Overview of CD Priorities

8. The Expanded CES lays out the CD strategy and therefore set priorities for CD in an FCS. The document can follow the principles of the *Staff Guidelines on Capacity Development Country Strategy Notes (CD-CSNs)* and the *Operational Guidelines for Integrating CD with Surveillance and Lending*. In particular, the focus will be on the following elements:

- **Identifying a limited number of top CD priorities, including the specific objectives targeted and proposed sequencing.** Priorities should be discussed with country authorities and their input reflected in the Expanded CES. No commitments would be made in these discussions, but they would help to ensure that the strategy reflects country needs; any significant difference between staff and authorities' views should be discussed in the CES (i.e., the 3-page summary undergoing review). Even when capacity gaps are vast, efforts to prioritize are needed given absorptive capacity constraints. In the early stages of engagement, focusing on quick wins in high impact areas may contribute to building traction and the absorption capacity needed to engage in more demanding reforms at later stages.
- **A candid discussion of the ability of relevant institutions to absorb and implement CD.** In the most severe stages of fragility and/or conflict, the approach for working with the authorities to achieve meaningful buy-in at the right levels of government agencies may require enhanced efforts, as capacity is gradually built.
- **A clear identification of areas where other development partners are active, indicating efforts to reduce the risk of duplication vis-à-vis these partners' activities.** The partner consultations undertaken to prepare the Expanded CES should inform CD prioritization. When CD delivery is off-site due to security reasons, collaboration with development partners whose staff are on the ground in FCS can mitigate the shortfalls of offsite delivery (e.g., difficulty in understanding the situation on the ground, in providing hands-on assistance, and in delivering follow-up activities needed to consolidate impact). In addition to the authorities, the Area Department teams should coordinate closely with the relevant CD departments and RCDCs to enable proper timing and effective sequencing of CD engagement.

9. A separate CD Country Strategy Note (CD-CSN) is not required if the Expanded CES and CES are in place. As indicated by the *Staff Guidelines on Capacity Development Country Strategy Notes*, CD-CSNs are required for heavy CD users and encouraged for all countries using Fund CD. However, they must be stand-alone documents only when they are not incorporated into broader strategies, such as the Expanded CES and the CES (approved through the review process). In cases where a stand-alone CD-CSN had already been prepared, it will be sufficient to incorporate its underlying strategy, updated as necessary, into the Expanded CES according to the elements listed above. The CD-CSN would then no longer be required.

Issue 5: Engagement with Stakeholders

10. Staff are encouraged to consult with partners during the preparation of the Expanded CES, especially on macro-critical issues that may fall outside the purview of Fund expertise. The World Bank, MDBs, the UN, bilateral donors, can provide helpful insights (see **Section VI**).

- **Beyond traditional partners, the Expanded CES can draw on engagement with CSOs, the private sector, members of parliament, experts and former policymakers.** Staff may seek perspectives from these actors, e.g., through presentations and informal discussions that aim to gain a greater understanding of fragility and conflict. The Resident Representative should play a critical role in identifying opportunities for meaningful dialogue. Staff can also engage with the Communications Department to devise tailored strategies for stakeholder engagement, especially with regard to CSOs.
- **Staff should exercise judgment in determining the appropriate level of information disclosed.** Inter alia, key criteria to consider include the type of interlocutor, the specific stage of the Expanded CES preparation, the type of meetings (e.g., informal discussion vs. public event), the amount of detail sufficient to generate meaningful exchanges, and the Fund's role as a trusted advisor to authorities. Non-public information cannot be shared without the consent of the information provider. Only the official CES can be shared with partners.
- **Based on these exchanges, the Expanded CES may contain a succinct assessment of the scope of partnerships that can help advance the Fund's objectives.** This assessment will outline opportunities to (i) promote information sharing on issues that may affect macro-critical reforms and complementarities on CD; and (ii) advance the understanding of fragility and conflict risks to help tailor engagement and maximize the impact of Fund support.

Issue 6: Risks to Fund Engagement

11. The Expanded CES can identify risks to Fund engagement for a period of 3 years. These may include risks associated with active conflict and crises, where activities can come to an abrupt halt due to political instability or the collapse of tenuous peace processes. External economic conditions may induce shocks that could generate social unrest and interrupt support to authorities. The frequent turnover of high-level officials in FCS and weak institutional and technical capacity may slow the pace of economic reforms. Staff are encouraged to draw on existing institutional resources such as Enterprise Risk Management (ERM) tools—e.g., the Document Risk Self-Assessment Table—and build relationships with partners who can provide deeper insights into political and social issues.

Annex II. Addressing Governance and Corruption Challenges in FCS

The [2018 Framework for Enhanced Fund Engagement on Governance](#) calls for Fund staff to address macro-critical governance and corruption issues with candor, evenhandedness, and effective policy advice. In addition, the FCS Strategy identifies corruption and poor governance as a key driver of fragility and institutional weakness.¹ For many FCS teams, it will be critical to weave a governance and anti-corruption perspective into the Country Engagement Strategy, as well as in surveillance, CD support, and programs. This annex provides guidance to country teams on how to take up these tasks.

A. Assessing and Addressing Governance and Corruption Issues

1. **The 2018 Framework should continue to guide the identification of governance vulnerabilities.** For each member, a centralized process systematically identifies the severity of corruption and core state functions that may display governance vulnerabilities that warrant discussion with authorities. These include: (i) AML/CFT; (ii) central bank governance; (iii) financial sector oversight; (iv) fiscal governance; (v) market regulation; and (vi) rule of law. The process is led by a cross-departmental working group and results are approved by management.
2. **Country teams are expected to incorporate the results of these assessments into their work.** In Article IV consultations, teams should cover identified governance and corruption vulnerabilities in depth by providing a clear diagnosis of vulnerabilities and recommending concrete and actionable policy measures to reduce them at some point during a medium-term surveillance cycle.² The results of these assessments should inform the decision on how the six state functions and/or corruption should feed into the CES and inform any Fund-supported program and CD work.
3. **Resources are available to assist teams in developing strategies and policy recommendations to address identified governance vulnerabilities.** Specifically:
 - **Brainstorming sessions.** If corruption risks are high and a well-defined governance reform agenda does not already exist, country teams are encouraged to request a governance brainstorming session with experts from Functional Departments and relevant development partners, as needed, to discuss key governance and corruption issues and plan how best to address them in the team's work.
 - **Governance diagnostics.** Country authorities can also request a governance diagnostic mission. These missions, which have been co-led by FAD and LEG, are subject to resource availability and

¹ For the vast majority of FCS, governance and corruption issues are macro-critical constraints on development and barriers to escaping fragility. In these countries, low levels of institutional competency are found alongside high levels of entrenched interests in the creation and implementation of state policies and procedures. The weakness of formal systems for adjudicating disputes and the perceived lack of integrity of courts serve as added constraints on movement to rule-based governance. In a subset of those countries, peace and stability are founded on the distribution of corruption rents, complicating the applicability of classical models of corruption as being a symptom of poor governance. In both cases, it is not possible to achieve the Fund's objectives and support the establishment of stable and inclusive economies without confronting corruption and governance issues.

² See Box 13 of the [Guidance Note for Surveillance Under Article IV Consultations](#) for further discussion.

typically comprise staff from other relevant Functional Departments (e.g., MCM and FIN). They produce in-depth, country-tailored assessments of corruption and governance vulnerabilities that draw heavily on local knowledge and expertise and provide a prioritized and sequenced set of measures to address these vulnerabilities. In FCS, seven governance diagnostic reports have been completed as of September 2022 and most of them are published.³

- **Strategies for managing and mitigating corruption in FCS.** For selected FCS, at the request of country teams, LEG can elaborate on the understanding of networks of corruption to develop a longer-term view on how to move towards a governance equilibrium conducive of sustainable growth. This internal strategy document, which is not expected to require a mission, would aim to set out themes and core objectives to address corruption, with a view to informing the Fund's efforts in this area over an extended period (5–10 years). Strategies would be produced as resources allow, prioritizing those countries for which corruption is severe and foundational to existing governance arrangements—i.e., where the allocation of rents to different groups and factions is a key basis for state authority and stability. These strategies would aim to take account of the nature of vested interests, the patterns and distribution of corruption networks, the extent of elite capture of institutions, behavioral and institutional incentives, and the nature of civic space, with a view to outlining possible avenues to change the governance dynamic and escape from fragility. The strategies would aim to consolidate reform efforts along multiple dimensions and leverage foreign law enforcement of acts of corruption while domestic capacity strengthens. Strategies will be elaborated in close collaboration with country teams and Functional Departments. The strategy should also be revised and updated, as setbacks are likely.
- **Other resources.** Staff should also leverage work from other organizations on governance and anti-corruption issues, especially the World Bank's Systematic Country Diagnostics (SCDs), which cover all members on a scheduled basis, as well as Risk and Resilience Assessments (RRAs), which cover all FCS and often contain rich political economy analysis relating to corruption as an integral part of their country diagnostic. Country teams are also encouraged to seek views from civil society, bilateral donors, and other key stakeholders. Teams can contact FAD, LEG, or SPR for further information on governance assessments and on the resources above.

B. Integrating Governance and Corruption Dimensions in the CES

4. Where macro-critical governance and corruption vulnerabilities are identified under the 2018 Framework, the CES can discuss ways to address them. In most FCS, severe governance challenges associated with increased vulnerability to corruption are present across many of the six core state functions. Addressing these weaknesses requires consistent engagement over many years. Several considerations⁴ that are especially salient in FCS can help inform the design of specific reforms and their sequencing:

- **Implementation capacity.** The appropriate choice of policy instruments should depend on the implementation capacity of the country and organizational competencies. For example, in

³ Links to published governance diagnostics can be found on the [IMF's Governance and Anti-corruption page](#).

⁴ For further discussion of these issues, see Chapter 7 of Newiak et al. [Good Governance in Sub-Saharan Africa: Opportunities and Lessons \(2022\)](#) and [Fiscal Monitor: Curbing Corruption](#). April 2019.

countries with minimal state legitimacy and competency, policies to reduce opportunities for corruption may have the greatest near-term potential to curb corruption. Examples include eliminating export licensing requirements or the subsidization of specific commodities; unifying foreign exchange rates and thereby eliminating corruption opportunities arising from the discretionary allocation of foreign currency at exchange rates that differ from market rates; reforms targeted at specific institutions especially vulnerable to large-scale rent-seeking, like national oil companies or customs; or measures aimed at preventing the most extreme cases of corruption, such as requiring the publication of asset declarations for top level officials. As state competencies increase, the focus may shift toward a mixture of efforts to improve performance of core state functions, build accountability and integrity, strengthen the rule of law, and enhance transparency and monitoring, including by joining and complying with international standards in natural resource management.

- **Incentives facing key stakeholders.** Teams should also consider the incentives facing key stakeholders, how these incentives may affect the efficacy of specific reform measures, and the role that corruption and rent-seeking plays in these dynamics. The corruption vulnerabilities of a jurisdiction need to be considered from the beginning to determine which reforms are consistent with the operative political incentives and organizational competencies. Applying such a “corruption filter” to assess the feasibility of a reform can assist with prioritizing and sequencing reforms and tailoring them to the FCS context.⁵ For example, reforms whose success relies on their implementation by an impartial civil service are unlikely to achieve their intended objective in environments featuring high degrees of state capture.
- **Complementarity of reforms.** The chances of success in confronting corruption are enhanced when countries improve several mutually supporting institutions to tackle corruption.⁶ For example, good revenue institutions and lower tax complexity may reinforce each other to curb corruption. Administratively efficient judicial institutions complement strengthened financial sector regulation. A high degree of transparency in state contracting may allow for more impactful scrutiny by supreme audit institutions, civil society, and law enforcement bodies.
- **Transparency and information technology.** The application of modern information technology can drive standardization, enhance oversight, and reduce discretionary authority. Enabling audit agencies to access to the information in integrated financial management information systems allows for just-in-time auditing and just-in-time accountability. Increased attention to integrity standards across government—when combined with stepped-up provision of information on beneficial ownership and/or asset declarations—can enable officials to demonstrate their probity, while allowing state and non-state actors to identify non-compliance instances.

C. Governance and Corruption Issues in Fund-supported Programs in FCS

5. Fund-supported programs should include governance and anti-corruption conditionality when this is critical for achieving program objectives. Pursuant to the 2018

⁵ Applying a “corruption filter” means to consider corruption-related impediments to reform by utilizing information on the distribution of vested interests and the degree of elite capture, institutional competency, transparency, and civil society participation. Anti-corruption strategy documents (see 13, 2nd bullet) may be helpful in this regard.

⁶ International Monetary Fund. [Fiscal Monitor: Curbing Corruption](#). April 2019. Washington, DC: IMF.

Framework, addressing governance and corruption vulnerabilities should be a condition for the use of Fund’s resources after having assessed: (i) the severity of governance vulnerabilities; and (ii) whether addressing the identified vulnerabilities is of critical importance for achieving the goals of the member’s program. The 1997 [Governance Policy](#) also states that “weak governance should be addressed early in the reform effort” and stipulates that approval of a new program or completion of reviews could be suspended or delayed on account of poor governance, notably if there is reason to believe that poor governance could have significant macroeconomic implications that threaten the successful implementation of the program. In such cases, measures that at least begin to address these issues should be in place before IMF financial assistance is provided. Design of specific governance-related measures should draw on the analysis and considerations for prioritizing and sequencing above (¶13 and ¶14), which should assist the objective of parsimony in conditionality.

6. Fund-supported programs in FCS typically include measures aimed at strengthening governance and combatting corruption. Indeed, many programs in FCS in recent years have brought the fight against corruption to the forefront of their core objectives (e.g., Central African Republic, Chad, The Gambia, Liberia, Mali, Rep. of Congo, Sierra Leone, Somalia, and Sudan).

D. Governance and Anti-Corruption Reforms in Bilateral Surveillance

7. Through Article IV consultations, FCS country teams should follow up on macro-critical governance and anti-corruption reforms and continue dialogue on governance issues with the country authorities and other stakeholders. For member countries where governance weaknesses associated with exposure to corruption are assessed as macro-critical, the Article IV consultation offers an important opportunity to conduct in-depth analysis on the causes of these weaknesses, the implications for macroeconomic stability, and policy advice to tackle the weaknesses. FCS country teams are encouraged to seek support from functional departments for Article IV discussions. Depending on needs and resource availability, such support may include brainstorming sessions, preparation of issue notes and talking points, HQ-based support during the mission, and on-site mission participation in cases where governance and corruption issues are particularly complex or require specialized knowledge. Teams considering such requests should approach Functional Departments well in advance.

E. Enhancing the Traction and Effectiveness of Governance and Anti-Corruption CD

8. The Fund plays an essential role in building individual and organizational capacity in areas related to governance and anti-corruption. Well-sequenced CD priorities in line with the CES are critical to strengthen capacity and institutions to address corruption and governance issues. Expanding organizational and individual competency to identify corruption risks, increase the transparency of core functions, and enhance the integrity of the justice system are likely to be essential and require long-term CD support, including through modern technology. For countries where a governance diagnostic is available, follow-up CD missions may be needed to address key vulnerabilities identified. Fund efforts should be well coordinated with the activities of other organizations, including the World Bank, to ensure synergy while avoiding duplication of efforts.

Annex III. Additional Considerations for Program Design and Conditionality in FCS

A. Post-Program Financing Gaps

1. Recognition of post-program financing gaps (PPFGs) could enhance the realism of macro-frameworks under an Extended Credit Facility (ECF) arrangement and help country authorities achieve an appropriate pace of adjustments. Financing gaps could be closed ex-post, without economic disruptions, through a combination of post-program policy adjustment and additional financing that was not identified during the program period. In this context, PPFGs should be carefully calibrated ex-ante with considerations presented below. PPFGs under ECF-supported programs can be justified when the sensitivity analysis confirms that capacity to repay remains adequate and debt remains sustainable under realistic financing assumptions, including level of funding on non-concessional terms to close the post-program financing gaps.¹

2. The presence of PPFGs and uncertainty on how they would be filled should be taken into account in capacity to repay (CtR) and debt sustainability analyses (DSAs). Therefore, it would be important to identify risks to the medium-term viability of a country with PPFGs building on sensitivity analysis, provide early warnings on risks to the Fund's balance sheets, and assess the robustness of adequate CtR and debt sustainability. CtR and debt sustainability assessments could be guided by the following principles:

- **Criteria for assessing debt sustainability and CtR in the presence of PPFGs.** The following criteria can be used to assess whether debt is sustainable in the presence of PPFGs: (i) the financing assumptions to fill the gaps and related risks should be realistic (see below); (ii) under realistic assumptions on financing terms, the magnitude of the PPFGs should not lead to significant and protracted breaches of DSA indicators from applicable DSA thresholds; (iii) for exceptional access, the country must meet the relevant exceptional access policy conditions and criteria even in the presence of the PPFGs; (iv) closing PPFGs should not be projected to give rise to arrears or undue adjustment, and PPFGs should be narrowing over time relative to the size of the economy; and (v) the risk of further financing gaps in the future is contained.
- **Sensitivity analysis.** CtR and debt sustainability should be rigorously assessed both under baseline financing assumptions and under alternative scenarios that PPFGs-related risks are realized. Some risks include less policy adjustment and/or more unfavorable financing terms than in the baseline in the post-program period. CtR and DSAs critically depend on the assumptions by country teams on financing terms and the outlook of other macroeconomic variables. Therefore, staff should explore in depth how the PPFGs are closed under various scenarios and analyze the ensuing impact on the CtR and debt sustainability if risks associated with the unidentified financing materialize. If limited institutional capacity and high uncertainty, as well as data constraints, hamper the development of fully-fledged quantitative alternative scenarios,

¹ See Reviews of the Fund's Sovereign Arrears and Perimeter.

staff should seek to identify the sources of adverse shocks in discussion with the authorities, and calibrate the potential impacts on CtR and debt sustainability under plausible assumptions.

- **Post-program assumptions.** Financing to close PPFs should exclude optimistic gap-closing financing items and financing assumptions on a Fund successor arrangement. Also, given the fragilities of FCS, any assumptions in the sensitivity analysis involving increasing levels of foreign grants, rising domestic financing, large policy adjustment and stronger growth after the program period should be thoroughly justified. The post-program projections should be based on realistic assumptions on how to close the gap (i.e., the adjustment and financing mix, and terms of additional financing) and its growth impact. As a standard DSA requirement, the potential risks from data gaps should be discussed and options for filling them should be a focus of team discussions with country authorities.

3. Staff should apply judgement to identify levels of PPFs that would not compromise program achievements ex-post. Key considerations to guide staff judgement include: (i) PPF dynamics—sharply increasing or stable PPFs are more worrisome than persistently decreasing trends; and (ii) PPF depth—large PPFs in relation to indicators of economic and financial capacity to repay are worrisome signs. Judgement should only be applied when PPFs do not tip DSA ratings and capacity to repay assessments into zones that are incompatible with the relevant lending policy. Staff should provide thorough justification in the presence of PPFs based on these key considerations and other mitigating factors.

B. Realism Assessments

4. Deeper realism assessments of baseline macro-frameworks would guard against excessive optimism (or pessimism) of the expected payoffs from structural reforms and macroeconomic adjustment.² Realism assessments primarily require appraising the credibility of the key assumptions used in the macro projections—especially for growth and planned fiscal adjustments—and assessing the realism of projected payoffs and distributional impact of planned structural reforms. The criteria for assessing realism could be based on benchmarking exercises underpinned by three simple-to-interpret criteria: (i) historical trends, (ii) cross-country experiences, and (iii) established rules-of-thumb. Staff would develop the relevant rules-of-thumb, which would be updated dynamically to incorporate experiences from the FCS community of practice and changing FCS context, especially given the complexity involved in calibrating data-dependent tools in FCS environments with low quality data that are sometimes available after a significant lag.

5. Realism checks should be conducted using simple descriptive statistics³ and appropriate tools within the suite of Board approved analytical toolkits for assessing growth and adjustment in IMF-supported programs (IMF 2022).⁴ The LIC-DSF toolkit provides four

² The [2018 Review of Program Design and Conditionality](#) assessed that macroeconomic frameworks in Fund programs in the post global financial crisis era had an optimism bias.

³ Including simple measures of frequency distribution, deviations from central tendency and measures of relative position.

⁴ A suite of five related analytical toolkits for assessing and improving the realism of macro-frameworks and tradeoffs from structural reforms in Fund supported programs are presented and discussed in the [2022 Implementation Plan In](#)

(continued)

realism tools, two of which can be directly applied more broadly (beyond debt) to assess: (i) the realism of planned fiscal adjustments, and (ii) the consistency of fiscal adjustment-growth relation. When data is sufficiently available, teams could also use the Structural Reforms Dividends Toolkit (SRDT)⁵ to assess the realism of potential growth dividends from planned reforms. Teams are encouraged to explore, when appropriate, the possibility of applying additional tools to complement the basic descriptive analysis and results from the DSA toolkit. Examples of other relevant tools to consider include the fiscal multipliers toolkit (FMT), the DIG model,⁶ and the social unrest indicator (SUI), among others. Staff should also explore options for leveraging data and FCS related information from partner institutions to the extent that it is consistent with the Fund's policy on the use of Third-party indicators (TPI).

6. Realism checks for FCS macro-frameworks are expected to include the following assessments:

- **Realism of baseline growth projection.** Staff is encouraged to produce a summary chart showing the evolution of growth projections in the current baseline and three other reference vintages—the most recent past baseline, the 10-year historical average, and the average annual growth projection for all FCS countries in the active WEO vintage (**Figure 3.1**) shows an illustrative country case). The size of the deviation of current growth projections from the historical average, the immediate past baseline, or the FCS peer projections offer indicative signals to gauge the extent of realism bias in the growth projections.
- **Realism of planned fiscal adjustments.** Unlike the LIC-DSF tool that compares projected fiscal adjustment with the historical experience of all LICs requesting Fund-supported programs, this descriptive tool rather compares the projected fiscal adjustment with the distribution of observed headline primary fiscal adjustment in FCS-program countries over a three-year horizon. Realism flags are activated if the projected primary fiscal adjustment over any three-year period in the projection horizon exceeds an appropriately defined rule-of-thumb, currently set at one percentage points change of GDP, derived as the 75th percentile cut off point for the observed fiscal adjustment in FCS-program countries for the 10-year period (2010–20) following the global financial crisis (**Figure 3.2**).
- **Consistency between fiscal adjustment and growth.** This tool, which is embedded in the LIC-DSF and SRDSF toolkits, compares the baseline growth projection with alternative projections that incorporate the impact of planned fiscal adjustment on growth under a range of plausible fiscal multipliers and persistence parameters. Results for this realism check should be directly retrieved from the DSA reports.
- **Realism of payoffs from structural reforms and other realism checks.** Teams are strongly encouraged to explore the possibility of applying the SRDT for assessing the realism of payoffs

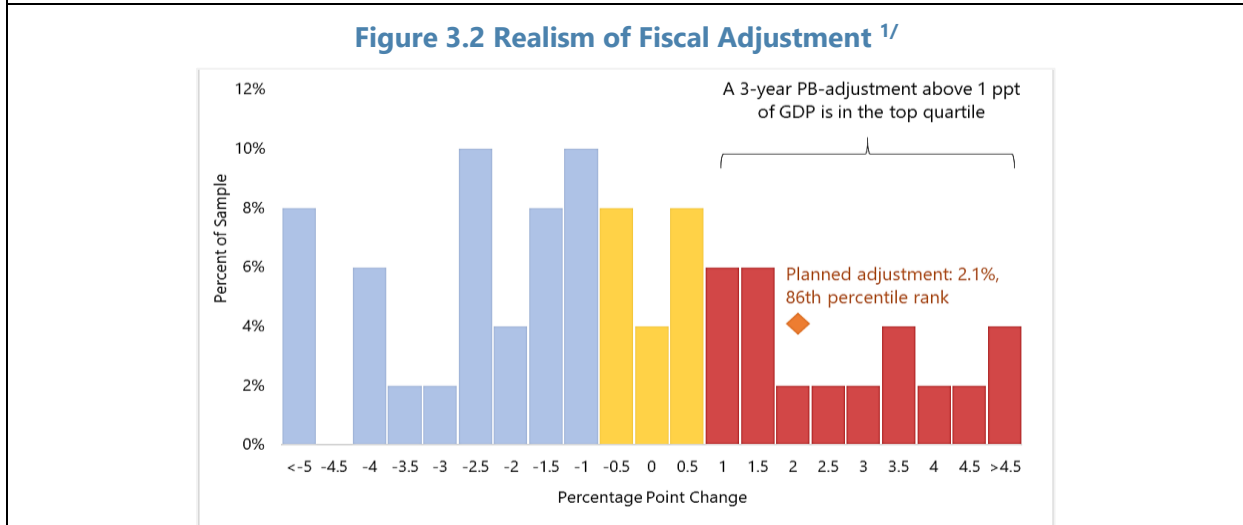
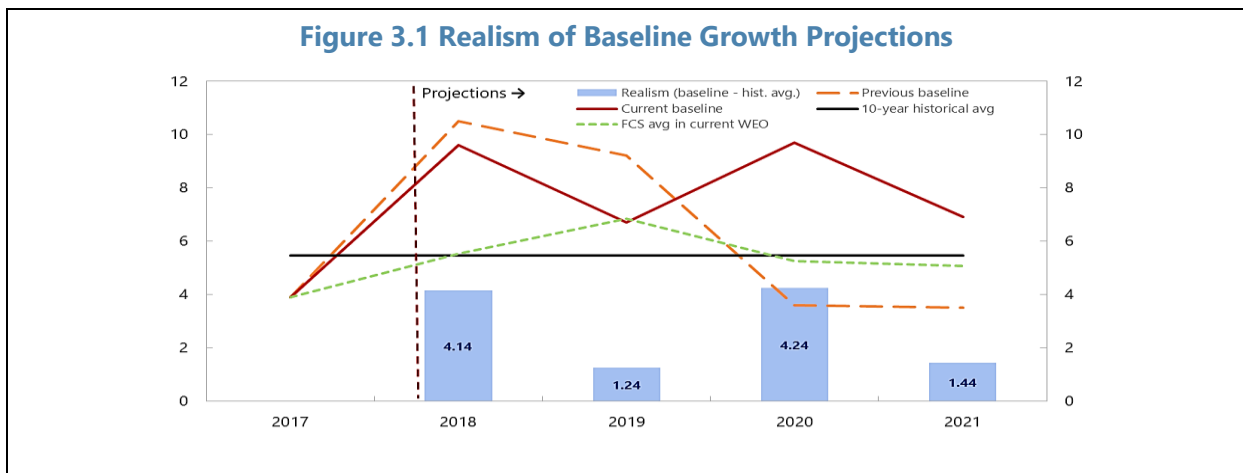
[Response to the Board Endorsed Recommendations from the IEO Evaluation Report on Growth and Adjustment in IMF-Supported Programs](#)

⁵ The SRDT toolkit and the associated database can be assessed after signing up [here](#).

⁶ DIG stands for debt-investment-growth, and there are several extensions available with special features such as natural resources ([DIGNAR](#)), COVID-19 related shocks ([DIGNAR-19](#)), and climate change and natural disasters ([DIGNAD](#)).

from planned structural reforms and, more broadly, to use other Board approved toolkits to assess realism of macro-frameworks based on data availability and country specificities.

7. Whenever realism tools flag bias in the macro-framework, particularly optimism bias, the Staff Report should spell out why staff nevertheless see projections as justified. Significant deviations from observed rules of thumb without credible explanations should lead to iterative revisions in the macro-framework to improve realism. However, the tools are not meant to be prescriptive, when there are credible justifications for upholding significant deviations from the norm, teams should provide explicit explanations in the main program documents, considering the changing structure of the economy, implementation capacity constraints, and risks from reform reversals and, where possible, incorporate contingency buffers to account for heightened uncertainty in FCS contexts.



1/ Compares the planned fiscal adjustment to the distribution of fiscal adjustments from FCS programs approved and completed 2010–2020. The distribution is over the sample of countries in the World Bank’s FY22 list and IMF 2019 list, using Net lending/borrowing indicator from World Economic Outlook (WEO), with an adjustment calculated over three years since program start.

Annex IV. Examples of Fund Support to FCS and Neighboring Countries Affected by Fragility and Conflict Spillovers

This annex provides staff with examples of tailored Fund engagement to FCS. It covers diverse situations such as: (i) building institutions to exit fragility; (ii) engagement in countries affected by active conflict and war; (iii) cases of irregular changes in government and paused engagements; (iv) economic stabilization during post-conflict reconstruction; and (v) support to FCS and non-FCS affected by external shocks and spillovers, such as food insecurity and refugee inflows.

A. Supporting FCS to Exit Fragility

Timor-Leste: Building Fiscal Institutions

1. Timor-Leste achieved independence in 2002.¹ To lay the groundwork for the country's fiscal institutions, the Fund provided the framework for the development of the central fiscal agency (CFA) in 1999. This was "phase one" of the public financial management (PFM) reforms, which began under the UN Transitional Administration. The CFA designed the overall fiscal strategy, formulated tax policy, administered revenue collection, and coordinated the public expenditure program. Once the CFA was established, the focus shifted towards the strategy for setting up modern budgetary and treasury functions. The initial emphasis was placed on the effective management of substantial oil and gas wealth. In 2004, the Fund placed a resident expert in the Ministry of Finance to assist with the creation of a petroleum fund based on Norway's model.

2. Following the implementation of the petroleum fund, Timor-Leste moved to "phase two" PFM reforms. CD support provided by the Fiscal Affairs Department (FAD) shifted to the broader improvement of the Government's financial management including: (i) strengthening institutional arrangements in the Ministry of Finance and line ministries; (ii) capacity building of Treasury staff; (iii) decentralizing treasury functions to line ministries; (iv) improving the financial management information system; and (v) modernizing the legal framework.

3. In 2012, when a third stage in PFM reforms started, major structural reforms and change management took place in the Ministry of Finance and key PFM institutions. The support was provided through diagnostic missions, short-term expert visits and a resident treasury adviser from 2007 until 2013. Highlights included: (i) developing a new Budget and Financial Management Act (2009) with advice from the Fund's treasury advisor, resulting in greater transparency and accountability; and (ii) amendments to the 2001 Budget and Financial Management Act (2009) which introduced discipline regarding the opening of bank accounts and government borrowing, defined a budget calendar, allowed the creation of special funds, regulated budget transfers, defined reporting and audit requirements, and stipulated penalties for various offences committed by civil servants.

¹ This example is summarized from International Monetary Fund (2019). [Building Fiscal Capacity in Fragile States — Case Studies](#). Washington, DC: International Monetary Fund. Other relevant examples include Afghanistan, Haiti, Kosovo, Liberia, Mali, Myanmar, and South Sudan.

Democratic Republic of the Congo: Leveraging the UN System and Non-Traditional Partners

4. The Fund reestablished its active relationship with DRC's government in 2019, resulting in the first Article IV consultation since 2015. This was followed by financing under the Rapid Credit Facility, an SMP, and the launch of an ECF-arrangement in July 2021. In this context, the IMF local office is part of an active Partner Coordination Group, with inter-donor subgroups on topics such as PFM, governance and anti-corruption, the mining sector, business environment, and climate change. Beyond traditional multilateral and bilateral partners, the country team is also more engaged with a wide range of partners, including MONUSCO (the UN peace operation), UNHCR, UNICEF, WHO, WFP, UN Women, as well as climate and forest protection organizations.

5. Interactions in the field have been supplemented by physical meetings with the team in HQ or virtual meetings. In addition, beyond general briefings to the donors during in-country missions, the Fund organizes bilateral meetings on specific issues, such as transparency in the mining sector, food security, and climate-related risks.

6. This engagement with partners is instrumental for the IMF country team's understanding of crucial fragilities and issues beyond core Fund expertise. These include the security situation in the East, the problems related to refugees and displaced populations, food insecurity, pandemic situation and risks, or climate change. The IMF local office has established close relationship with the World Bank staff from the Fragility, Conflict and Violence (FCV) Group based in the country. Engaging with other partners helps create channels for information exchange that are key to receive specific reports and information useful in the context of the ongoing ECF-arrangement. The hiring of a second local economist will help to devote more time to deepen the understanding of fragility in macroeconomic policy formulation and implementation, and to strengthen relationships with international agencies and CSOs working on crucial fragility issues.

7. Another goal is to ensure a common understanding among donors of the role of the IMF. This includes the objectives of the ECF-arrangement, the semiannual reviews process, and the related conditionality (articulation between quantitative criteria, structural benchmarks, and other commitments included in the MEFP).

8. As a result, collaboration with partners has been active in the context of the current ECF-arrangement. Health partners (e.g., Global Fund and GAVI) were directly involved in the definition and monitoring of a program indicative target on social spending, targeting specific health and vaccination programs. The expertise of the Extractive Industries Transparency Initiative informed the program objectives on mining sector transparency, including program conditionality, and the MEFP included the government's commitment to observe the budget allocations planned for the EITI operations. The MEFP also mentioned the government's commitments in relation with the planned gradual withdrawal of the UN peacekeeping force or with the social consequences of having more than six million refugees and displaced persons. These commitments were defined with the respective help of the MONUSCO and UNHCR. Messages on priorities for the fight against corruption were conveyed by members of the diplomatic community in a meeting with the Minister of Finance based on priorities identified by the Fund's Governance and Anti-Corruption Assessment and discussed among partners.

Chad: Strengthening the Forecast of Debt Dynamics and Macroeconomic Analysis

9. The Institute for Capacity Development (ICD) is providing technical assistance to Chad’s Ministry of Finance on the production of public debt forecasts and scenarios. The focus of this CD support is on two specialized analytical instruments: the Excel-based [Public Debt Dynamics Tool \(DDT\)](#) and the macro-foundations tool (MFT). To overcome a fragile country environment and logistical challenges created by the pandemic, this activity is being delivered as a mix of in-person and virtual missions together with an FAD advisor based in AFRITAC Central. The Fund’s Resident Representative and local economist based in N’Djamena are closely involved.

10. Activities focus on providing guidance to a cohort of staff from the Ministry of Finance on further refining data inputs, improving the use of the DDT, and producing built-in graphics of baseline and risk scenarios (including fan charts) in standardized output tables. This work has successfully incorporated Chad’s *Medium-term Debt Strategy* into the DDT framework, thus effectively linking both platforms and simplifying the analysis. Based on the authorities’ needs, the mission incorporated the analysis of gross financing needs and nominal variables below the line, and the impact analysis of macro-fiscal shocks on solvency and liquidity indicators. The core team has been able to customize the public debt dynamics tool, project debt, build scenario analyses, and evaluate the consistency of fiscal policies with given debt objectives.

11. Over the medium- and long-term, adopting the DDT should benefit the budget and debt policy decision process in Chad, eventually including the implementation of the G20 Common Framework Debt Treatment. The DDT project is being delivered in parallel and coordinated with a separate technical assistance to strengthen the macroeconomic forecasting capacity and policy-decision systems at the Ministry of Finance. Due to limitations in absorptive capacity, support missions will focus on the development of a macroeconomic framework only after the use of the DDT has matured.

B. Engagement with Members in Situations of Active Conflict***Somalia: Successive SMPs Integrated with CD Support and Emergency Financing***

12. To support Somalia in its economic recovery and institution building, the IMF promoted a carefully prioritized and sequenced reform agenda. This required the combination of all Fund instruments. Since 2016, Somalia has been building a strong track record of reform implementation in the context of 4 successive Staff Monitored Programs (SMPs). This facilitated the request for debt relief under the Heavily Indebted Poor Country (HIPC) Initiative and the approval of a new Extended Credit Facility (ECF) in March 2020.

13. A well-structured CD strategy has been a centerpiece of IMF engagement in the context of the SMPs, the ongoing ECF-supported program, and HIPC process. IMF CD has focused on strengthening public finances; deepening central bank capacity; improving governance; and enhancing statistics.

14. The ECF arrangement front-loaded disbursements to cover for the large upfront BoP need arising from the requirement to pay bridge financing obtained to clear arrears with the Fund. This was followed by evenly phased disbursements to contribute to central bank reserve accumulations.

15. The IMF and World Bank jointly support the government in the HIPC process and other areas of reform. Fund-supported programs provide the framework to catalyze grant financing by development partners, who have supported social assistance programs and investments to alleviate the impact of adverse shocks to the most vulnerable. The IMF team maintains active engagement with different partners such as the World Food Program on food insecurity and climate change; the World Bank, African Development Bank, and the United Kingdom’s Foreign, Commonwealth and Development Office (FCDO) on fiscal reforms; the World Bank on payroll management and wage bill controls; the World Bank, Sweden Statistics, Norway and the IFC on statistics; and the Somalia Financial Governance Committee on governance issues.

16. Successful outcomes supported by IMF engagement include: (i) a tripling of domestic revenues from about 1 percent of GDP in 2013 to 3 percent of GDP in 2021, owing to the implementation of tax policy and administration reforms; (ii) greater capacity to implement a meaningful budget, strict commitment controls, and improved reporting and transparency, that have helped improve fiscal transparency and prevent accumulation of new domestic arrears; (iii) stronger institutional capacity and governance of the Central Bank of Somalia, including in accounting and audit functions, the AML-CFT framework, and banking regulation and supervision; and (iv) regular publication of inflation and GDP statistics by the National Bureau of Statistics.

Ukraine: Emergency Support During War

17. Prior to Russia’s invasion of Ukraine, the Fund had already in place an arrangement with Ukrainian authorities. Once the war began in February 2022, authorities canceled the existing Stand-By Arrangement (SBA) and requested emergency financing. The Fund has swiftly responded.

18. In March 2022, the Fund provided emergency assistance of US\$1.4 billion under the Rapid Financing Instrument (RFI). Funds were disbursed immediately to help with urgent spending needs. This was in addition to US\$2.7 billion made available in August 2021—Ukraine’s share in the IMF’s general SDR allocation of US\$650 billion to all member countries. The money also helped the country catalyze and mobilize additional funding including concessional financing.

19. In April, the Fund set up a so-called “Administered Account” to allow donor countries to securely channel financial support—loans or grants—to Ukraine, using the IMF’s payment infrastructure. To date, two countries have disbursed US\$2.2 billion through this channel, and two additional countries are planning disbursements.

20. In October 2022, the Board approved a US\$1.3 billion emergency financing disbursement under the newly established Food Shock Window. This funding will help Ukraine cope with urgent balance of payment needs from a major cereal export shortfall.

21. The Fund also provided Technical Assistance advice to the National Bank of Ukraine. Topics include business continuity, legal and operational aspects of emergency liquidity assistance (ELA), and refinancing facility (e.g., securing the central bank’s tangible assets, preparing a back-up site, protecting access to the central bank’s foreign accounts and cash management during conflict).

Yemen: Active Conflict and Competing Regimes in the Territory of the Member

22. The eruption conflict since 2014 has severely diminished Yemen’s institutional capacities, hindered data provision, and constrained Yemen’s engagement with the Fund. The last Article IV consultation was completed in 2014. At that time, the Board approved a three-year Extended Credit Facility (ECF) arrangement for Yemen. However, the arrangement lapsed after 18 months due to the non-completion of reviews.

23. Nonetheless, the Fund continued to provide policy—centered around regular staff visits – and technical assistance to Yemen’s internationally recognized government (IRG). While the IRG controls most of Yemen’s landmass and oil reserves, this does not include the country’s economic center and former capital Sana’a or most of the population. With the consent of the IRG, engagement with the *de facto* regime in Sana’a has been limited to short technical meetings, internally classified as technical assistance. Such engagement is complicated by political sensitivities as the Fund must avoid the impression of recognizing the *de facto* regime outside the areas controlled by the IRG. Staff has also been meeting regularly with UN agencies, major donors and creditors, other international organizations, development banks, and CSOs.

24. Despite the ongoing conflict and data limitations, the Fund has been scaling up its engagement with Yemen. The first Board briefing on Yemen since the outbreak of the conflict took place in October 2021. In 2020–21, the Fund rebuilt the macroeconomic framework using a mix of authorities’ data, mirrored trade data, remittance surveys, donor financing records, and locally sourced information on food prices and exchange rates. A comprehensive report was presented in an informal meeting, which also underpinned outreach to the international community to help build consensus and support for policy priorities. The Fund’s key policy recommendations such as the removal of parallel exchange rates and the implementation of a foreign exchange auction system were subsequently implemented by the authorities with large positive effects on exchange rate stabilization and resource mobilization.

25. The Fund has also been providing targeted technical assistance to rebuild and strengthen institutions. Comprehensive diagnostics on expenditure control and central bank operations helped to inform not only the Fund’s capacity development activities but also those of other partners – the United States Agency for International Development (USAID) drafted its action plan for the Central Bank of Yemen based on the diagnostic. The Fund’s technical assistance activities also provided important inputs to surveillance and policy recommendations.

Libya: Reengagement with the National Unity Government

26. Following the 2011 revolution, the IMF provided technical assistance and policy advice on exchange rate policies and expenditure management. Supported reforms included devaluing

the official exchange rate and making foreign exchange readily available for current transactions to align the parallel and official rates. The Article IV consultation concluded in 2013, but militias held considerable power and a full-scale civil war broke out in 2014. Since then, discussions with Libyan authorities and partners took place in third-country locations. Once the national unity government was formed (2021) the Fund provided support on cash forecasting, public financial management, customs tax, monetary statistics and AML/CFT to the Central Bank of Libya and Ministry of Finance.

C. Irregular Changes in Government, Paused Engagements

Burkina Faso and Mali: CD Delivery During and After Irregular Changes in Government

27. Following the irregular changes in governments in Mali (in August 2020 and May 2021) and in Burkina Faso (2022), the military that came to power formed transitional governments charged with delivering elections. In all these cases, there was a period of uncertainty where developments were unfolding in a fluid manner and where the views of the international community had not been formed. Country teams proceeded cautiously.

28. During the period of uncertainty about government recognition after the August 2020 and May 2021 coups, staff continued low-level engagement on technical CD that had already been initiated before the coups. The National Directorate for Treasury and Public Accounting continued to benefit from ongoing resident advisor support through a long-term expert installed in November 2018 and through AFRITAC West (AFW) CD missions; tax and customs administration advice has also continued. Once the African Department decided to resume full engagement with the government, technical assistance resumed both in terms of policy advice as well as on new areas of support.

29. In Burkina Faso, the General Directorate for Treasury and Public Accounting (DGTCP) had benefited from in-person support since 2018 and remote CD provided by the Resident Advisor and AFW during the pandemic. Following the irregular change in government of January 2022, the joint TA mission with AFW was postponed to March-April 2022 and conducted remotely with the DGTCP team still in operation. This mission assisted the authorities in strengthening the internal control framework, as part of the implementation of accrual accounting, and supported the operationalization of the Treasury Single Account (TSA) and the modernization of cash management. CD cash management, TSA, and transition to accrual accounting continue—with FAD and AFW support.

Guinea: CD Delivery to a Transition Government

30. In Guinea—a country classified as FCS by the Fund under its FY19 informal FCS list—the military coup d'état on September 5, 2021, led to a transition government. The government was headed by a new Prime Minister, with newly appointed ministers of finance and budget. Despite these circumstances, the new authorities continued implementing various CD projects provided by FAD, MCM, and STA in addition to requesting additional support on macroeconomic forecasting from ICD. While the change in government resulted in some implementation delays, the transitional authorities have indicated their readiness, and in some cases, redoubled their implementation efforts

in order to keep this assistance in place during the transition period and help pave the way towards a newly elected government.

31. A case in point is the support being provided by two FAD PFM resident advisors to the Ministry of Budget and Ministry of Economy and Finance. Following close consultations between the Resident Representative Office, the country team, FAD, and the European Union delegation in Conakry (who provided some financing for this CD), the assistance by the two resident advisors has continued without interruption. This field presence and broader CD activities have been aligned with the authorities transition plans. The transitional government's draft Interim Reference Program (*Program de Référence Intermédiaire*) includes policies to create an environment conducive to stronger, poverty-reducing, and job-creating sustainable economic growth through efficient fiscal and monetary policies, while developing the private sector to attract foreign investment. Therefore, CD activities have been focusing on strengthening domestic revenue mobilization, especially in the mining sector; increasing efficiency in public expenditure; reducing fiscal risks; strengthening debt management; strengthening the monetary policy framework while improving banking supervision; strengthening the governance framework including AML/CFT; and improving collection and dissemination of macroeconomic and financial statistics.

32. Support provided to both the Budget Directorate and the Financial Control Directorate, for example, has resulted in: (i) an improved budget execution and controls for 2022; (ii) a revised definition of expenditure payments arrears, including their proper recording and monitoring in the expenditure information system and in the Table of Government Financial Operations (TOFE) in line with the 2014 Government Finance Statistics Manual; and (iii) a revised regulation for budgeting value-added tax credits. MCM supported TA on debt management supported the first ever issuance of 3- and 5-year bonds in April and August 2022, respectively.

Afghanistan: Dialogue with Partners while Engagement is Paused

33. With the Fund's engagement on pause since the Taliban's takeover in August 2021, staff has expanded dialogue with international organizations and key shareholders, including United Nations agencies which continue to operate in Afghanistan. This dialogue covered the exchange of views on economic developments and the outlook, forced displacement and the humanitarian crisis, humanitarian assistance mobilized by the international community, and donors' efforts to seek sanctions-compliant ways to channel funds to Afghanistan to help meet the basic needs of its people. Staff also provided high-level comments, in areas within the Fund's expertise and mandate, on relevant issues raised by other international organizations. Together with UN and World Bank staff, the team worked on enhancing readiness to re-engage when conditions permit.

D. Post-Conflict Reconstruction: Supporting Economic Stability

South Sudan: Combining SMPs with Emergency Financing

34. The Fund is supporting South Sudan through an SMP, which is helping establish a track record of economic reform. As part of the program, the authorities have committed to fiscal discipline and ceased monetary financing of the deficit. An exchange-rate reform has liberalized

foreign-exchange markets and eliminated the large distortion from a significant premium of the exchange rate in the parallel market relative to the official rate.

35. As of November 2022, the Fund has also approved two Rapid Credit Facility (RCF) disbursements since the onset of the pandemic. In 2020, the IMF approved the first lending operation with South Sudan since it joined the Fund in 2012. RCF support was used for the clearance of public salary arrears, which was critical in the absence of significant budget-funded transfer mechanisms, and against the background of a large government payroll with low average wages. In 2021, the IMF approved a second RCF disbursed combined with a 9-month SMP. This allowed the authorities to reduce salary arrears to one month. Together with the SDR allocation, it also closed the immediate BoP gap, although the medium-term gap remains significant.

Solomon Islands: Reconstruction in a Post-Conflict Small Island States Vulnerable to Shocks

36. Solomon Islands is a small, low-income, and geographically dispersed Pacific Island economy that can be thought of as: (i) in active conflict between 1998–2003; (ii) in post-conflict recovery from 2003–17; and (iii) continued social and institutional fragility from 2017 onward, with longstanding socio-economic vulnerabilities, as also reflected in the unrest in November 2021. Solomon Islands is also highly vulnerable to natural disasters.

37. At the early stage of the post-conflict recovery (2003–09), the Regional Assistance Mission to Solomon Islands (RAMSI) helped restore basic law and order and re-establishing public institutions. The Fund provided advice on achieving basic macroeconomic stability and CD to build key **macroeconomic** institutions in areas of Fund core expertise and responsibility. IMF-supported programs helped solidify early achievements and promote reforms during the transition phase of RAMSI (2010–17), including a three-year Extended Credit Facility (ECF) arrangement in December 2012. The ECF was intended to tackle deep institutional and structural issues and followed a successful one-year precautionary arrangement under the Standby Credit Facility (SCF). The ECF arrangement has been instrumental in anchoring government policies (e.g., fiscal discipline, revenue administration, monetary and exchange rate policy, financial sector supervision/regulation), strengthening institutional capacity, and catalyzing donor support.

38. Post-program surveillance has provided continued support (2017 onwards). When the ECF arrangement expired in 2016, IMF staff continued the close engagement with authorities through a 12-month Article IV consultation cycle in fiscal, monetary, and foreign exchange reform and institution building built over the last decade. This includes the provision of policy advice on macroeconomic policies and structural reforms that are macro critical in close coordination with other development partners.

39. During the pandemic, the IMF extended emergency financing to Solomon Islands through RCF/RFI. In June 2020. The Fund continued to conduct intensive surveillance activities through remote missions and engagement and tailoring of CD support to pandemic era needs. Solomon Islands has also benefit from debt service relief through the CCRT.

40. The Pacific Financial Technical Assistance Center (PFTAC) together with HQ based mission teams has provided intensive CD to Solomon Islands. These include statistics, fiscal policy, PFM, exchange rate management, monetary operations, and the financial sector, and supported implementing important reforms. The CD was guided by the program conditionalities and surveillance assessments and was crucial in developing the capacity of the Solomon Islands officials to undertake the needed reforms.

E. Tailored Assistance to Countries Affected by Shocks and Spillovers

Guinea-Bissau: Collaboration with the World Food Program on Food Security

41. Malnutrition recorded in Guinea-Bissau suggests a very severe impact on labor productivity. Stunted growth affects 28 percent of children aged 6–59 months, peaking above 30 percent in certain regions. The proportion of children under 2 years old receiving an appropriate diet is only about 4 percent while just 32 percent of women aged 15–49 years achieve minimum dietary diversity (44 percent suffer from anemia). This negatively impacts labor productivity.

42. In this context, the strong relation with the World Food Program (WFP) is informing the Fund activities on an ongoing basis. The collaboration helped the IMF team to better capture macro-linkages in relation to food security. Recent crises highlighted several macro-critical issues: (i) lack of economic diversification make households livelihood overly dependent on cashew nut prices; (ii) weak rural resilience amplified the effects of COVID-19 on food insecurity; (iii) the effects of climate change such as coastal erosion destroys crops and limits economic diversification; (iv) and calls for urgent adaptation. The common focus on supporting authorities in making progress towards enhanced social protection led to a deeper understanding of the nutrition challenges to try to create greater fiscal space or request donor support in social protection, including nutrition support to the most vulnerable population. As a result of coordination with WFP during the April 2022 program review/Article IV mission, the [Staff Report](#) highlighted challenges related to food security in Guinea-Bissau, using data provided by WFP. For instance, the country has the second-highest proportion of undernourished population in West Africa after Liberia (25 percent of the population) even though it has the highest concentration of natural wealth per capita (including agricultural land, fisheries, and forests). These features make it particularly exposed to the fiscal and social impacts of rising food prices associated with Russia’s invasion of Ukraine. Higher food and fuel prices are expected to slow down economic growth, adding inflationary pressures, widening the current account deficit, and weighing on the fiscal position. In addition, rising food prices could contribute to socio-political tensions in a time when Guinea-Bissau enjoyed a period of relative stability compared to previous years.

43. Future collaboration could include intensified consultation with the WFP on food related issues. The objective may be to secure sufficient fiscal space to support the most vulnerable population in the context of potential Fund-supported program discussion. In addition, the partnership could entail the pooling of technical resources to help build relevant databases and public registries to enhance data analyses, beneficiary targeting for vulnerable groups.

Jordan: Refugee Response

44. In Jordan—a country not officially classified as FCS—regional conflicts and the hosting of about 1.3 million Syrian refugees put additional stresses on social conditions, public finances, investment, and the external accounts. A decade of anemic growth has led to high levels of structural unemployment, which have been further exacerbated by the COVID-19 pandemic (unemployment reached record levels around 22.6 percent for Jordanians and 45 percent for youth in 2022-Q2).

45. Inclusive and jobs-rich growth supported by critical structural reforms is needed to address the impact of these challenges. In this regard, Jordan is undertaking a reform program supported by an Extended Fund Facility (SDR 1,145.95 million; 334 percent of quota) to tackle structural imbalances and promote an inclusive recovery. Additionally, to allow for higher spending on healthcare, containment measures, and assistance to households and companies most affected by the COVID-19 pandemic, Jordan tapped into the IMF's emergency Rapid Financing Instrument (SDR 291.55 million; 85 percent of quota).

46. A key priority of the Fund-supported program is protection for the most vulnerable. The EFF includes a floor on social spending to support education, health, and social protection programs. It also emphasizes removing impediments to private-sector-led job creation, while promoting formal employment and labor market reforms, particularly for women and youth. The government has signed agreements with trade unions to facilitate the rollout of work permits for Syrian refugees that allows them to work in all sectors open to non-Jordanians without being tied to a specific employer (37,404 of these work permits were issued as of September 2022).

Cooperation with Partners on the Venezuelan Displacement Crisis in Colombia

47. Latin America and the Caribbean have been experiencing a migration crisis of historic proportions since 2015 due to the social and economic collapse in Venezuela. As of September 2022, 7 million Venezuelans (23 percent of population) have migrated, including 2.5 million in Colombia, 1.5 million in Peru, and 0.5 million in Ecuador, Brazil, and Chile respectively. As a result, this has become the second-largest external displacement crisis in the world.² This crisis raises macro-critical economic issues for countries hosting Venezuelan refugees. Migration and forced displacement raise important social and political aspects around the treatment of migrants as “refugees”—including issues related to immigration policy, residency permits, humanitarian aid, and border security that went beyond the typical issues examined in Fund surveillance.³

48. For Colombia, the economic and labor market effects of Venezuelan migration were examined in the 2019 and 2020 Article IV Staff Reports. Beyond inputs from authorities (notably, *Migracion Colombia*), staff benefited from exchanges and technical discussions with the Inter-American Development Bank and World Bank, including on macro-modeling and empirical

² UNCHR, “[Venezuela Situation.](#)” 5 September 2022.

³ Definition of refugees according to the 1951 *Convention relating to the Status of Refugees* and the 1967 *Protocol relating to the Status of Refugees*.

estimates of Venezuelan migration effects on the Colombian economy. Staff also benefited from discussions with the UN High Commissioner for Refugees (UNHCR) on the effectiveness of measures such as Temporary Protected Status (TPS) program, passport issuances, and travel restrictions.

49. A paper by the Western Hemisphere Department (WHD)⁴ further documented the impacts of the Venezuelan migration crisis for the region. The analysis identifies important short-term adjustment costs, which exert pressures on fiscal and external balances in recipient countries. However, there are also sizable medium-term gains in productivity and growth related to the increase in the labor force and better alignment of the workers' human capital with their job characteristics. These gains are more significant for those countries that receive larger and more educated migration flows relative to their local population. The initial increase in the fiscal deficit narrows over time as the tax base expands in line with economic activity.

⁴ Jorge Alvarez, Marco Arena, Alain Brousseau, et al 2022. "[Regional Spillovers from the Venezuelan Crisis Migration Flows and Their Impact on Latin America and the Caribbean.](#)" Washington, DC: International Monetary Fund.