3

OVERVIEW OF THE IMF'S WORK ON FRAGILE STATES

KEY FEATURES OF FRAGILE STATES

The IMF maintains no formal list of fragile states, and it has relied broadly on the approach taken by the World Bank in identifying such countries for internal purposes. First, a low-income country, eligible for International Development Association (IDA) assistance,[10] is considered fragile if the three-year moving average of its Country Policy and Institutional Assessment (CPIA) scores, prepared by the World Bank, is 3.2 or lower.[11] Second, and in addition, any country is considered fragile if there has been a United Nations or regional peace-keeping/building operation there during the previous three years or if the CPIA has not been computed because of conflict. The IMF's definition differs from the World Bank's in that it uses the three-year CPIA average rather than the annual score.[12]

The IMF's list is updated about once a year, but only the 2015 list has been made public (see Appendix 1).[13] The evaluation team used this list, for example, when aggregating numbers to obtain statistics for recent years. When fragile states needed to be identified retroactively year-by-year (for example, when assessing the macroeconomic performance of fragile states as a group, or assessing how a country's fragility has evolved over time), the evaluation team used the World Bank's definition and its CPIA scores to construct a consistent list of fragile states for each year, going back to the year 2000. Despite this definitional variation, for all practical purposes broadly the same countries are identified as fragile over the evaluation period. The overall findings and conclusions of this evaluation are not dependent on the precise definition used.

State fragility often has a regional dimension and tends to be persistent. Many current and former fragile states are found in Africa and the Middle East (Figure 1). The regional concentration of fragile states implies that disorder or conflict in one state can spill over to neighboring countries through migration, refugee flows, or border insecurity. Despite extensive domestic and international efforts, often spanning decades, many fragile states continue to face entrenched obstacles to human and economic development. Of the 60 countries that the World Bank definition would have identified as fragile between 2000 and 2017, 17 remained fragile over the entire 18-year period, and 9 more were still considered fragile in 2017 after having been in that state for a decade or more (Figure 2).[14] At the same time, fragility need not be a permanent feature

[10] IDA is a concessional arm of the World Bank. It provides loans and grants to the world's poorest countries.

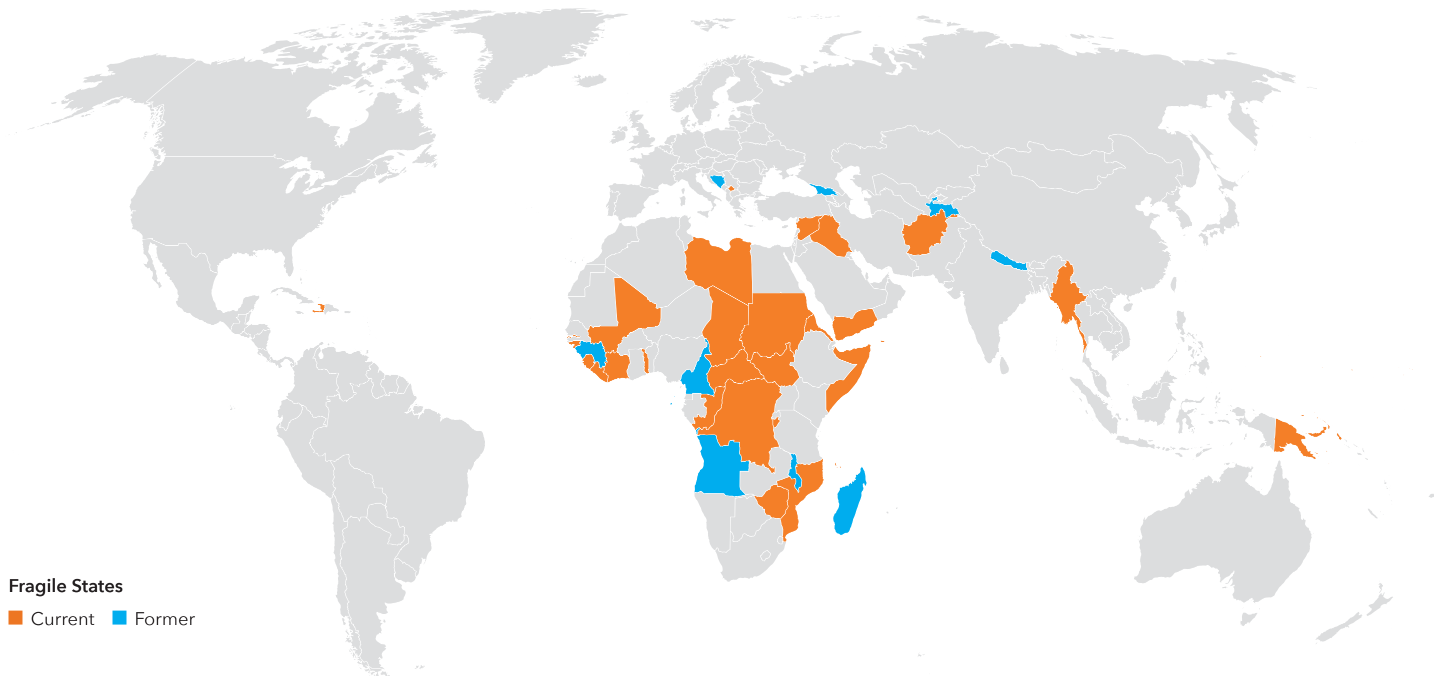
[11] A country is assigned an annual CPIA rating from 1 (low) to 6 (high) against a set of 16 criteria in 4 clusters: economic management, structural policies, policies for social inclusion, and public sector management and institutions.

[12] In addition, the World Bank uses a "Harmonized Average," which is an average of its CPIA score and the CPIA score produced by the Asian or African Development Bank for the country concerned. For 2015, the IMF list had 39 fragile states whereas the World Bank list had 35.

[13] As explained in footnote 8, the 2008 staff review (IMF, 2008a) also included a list of fragile states, but this was not based on the current definition.

[14] Of these 26 countries, 5 were classified as fragile because of the presence of peacekeeping/building operations.

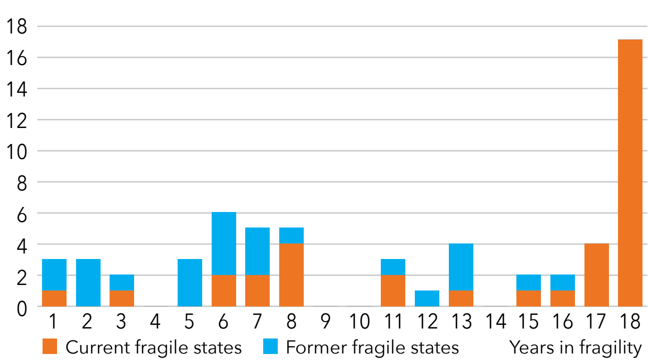
FIGURE 1. GEOGRAPHICAL DISTRIBUTION OF FRAGILE STATES, 2010–17



Sources: Fragile state designations based on World Bank, Harmonized Lists, FY 2011-18; map adapted from mapchart.net.

FIGURE 2. PERSISTENCE OF STATE FRAGILITY, 2000–17

(Number of countries)



Note: World Bank definition was applied retroactively to 2000.
Sources: IEO estimates based on data from World Bank, AfDB, UN, AU, and NATO.

of any country. As of 2017, 24 of the 60 countries had exited fragility after various lengths of time.[15]

A voluminous literature has emerged on the economics and development challenges of countries in fragile and conflict-affected situations (for bibliographies, see OECD, 2010, 2015, 2016; World Bank, 2011). Every fragile state is unique in its fragility characteristics. Some fragile states are middle-income countries (MICs) though the overwhelming majority are low-income countries (LICs).[16] A few have good administrative capacity though most do not. Nevertheless, the literature suggests, among other things, that fragile states tend to be less diversified in economic structure and more susceptible to shocks, and to experience more volatile aid flows, than the average for their non-fragile peers. In these respects, the challenges faced by fragile states are similar to those faced by small low-income states. But, in addition, fragile states characteristically suffer from political instability, weaker and less inclusive institutions, lack of state legitimacy, and poor governance. Moreover, while corruption is by no means unique to fragile states, various indicators point to a high degree of correlation between fragility and corruption (IMF, 2017d).

Among LICs, fragile states on average have lower standards of living, as reflected in lower GDP per capita; less access to electricity; and higher mortality rates, than their non-fragile

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[15] About half of these countries are post-conflict states from which peacekeeping/building operations were withdrawn.

[16] Throughout this report, LICs are defined as those eligible for IMF concessional financing; MICs are those classified by the IMF's *World Economic Outlook* (WEO) as emerging market and developing countries (EMDCs) but excluding LICs.

TABLE 1. STANDARDS OF LIVING IN FRAGILE VS. NON-FRAGILE STATES, 2014

(Low-income countries only)

	VARIABLE	FRAGILE LOW-INCOME STATES (NOB=30)	NON-FRAGILE LOW-INCOME STATES (NOB=33)
Unweighted	GDP per capita (PPP $)	2,240	4,534
	Access to electricity (%)	42.3	62.3
	Mortality rate (per 1,000)	8.9	7.5
Weighted by population	GDP per capita (PPP $)	2,311	2,631
	Access to electricity (%)	42.9	44.7
	Mortality rate (per 1,000)	9.1	7.3

Note: Includes only LICs for which data on all three variables were available for 2014; fragile states are those identified by the World Bank definition. NOB=number of observations; PPP=purchasing power parity.
Sources: IEO estimates based on IMF, World Economic Outlook database; World Bank, World Development Indicators.

TABLE 2. KEY ECONOMIC CHARACTERISTICS OF FRAGILE VS. NON-FRAGILE STATES, 2000–16

(Low-income countries only)

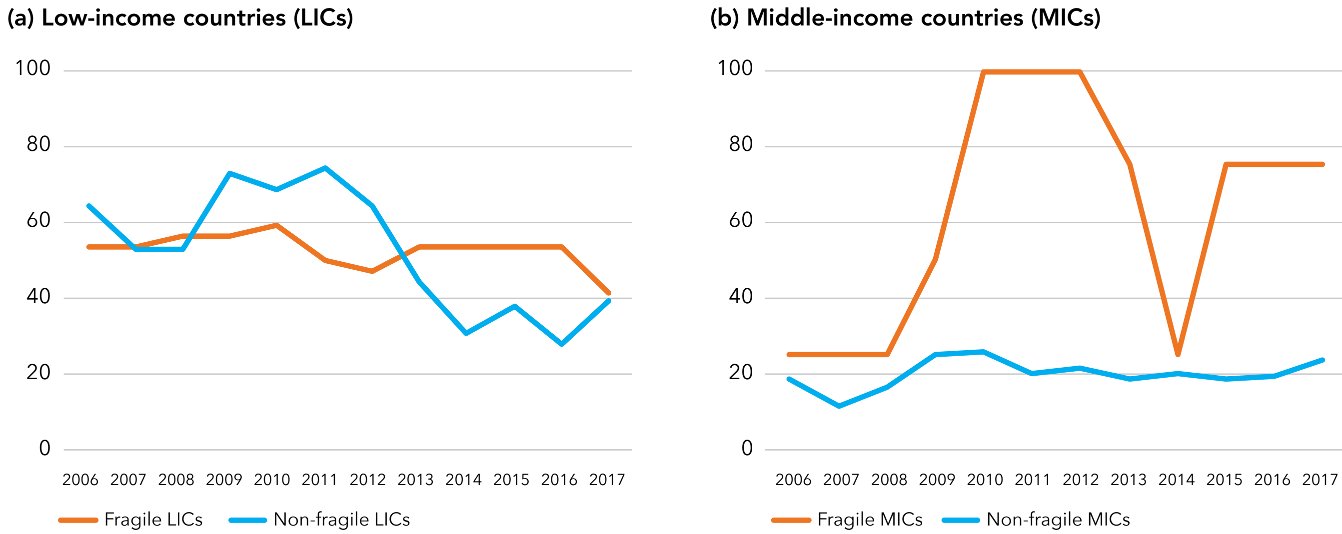
	FRAGILE LOW-INCOME STATES	NON-FRAGILE LOW-INCOME STATES
GDP growth (percent)	3.7	4.5
Inflation (percent)	9.6	6.2
External debt (percent GDP)	74.4	55.5
Tax revenue (percent GDP)	12.1	16.1
Current account balance (percent GDP)	–6.1	–9.3
Number of observations	430	599

Note: Includes all country-year observations, where all current fragile states are identified by applying the World Bank definition retroactively.
Source: IEO estimates based on IMF, World Economic Outlook database.

peers, although the difference diminishes when weighted by population size (Table 1). Moreover, they tend to display weaker macroeconomic performance (Table 2). During 2000–16, compared to the averages for their non-fragile peers, their average annual real economic growth was 0.8 percentage points lower, inflation was 3.4 percentage points higher, external debt larger by 18.9 percentage points of GDP, and tax revenue lower by 4 percentage points of GDP. Their average current account deficit was smaller by 3.2 percentage points of GDP, pointing to their more limited access to external financing.[17] Larger output variability is typically identified as a feature of fragile states, but their national income data tend to be poor, making observed larger volatility indistinguishable from the noise inherent in estimates of GDP. However, the use of satellite images of light visible from space for a given area of the earth, as an independent proxy measure of economic activity, confirms that greater fragility (as measured by a lower CPIA score) is associated with greater variability of GDP growth (Kuruc, 2018).

[17] None of these qualitative observations change if the median numbers are used instead of the mean.

FIGURE 3. SHARE OF MEMBERSHIP WITH IMF ARRANGEMENTS, 2006–17: FRAGILE VS. NON-FRAGILE STATES
(In percent of total in each category)



Note: For all arrangements approved or ongoing as of January 1, 2006; fragile states are identified by the 2015 SPR list.
Sources: IEO estimates based on IMF Lending Arrangements; SPR, Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, or after, November 1998.

THE SCALE OF IMF ENGAGEMENT WITH FRAGILE STATES

The IMF engages with member countries through surveillance, lending, and capacity development. Of the three activities, surveillance is obligatory on the part of both the IMF and the member country concerned, while it is only at a member's request that the IMF provides financial or capacity development support. Because in fragile states the policy advice role of surveillance is highly integrated with other activities, this evaluation primarily focuses on program lending and capacity development rather than on surveillance per se. Fragile states in which the IMF is not involved in program lending or capacity development often do not hold Article IV consultations because of instability and security concerns, as in Libya and Syria (see Appendix 1).

The IMF has provided financing to FCS through various facilities, some of which are dedicated to LICs and others specially designed to provide rapid financing for countries in the wake of conflict or a natural disaster. No specific facility is dedicated to FCS. Between 2006 and 2017, the incidence of IMF borrowing (including under emergency facilities) by fragile LICs differed little from that by non-fragile LICs (Figure 3a). But among fragile MICs between 2009 and 2017, the incidence of IMF borrowing was significantly higher than that of their non-fragile peers, except in 2014 (Figure 3b). The incidence of countries borrowing under the quick-disbursing, low conditionality Rapid Credit Facility (RCF) was somewhat higher among fragile LICs.[18] Some fragile states including Liberia gained access to Fund resources only after complicated arrears-clearance operations, while others such as Cambodia, Somalia, and Sudan have not had access to Fund resources for many years; long-standing arrears to official creditors (if not to the IMF itself) have limited the IMF's role in these countries.

Among LICs, access to Fund resources (as a share of a member country's quota) has typically been considerably lower for FCS than for non-FCS.[19] As a share of the IMF's total LIC financing under arrangements between 2010 and 2017, fragile states accounted for 22.9 percent in terms of

[18] From its inception in 2010 through 2017, the RCF had 10 FCS and 7 non-FCS LIC borrowers.

[19] In nearly 40 percent of the Extended Credit Facility (ECF)–supported arrangements with fragile states between 2010 and 2016, the access level was 20–40 percent below the applicable norms, while in most ECF arrangements with non-FCS during the same period the access level was on par with the applicable norm. By contrast, in 2017, access levels for FCS arrangements exceeded the applicable norms.

TABLE 3. IMF COMMITMENTS AND DISBURSEMENTS TO FRAGILE VS. NON-FRAGILE STATES, 2010–17

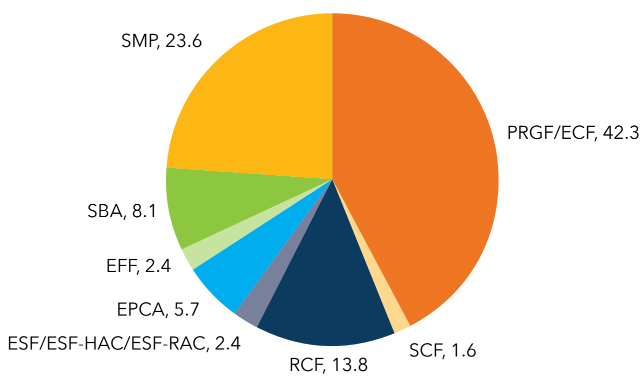
(In billions of SDRs and in percent)

COUNTRY GROUPING		COMMITMENTS (Percent share in each category)	DISBURSEMENTS (Percent share of commitments)
Low-income	Fragile	4.38 (22.9)	3.22 (73.5)
	Non-fragile	14.74 (77.1)	11.50 (78.0)
Middle-income	Fragile	5.58 (7.3)	2.99 (53.6)
	Non-fragile	70.77 (92.7)	16.62 (31.4)

Note: All arrangements approved or ongoing as of January 1, 2010 and ended by December 31, 2017; excludes undrawn precautionary arrangements. Fragile states are identified by the 2015 SPR list.
Sources: IEO estimates based on SPR, Fund Arrangements since 1952; SPR, LIC Arrangements and Instruments Approved on, or after, November 1998; IMF Members' Financial Data by Country.

FIGURE 4. DISTRIBUTION OF FRAGILE STATE ARRANGEMENTS OR INSTRUMENTS BY TYPE, 2006–17

(In percent)



Note: All arrangements approved or ongoing as of January 1, 2006. PRGF/ECF=Poverty Reduction and Growth Facility/Extended Credit Facility; SCF=Standby Credit Facility; RCF=Rapid Credit Facility; SBA=Stand-By Arrangement; EFF=Extended Fund Facility; ESF/ESF-HAC/ESF-RAC=Exogenous Shocks Facility/-High Access Component/-Rapid Access Component; EPCA=Emergency Post-Conflict Assistance; SMP=Staff-Monitored Program. Fragile states are identified by the 2015 SPR list.
Sources: IEO estimates based on SPR, Fund Arrangements since 1952; LIC Arrangements and Instruments Approved.

commitments (or about SDR 4.4 billion) (Table 3). The four MICs that feature in the list of fragile states represented a very small fraction of total IMF lending commitments to MICs (7.3 percent; SDR 5.6 billion). The amount disbursed as a share of total commitments was 73.5 percent for fragile LICs—similar to the 78.0 percent disbursed for non-fragile LICs—and was 53.6 percent for fragile MICs—compared to 31.4 percent for non-fragile MICs.

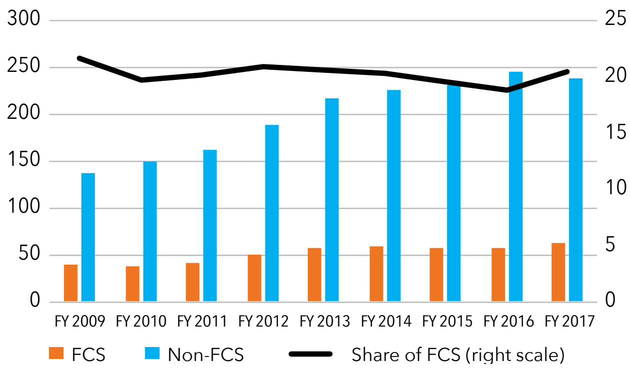
Over the period 2006–17, roughly one-fifth of the IMF's program engagement in fragile states utilized rapid access facilities that did not require upper-credit-tranche (UCT) conditionality (Figure 4).[20] In about a quarter of FCS cases, program engagement took the form of Staff-Monitored Programs (SMPs),[21] which involve no financing and are typically used to build a track record of policy performance to pave the way for use of Fund resources (UFR). Nearly 60 percent of the FCS programs used concessional facilities dedicated to LICs under what is now known as the Poverty Reduction and Growth Trust (PRGT); these facilities included the Poverty Reduction and Growth Facility (PRGF)/Extended Credit Facility (ECF), the Standby Credit Facility (SCF), and the Rapid Credit Facility (RCF).[22] Reforms of the PRGT and other lending facilities,

[20] UCT refers to access above the first 25 percent of a member's quota; it requires higher standards of conditionality.

[21] SMPs are approved by IMF management but do not require Executive Board approval. Under an SMP, countries formulate a macroeconomic policy framework to be monitored by staff. In addition, the IMF maintains another non-financing instrument called the Policy Support Instrument (PSI), which functions as a signaling device of good economic performance to facilitate a country's access to external financing. This requires Board approval.

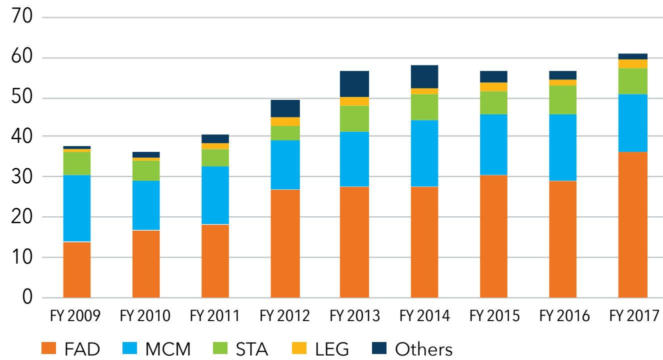
[22] In 2009, all concessional facilities were placed under the umbrella of a single trust (PRGT), and streamlined into three: the ECF, the SCF, and the RCF (replacing the Emergency Natural Disaster Assistance (ENDA), Emergency Post-Conflict Assistance (EPCA), and the rapid access component of the Exogenous Shocks Facility) (IMF, 2009a, 2009b, 2009c). In 2015, the Catastrophe Containment and Relief Trust was introduced.

FIGURE 5. IMF TA TO FRAGILE VS. NON-FRAGILE STATES, FY 2009–17
(In person-years of field delivery—left scale; in percent—right scale)



Note: Fragile states are identified by the 2015 SPR list; TA delivered to multiple countries and regional institutions is excluded.
Source: IEO estimates based on ICD data.

FIGURE 6. IMF TA TO FRAGILE STATES, BY PROVIDER, FY 2009–17
(In person-years of field delivery)



Note: Fragile states are identified by the 2015 SPR list; TA delivered to multiple countries and regional institutions is excluded; FAD=Fiscal Affairs Department; MCM=Monetary and Capital Markets Department; STA=Statistics Department; LEG=Legal Department.
Source: IEO estimates based on ICD data.

undertaken in 2015, had the effect of increasing access for fragile LICs, including by: raising access norms by 50 percent across the concessional facilities for all PRGT-eligible countries; by taking steps to focus concessional financing to support the poorest and most vulnerable PRGT-eligible countries; by increasing access to fast-disbursing support under the RCF and Rapid Financing Instrument (RFI); and by setting the interest rate on RCF loans at zero percent (IMF, 2015b, 2015d).

In the area of capacity development, the IMF increased its technical assistance allocations to FCS from fewer than 40 person-years of field delivery in FY 2009 to more than 60 person-years in FY 2017,[23] although the fragile states' share in the Fund's total TA remained around 20 percent (Figure 5). The IMF's capacity development role in FCS has been most prominent in public finances, including tax administration and public financial management (Kim, 2018b; also IMF, 2017b, 2017c; Gelbard and others, 2015). Over the period FY 2009–17, about half the amount of IMF technical assistance, as measured in person-years, was given by the Fiscal Affairs Department (FAD) (Figure 6). This was followed by the Monetary and Capital Markets Department (MCM), whose TA focused on banking supervision, monetary policy and central bank operations, and currency reform in an early stage of post-conflict reconstruction.

IMF INSTITUTIONAL GUIDANCE ON FCS WORK

Since 2008, the IMF staff has conducted three reviews of its work on fragile states (IMF, 2008a, 2011a, 2015c). Of the three, the 2011 review was a landmark document. It signaled an intensification of efforts to improve engagement with fragile states and led, in the following year, to the issuance of a Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations (IMF, 2012). The Guidance Note highlighted, among other things, the need for FCS work to be informed by (i) attention to political economy context; (ii) the content and pace of reforms that reflect security and social needs as well as capacity constraints; (iii) approaches conducive to sustained engagement; and (iv) close coordination with donors. The Guidance Note also observed that capacity building should be an integral part of the Fund's engagement and (i) be guided by close attention to a country's absorptive capacity; (ii) be aligned with program objectives; (iii) involve country authorities in the preparation of a medium-term plan; and (iv) rely on resident advisors. In these and other documents, the IMF repeatedly recognized the need for special treatment of fragile states (see Appendix 2 for an overview of the IMF's institutional learning on FCS work).

[23] An effective person-year of field delivery is defined as 260–262 working days of staff or expert time.