

APPENDIX 3. SUMMARIES OF COUNTRY CASE STUDIES¹

Afghanistan

When the international community reengaged with Afghanistan in 2001, the country was in a perilous state after more than two decades of conflict. Early in the reconstruction process, the Afghan government took advantage of international support to make impressive strides in rebuilding institutions and implementing sound economic policies. The IMF played a crucial role by providing policy advice and technical assistance that promoted macroeconomic stability, laid the foundations for economic growth, and strengthened the government's capacity. By 2004, the government had introduced a new currency, made ambitious tax reforms, and largely achieved macroeconomic stability. The IMF's supportive role has been widely acknowledged.

Starting in the mid-2000s, however, the rate of progress slowed amid a worsening security situation. By 2012, when the Fund's ECF-supported program fell off track, longstanding vulnerabilities became more evident. Given the large role played by the United States in setting the overarching strategy for Afghanistan, the IMF's ability to influence the trajectory of economic policy has been constrained. Even so, in hindsight, the IMF could have done more to strengthen financial supervision and provided Afghan officials and donors with more candid and realistic assessments about the country's economic prospects and vulnerabilities. The IMF's chief medium-term goals in Afghanistan, including achieving fiscal sustainability, boosting economic growth, and maintaining financial stability, have been elusive.

Angola

Angola's relationship with the IMF has varied significantly since the civil war ended in 2002. Initially, attempts were made to engage with the authorities through SMPs, but performance proved unsatisfactory. This was followed by a relatively successful SBA in 2009 and a constructive surveillance dialogue since 2012.

The lack of early success stemmed partly from the IMF's overestimation of the authorities' capacity to deliver the ambitious reforms that were urged by the Fund in the face of the political, social and institutional difficulties arising from the almost 30 years of civil war. Issues of ownership of reforms and the availability of alternative financing sources also played a role. The SBA helped Angola stabilize its economy in the wake of an oil price collapse, but it achieved less on the structural reform front. The country's need for financial support diminished after oil prices recovered.

Officials considered IMF policy advice to have been generally sound, although issues of timing needed to be given greater weight. They valued IMF TA highly. In interviews with the evaluation team, some raised concerns regarding the IMF's responsiveness to TA requests and the need for

¹ See background papers for details (Takagi and others, 2018a, 2018b).

practical implementation support. Cooperation between the IMF and partners had been good. Staff outreach efforts were appreciated and could have been stronger.

Bosnia and Herzegovina

The end of a 44-month-long war in 1995 left Bosnia and Herzegovina (BiH) with a devastated economy, a highly-fragmented society, and a highly complex government structure (as agreed under the Dayton Accords) consisting of the state, two autonomous entities, and a local self-governing area. The IMF immediately provided timely technical assistance for the creation of a central bank and other policy institutions essential for a functioning economy, even though initial attempts to engage in a program relationship were repeatedly frustrated by a lack of cooperation between the two autonomous entities.

Over the subsequent 22 years, the Fund supported the country with policy advice, financing, and technical assistance. Under a succession of IMF-supported programs, BiH achieved a degree of macroeconomic stability, recorded several years of strong growth, and weathered bouts of economic difficulty; above all, it has been able to establish a functioning market economy. Even so, given the fragmentation of national decision making, program implementation was often problematic and the pace of any reform was slow. The IMF staff persevered and remained engaged with the country despite the obstacles. Most observers agree that, under BiH's difficult circumstances, the IMF performed well as a lever for reform, as an anchor for policy making (for example, in counterbalancing populist tendencies), and even as coordinator and mediator between different government levels or entities in the face of centrifugal forces.

Cambodia

Cambodia emerged in the early 1990s from decades of political instability that included a genocide and successive civil conflicts. The IMF has been actively engaged in Cambodia since 1993, initially with financial arrangements. Since 2003, persistent external arrears to official creditors have prevented the country from accessing Fund resources (this situation will likely remain unless political differences with the creditors are resolved), but the Fund has continued to engage through surveillance and technical assistance.

The IMF has played an important role in Cambodia in helping the authorities with appropriate macroeconomic policies and in building key economic institutions. The country has enjoyed strong economic performance during the last 20 years while reducing poverty significantly. Though poverty remains high and there are pervasive governance shortcomings, it has overcome the legacy of the conflict years and is now no longer considered a fragile state.

Chad

Chad presents a classic case of persistent state fragility. It is located at the center of a volatile region, with serious security challenges and large populations of refugees and internally displaced persons. It has had to build up military capacity to defend its borders effectively. The

oil production that started in 2003 has not led to a structural transformation of the economy. Chad remains one of the world's poorest countries, with a low level of social development and state capacity. Since the late 1980s, the IMF has provided Chad with financial and technical support. IMF-supported programs have been successful in helping to achieve debt relief under the HIPC Initiative and maintain broad macroeconomic stability. However, little progress has been made on the structural reform front, given institutional fragility and recurrent interruptions.

The experience of Chad illustrates that when authorities are committed and receive adequate support from the international community, meaningful reforms are possible even in a country facing politically and economically challenging circumstances. Chad often could not maintain the necessary focus on reform, for reasons that included the fiscal impact of oil revenues and the political destabilization emanating from regional insecurity. Even so, the Fund played a supportive role, in coordination with its development partners, in helping Chad embark on domestic resource mobilization and diversify its economy. Given the small size of the donor community, the IMF's Resident Representative has often played a key coordinating role.

The Democratic Republic of the Congo

Since independence in 1960, the Democratic Republic of the Congo (DRC) has undergone prolonged periods of political instability and economic mismanagement. Following the end of a major violent conflict (that also involved several neighboring states) in the early 2000s, the IMF reengaged with the DRC and sought to help restore macroeconomic stability, rebuild institutions severely damaged by the fighting, and address its major debt overhang. Progress was significant initially but became more uneven over time. The IMF provided financial assistance in support of two three-year programs ending in 2012 and the relationship subsequently took the form of surveillance and technical assistance, as agreement was not achieved on a program to address governance concerns. The DRC continues to be viewed as a highly fragile state and faces major challenges of ensuring political stability, improving macroeconomic policy management, and addressing serious governance and transparency issues associated with the natural resources sector, the key engine of the DRC economy.

Côte d'Ivoire

Côte d'Ivoire emerged from a decade of civil war and political conflict in 2011 and has since made steady economic progress. Before the crisis years, the country was Francophone West Africa's leading economy and main destination for foreign investment, with a high level of infrastructure development and administrative capacity. The crisis took a heavy toll on the society and economy, with collapsing economic activity and increasing poverty; the country still ranks towards the bottom of the Human Development Index.

The IMF remained engaged in Côte d'Ivoire throughout this period, including during the conflict years, when it participated in regional and global efforts to return stability to the country. In the post-conflict period, the Fund played an important role by tempering the authorities' ambition

with realism, given the enormous development needs. Using a variety of financing instruments, the IMF committed an increasing amount of resources to the country, partly in appreciation of its critical challenges and partly in response to its good record of performance. While Côte d'Ivoire's institutional capacities remained largely intact despite the conflict, a range of structural challenges—including the need to enhance the efficiency of the civil service and state-owned enterprises—required technical assistance from the IMF and the international donor community. Structural reforms were often politically difficult, but the Ivorian experience demonstrates the need for the IMF to take every opportunity to insist on reforms critical for macroeconomic stability and sustainable growth.

Haiti

Haiti is the Western Hemisphere's poorest country. Since its beginning as an independent nation in the early 19th century, a multitude of factors including historical and social elements, vulnerability to natural disasters, and political instability have made the country one of the world's most fragile states. The prospects under reform-minded governments at last seemed more positive, but a massive earthquake in 2010 caused enormous loss of life and reduced much of the capital city and surrounding areas to rubble.

Helping to address Haiti's persistent problems has proved a difficult challenge for the international community, including the IMF, which has played a prominent role in external assistance efforts. Apart from some brief interruptions, Haiti has been in a semi-continuous program or "near program" relationship with the IMF over the last six decades and has also received extensive technical assistance. Despite many reversals, the IMF's involvement has been associated with some success overall in macroeconomic stabilization, but implementing sustained structural reforms has proved more elusive, and more on-the-ground support would be helpful. Most observers consider that without IMF support, Haiti's situation would have turned out even more unfavorably. The record to date and the prospects suggest that Haiti will need to continue to rely heavily on the IMF for many years to come.

Iraq

Following the 2003 U.S. invasion, the IMF intensified its long-dormant relationship with Iraq. Although it has not provided Iraq with large amounts of financing, the Fund has since engaged with the country through a series of financial arrangements to promote macroeconomic stability and growth-enhancing structural reforms, as well as through technical assistance to build capacity and key institutions. Over the years, the IMF has provided internal discipline to government agencies and facilitated coordination among donors, despite the country's limited institutional capacity and human capital to digest its advice and analysis.

Iraqi officials who were interviewed for this evaluation expressed appreciation for the IMF's engagement and expertise. Nevertheless, they expressed a desire for more policy-focused advice that was applicable to the situation on the ground and for greater understanding of Iraq's

political fragility. While valued by authorities, IMF technical assistance has recently been significantly hampered by the staff's inability to travel to Iraq, which has diminished its ability to learn about local conditions and limited its influence and impact. Iraq is a unique case of a fragile state bestowed with large oil wealth. The IMF is expected to continue its engagement with Iraq for the medium term in policy advice and capacity building.

Kosovo

Kosovo, once an autonomous province of the Socialist Republic of Serbia within Yugoslavia, became a victim of rising conflict between Serbian and Kosovar nationalism in the context of Yugoslavia's disintegration. During the conflict that ensued from 1996 to 1999, thousands of its Albanian population were killed, and hundreds of thousands were displaced. At the war's end, Kosovo was left in shambles, devoid of institutions or capital and plagued by corruption and social tensions.

The IMF was quick to engage in Kosovo long before it unilaterally declared independence in 2008 or had its independence recognized by the International Court of Justice in 2010. Barred from providing assistance to a non-sovereign nation, the Fund made its contributions to the international reconstruction efforts in the form of technical assistance to the United Nations Mission. IMF TA helped establish preconditions for a functioning market economy, including by building the foundation of a central bank and other core macroeconomic institutions. Once Kosovo became an IMF member in 2009, the IMF began to provide financial assistance as well.

The IMF's early contributions to the building of core institutions in Kosovo are widely acknowledged to have been significant and effective. Faced with changing and complex circumstances, the IMF staff displayed a high degree of flexibility and adaptability in procedures and operations. Although Kosovo largely achieved macroeconomic stability, its program implementation was mixed in an environment of political impasse, capacity constraints, and governance problems. Kosovo's experience suggests the need to avoid overly ambitious objectives when capacity is severely limited and to collaborate with development partners to achieve progress. Given Kosovo's political uncertainty and acute lack of data, the IMF may have done too much micromanaging and been excessively conservative at times, thereby limiting the room for more growth-friendly policies.

Liberia

Even before the 1980 coup and the subsequent civil war, Liberia had exhibited many underlying features of fragility, including ethnic and social tensions, widespread poverty, and heavy dependence on world commodity prices. In 2005, following more than 20 years of internal conflict, a democratically elected president ushered in a period of political stability and socio-economic progress. The IMF was quick to engage with the new authorities who faced the unprecedented challenge of rebuilding basic economic and financial institutions entirely

destroyed by the war. Over the following years, the IMF maintained close involvement through policy advice, capacity building support, and financial assistance.

The IMF's efforts met with reasonable success in the immediate post-war years, especially as regards helping restore macroeconomic stability and addressing Liberia's enormous debt problem. Subsequently, Liberia had three successive financial arrangements with the IMF. Although macroeconomic policies under these programs were broadly satisfactory, progress with respect to structural reforms was more mixed. Clearly, Liberia will remain a fragile state for the foreseeable future and the IMF's continued involvement is widely viewed as an essential element of the support provided by the international community.

Myanmar

Sixty years of dictatorship, conflict, mismanagement, and isolation left Myanmar with a legacy of profound economic and social underdevelopment. Since the start of economic opening in the late 2000s, the IMF has supported Myanmar's transition to a functioning market economy by providing not only policy advice but also technical assistance, which became the centerpiece of its work. Myanmar has since achieved macroeconomic stability, with robust growth and stable inflation, though enormous development challenges remain to raise the economic wellbeing of its population.

A one-year Staff-Monitored Program agreed in 2013 provided a framework for reform and policy implementation. Even though progress under the SMP was strong—boosted among other things by solid national ownership and an improved relationship with the international community—the authorities afterwards refrained from engaging with the IMF in a program relationship, with or without financing. Even so, the IMF's support to Myanmar remained intense. In fact, Myanmar for some time has become the largest recipient of IMF TA. The IMF has shown flexibility and realism in adapting its mode of engagement and tailoring its advice to Myanmar's evolving circumstances.

Rwanda

Rwanda lived through an extremely difficult period following the 1994 genocide. The country needed to rehabilitate the economy, repatriate a large number of refugees and displaced persons, address military conflicts at borders, demobilize part of its army, and rebuild essential economic institutions. Today, with strong progress made in these areas, Rwanda is no longer considered a fragile state.

Throughout this period, the authorities sought policy advice and financial support from the IMF. Initially, program performance was uneven, given the enormity of the challenges. The authorities and IMF staff often did not see eye to eye on policy issues and this led to temporary suspensions of negotiations. Notwithstanding these difficulties, a close relationship was maintained, and

Rwanda's economic programs were largely successful in promoting growth, stabilizing the economy, managing debt distress risks, and reducing poverty.

The Rwandan experience illustrates the tension that can arise between conditionality and the need for the IMF to be flexible in a fragile state. The Fund adapted its modes of engagement as the country made progress in building capacity. Both the authorities and the staff showed persistence and commitment to implement the agreed programs. In helping Rwanda exit from fragility, IMF technical assistance, underpinned by the authorities' proactive engagement in identifying needs, played a critical role.

Sierra Leone

Sierra Leone's 10 year-long civil war, destructive of economic infrastructure and notorious for its atrocities, was officially declared to be over in early 2002. The IMF was quick to reestablish its engagement with the country even before the war's formal end. It has since maintained an almost uninterrupted financial relationship with the country under successive arrangements and has provided extensive technical assistance in the areas of its core competence. Program performance was initially strong, reflecting the successful political transition and favorable external conditions. Over the subsequent years, program implementation faltered and the pace of structural reform slowed. Even so, the country enjoyed a decade of strong economic performance, with real GDP on average growing at 8 percent per year amid increasing price stability.

When the country was hit in 2014 by an Ebola epidemic and a fall in international iron ore prices, the IMF reacted quickly and flexibly by augmenting access under the existing Extended Credit Facility arrangement three times, coupled with waivers of program conditions, and by providing grant-like support, under the Catastrophe Containment and Relief Trust (CCRT), to countries in the region to help deal with the impact of the Ebola crisis.

The recent experience of Sierra Leone illustrates the tradeoff that often exists between economic development and stabilization objectives; the tension such a tradeoff can create for the relationship between the Fund and a member country; the need for political economy analysis to inform a decision on program conditionality; and, above all, why work on fragile states requires humility, patience, and flexibility.

Somalia

August 2012 saw the establishment of Somalia's first permanent central government since the start of the decades-long civil war, paving the way for the IMF's reengagement with the country the following year. Somalia has received strong international support and, in February 2017, it experienced a peaceful transfer of power for the second time following elections. Even so, political stability remains fragile amid continued fighting among competing clan-based factions. Poverty is rampant, and Somalia's institutional capacity is ranked among the lowest in Africa.

The IMF has since 2013 helped strengthen Somalia's key economic institutions and supported the authorities in formulating a reform strategy. Program implementation under two Staff-Monitored Programs has been satisfactory. Given the country's outstanding arrears to external creditors, the Fund has not been able to provide financing, making technical assistance the main vehicle of IMF support. But the impact of IMF TA has been constrained by staff's inability to travel to the country, and despite the pressing need for on-the-ground support, TA and training have been given in third countries.

Timor-Leste

Timor-Leste gained independence from Indonesia in 2002 following two-and-a-half years of United Nations transitional administration. As part of concerted international efforts, the IMF's initial role was to help build state capacity from scratch, especially in treasury and central bank operations, even before the country became a member. After the key institutions of a functioning economy had been built, the IMF continued to provide technical assistance, which, for a time, made Timor-Leste one of the largest recipients of IMF TA.

The IMF has never had a lending arrangement with Timor-Leste. The initial availability of generous donor support was followed, starting from 2004, by a build-up of substantial oil and gas revenues. The country has not had a budgetary shortfall or a balance of payments problem that called for IMF financial support. The 2009 withdrawal of the Fund's resident representative further diminished the IMF's interaction with the authorities. The government's understandable desire to scale up public investment has been a continuous source of tension with the Fund's equally understandable advice to slow down the pace of withdrawal from the petroleum fund, given capacity limits and the need to extend the benefits of offshore wealth to future generations.