IEO
Independent Evaluation Office
of the International Monetary Fund

BACKGROUND PAPER

BP/18-01/01

The IMF and Fragile States: Eight African Country Cases

Shinji Takagi, Donal Donovan, Steve Kayizzi-Mugerwa, and Lorenzo L. Perez

Address. 700 19th Street, N.W., Washington, D.C. 20431, U.S.A. Telephone. +1 202 623 7312 Fax. +1 202 623 9990 Email. ieo@imf.org Website. www.ieo-imf.org

 BP/18-01/01

IEO Background Paper
Independent Evaluation Office
of the International Monetary Fund

The IMF and Fragile States: Eight African Country Cases

Prepared by
Shinji Takagi, Donal Donovan, Steve Kayizzi-Mugerwa, and Lorenzo L. Perez

March 6, 2018

Abstract

The paper presents eight African country cases to support the IEO evaluation "The IMF and Fragile States." For each country, it provides brief historical background, discusses the nature of its fragility, and assesses the IMF's relationship with that country. The countries covered are: Angola, Chad, the Democratic Republic of the Congo, Côte d'Ivoire, Liberia, Rwanda, Sierra Leone, and Somalia.

Contents Page

ABBREVIATIONS

AfDB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Center (IMF)
APC	All People's Congress (Sierra Leone)
BEAC	Bank of Central African States
CBF	Capacity-Building Framework (IMF)
CBL	Central Bank of Liberia
CBS	Central Bank of Somalia
CCRT	Catastrophe Containment and Relief Trust (IMF)
CEMAC	Central African Economic and Monetary Community
CPIA	country policy and institutional assessment (World Bank)
DFID	Department for International Development (United Kingdom)
DRC	Democratic Republic of the Congo
EBA	external balance assessment (IMF)
ECF	Extended Credit Facility (IMF)
EFF	Extended Fund Facility (IMF)
EPA	ex post assessment (IMF)
EPCA	Emergency Post-Conflict Assistance (IMF)
ESAF	Enhanced Structural Adjustment Facility (IMF)
EU	European Union
FAD	Fiscal Affairs Department (IMF)
FDI	foreign direct investment
FGS	Federal Government of Somalia
FSAP	Financial Sector Assessment Program (IMF, World Bank)
FSSA	Financial System Stability Assessment (IMF)
GDP	gross domestic product
HIPC	Heavily Indebted Poor Countries (IMF, World Bank)
ICD	Institute for Capacity Development (IMF)
IDP	internally displaced person
IEO	Independent Evaluation Office (IMF)
IMF	International Monetary Fund
LEG	Legal Department (IMF)
LIC	low-income country
MAE	Monetary and Exchange Affairs Department (Predecessor of current MCM) (IMF)
MCM	Monetary and Capital Markets Department (IMF)
MPLA	People's Movement for the Liberation of Angola
NPV	net present value
PARMEHUTU	Party of the Hutu Emancipation Movement (Rwanda)
PFM	public financial management
PRGF	Poverty Reduction and Growth Facility (IMF)

PRSP	Poverty Reduction Strategy Paper (IMF, World Bank)
PSI	policy support instrument (IMF)
RCF	Rapid Credit Facility (IMF)
RPF	Rwanda Patriotic Front
RTAC	regional technical assistance center (IMF)
RUF	Revolutionary United Front (Sierra Leone)
SAF	Structural Adjustment Facility (IMF)
SB	structural benchmark (IMF)
SBA	Stand-by Arrangement (IMF)
SCF	Stand-by Credit Facility (IMF)
SDR	Special Drawing Right (IMF)
SLPP	Sierra Leone People's Party
SMP	Staff-Monitored Program (IMF)
SRC	Supreme Revolutionary Council (Somalia)
STA	Statistics Department (IMF)
SYL	Somali Youth League
TA	technical assistance
TFG	Transitional Federal Government (Somalia)
UCT	upper credit tranche (IMF)
U.K.	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
UNITA	National Union for the Total Liberation of Angola
U.S.	United States
WHO	World Health Organization

CHAPTER 1—ANGOLA[1]

SUMMARY

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 Staff-Monitored Programs (SMPs), but performance proved unsatisfactory. This was followed by a relatively successful Stand-By Arrangement (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 technical assistance (TA) highly. In interviews with the evaluation team, some raised concerns regarding the IMF's responsiveness to TA requests and the need for practical implementation support. Cooperation between the IMF and partners had been good. Staff outreach efforts were appreciated and could have been stronger.

I. BACKGROUND

A. Brief History[2]

1. In 1961, a full-scale armed struggle began for independence from Portugal, Angola's colonial power from the mid-17th century onwards. The war became increasingly unpopular in Lisbon, and in the wake of a leftist military coup in 1974 the new Portuguese government granted independence to Angola. Portuguese settlers largely fled the country and a bitter civil war ensued that lasted more than 25 years. The war involved the two main rebel groups, the People's Movement for the Liberation of Angola (MPLA), with a heavily Marxist orientation, and the National Union for the Total Independence of Angola (UNITA) supported mainly in rural areas, as well as their foreign proxies and supporters who mainly reflected Cold War rivalries.

---

[1] Contributor: Donal Donovan.

[2] For a comprehensive account of recent Angolan history and politics, see Soares de Oliveira (2015).

2. By the end of the 1980s, the MPLA, helped by financial resources from the oil sector,[3] had gained the upper hand in urban areas, including the capital, Luanda. As the Cold War drew to a close, South Africa reduced substantially its overt military presence in Angola and Cuban forces returned home. With the help of foreign mercenaries, shifting regional alliances, and a more sympathetic ear from some western political interests, the tide began to turn more decisively against UNITA. Nevertheless, intense fighting continued during most of the 1990s, marked by massive aerial bombardments, large-scale forced displacement of people, and the total destruction of most infrastructure. Peace only arrived finally with the capture and killing of the UNITA leader, Jonas Savimbi, in 2002.

3. The clear-cut military victory by the MPLA led to the disappearance of two parallel governing entities and the country has not experienced subsequently any significant threats to its territorial sovereignty; nor have any domestic secessionist movements arisen. The absence of reprisals and the efforts made to reintegrate ex-UNITA fighters within the army and society were key features. Since 2002 the MPLA has dominated political life, easily winning elections in 2008, 2012, and 2017.[4] Although direct repression of opposition forces has not been a feature, the government has generally maintained strong control over the media and key aspects of civil society, including via the selective distribution of access to the fruits of Angola's immense natural resources.

4. Since the war ended, the MPLA's economic policy has been marked by a pragmatic post-Marxist rhetoric that facilitated exploitation of Angola's oil wealth and a massive economic boom. Angola quickly achieved a high degree of macroeconomic stabilization, characterized by declining inflation and accelerating growth (Figure 1.1). Sonangol, the state oil company, has played a leading role throughout the economy. The leadership's reluctance, for much of the period, to promote greater transparency in Sonangol's financial operations (which largely took place outside normal budgetary channels) was a significant source of stress in Angola's dialogue with the international community, as was, more generally, some distrust of the "western model" of good governance. Against the background of a rural-urban divide—itself a legacy of the colonial period and civil war cleavages—the need to promote economic diversification and to address social-sector-related issues in a concerted manner has also featured prominently at times. The government has adjusted its approach to these issues over the years, and this has had an important impact on Angola's relationship with external partners.[5]

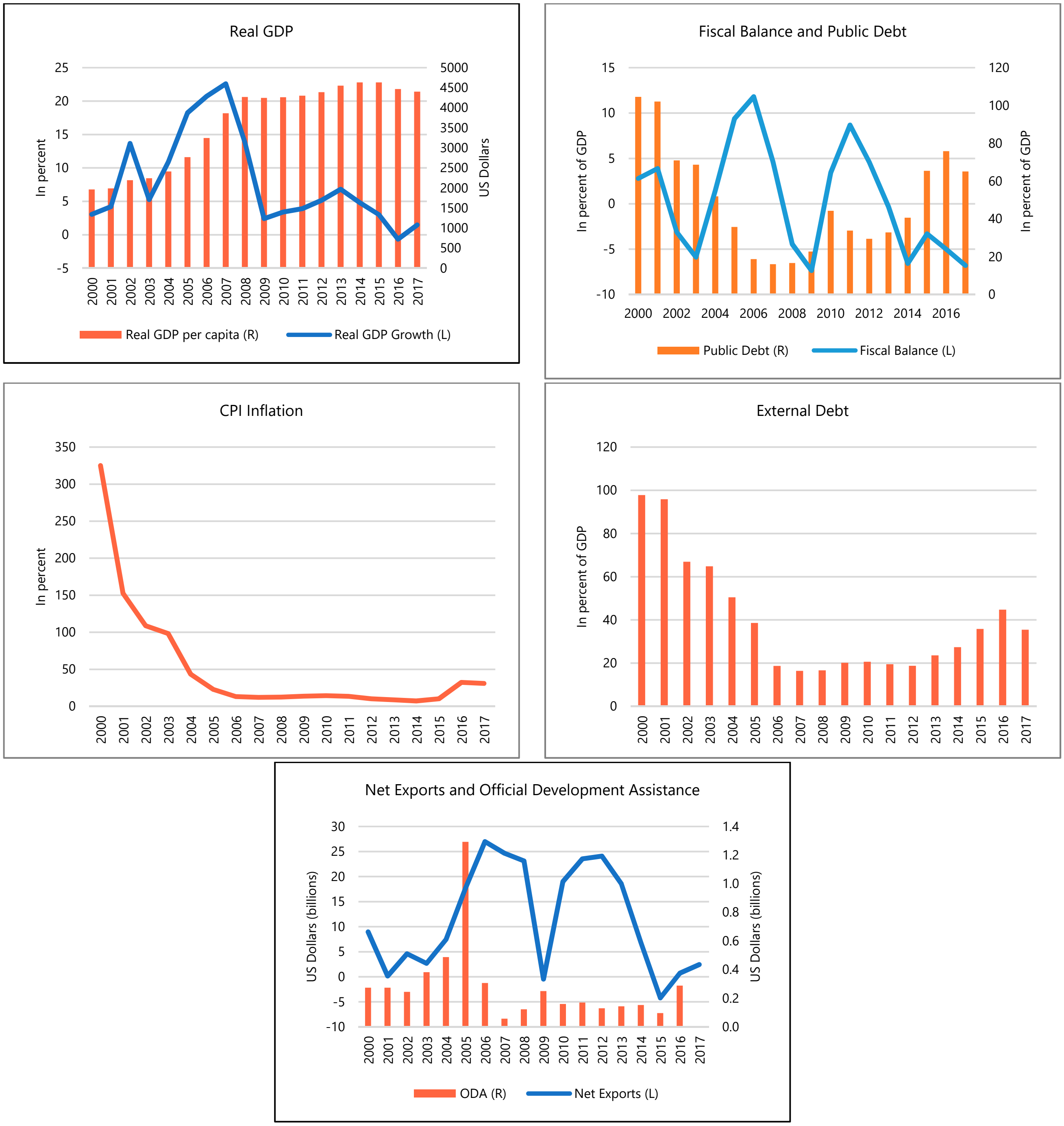
---

[3] Despite its ideological leanings, the MPLA was supported throughout by western oil corporations concerned with protecting their presence in Angola.

[4] Under the constitution, the leader of the largest party in the legislature automatically becomes president. In late 2017, Joao Laurenco became president, replacing Jose dos Santos who had been in office for 38 years.

[5] Externally, Angola has become a major and well-publicized foreign investor both in Africa and worldwide, including in Portugal.

Figure 1.1. Angola: Key Macroeconomic Indicators, 2000–17



Sources: October 2017 *WEO* database; OECD DAC statistics.

B. Sources of Fragility

5. Angola was included in the lists of "fragile states" compiled by the World Bank during FY 2010–13 but has not featured in them since then, initially reflecting the higher Country Policy and Institutional Assessment rating accorded the country by the African Development Bank.[6] Once the immediate post-conflict period began to recede, inclusion of Angola in the category of fragile states became a more complex matter. While Angola has not shared some of the widely recognized characteristics of fragile states, many observers would still consider "institutional and policy implementation weakness" to apply to Angola, although it can be argued that the authorities have often been able to "get things done," even though some of their policies and their implementation have not won wide favor.[7] Human and technical resources and (at times) financing have also been constrained, although Angola has enjoyed political stability and the absence of civil unrest since the war ended. Finally, Angola remains heavily dependent on oil exports and is vulnerable to external shocks affecting commodity exports.

II. THE IMF'S RELATIONSHIP WITH ANGOLA

6. The IMF had provided various forms of support to Angola since independence in 1975, although the continuing civil war placed constraints on the extent of its earlier involvement. Once the war started to wind down, the IMF began to step up its engagement, and since 2000 its relationship with Angola has evolved significantly. Initially, several attempts were made to agree on or to implement Staff-Monitored Programs (SMPs). These efforts were followed eventually by a 27-month Stand-by Arrangement (SBA) in 2009 (Figure 1.2). After the SBA expired, the relationship reverted to that of surveillance only, accompanied by the provision of TA.

A. The First Phase (2000–07)

7. The first phase of IMF engagement (2000–07) involved a series of on/off discussions on an SMP. The intention was to use the SMP as a transition to an SBA, which would in turn facilitate a settlement of Angola's debts vis-à-vis the Paris Club.[8] However, this strategy proved

---

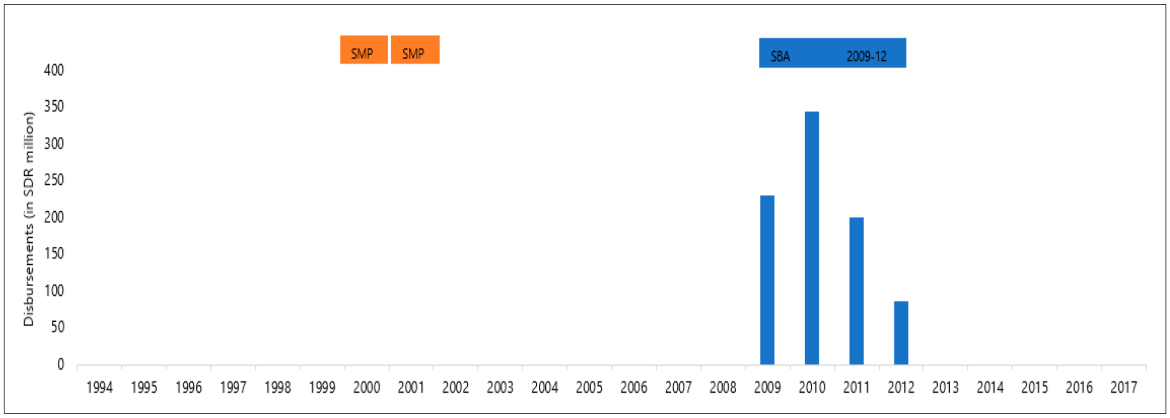
[6] In FY 2013, the last year in which Angola was listed on the fragile situations list, the country's CPIA score was 2.7 as produced by the World Bank and 3.2 as produced by the African Development Bank. To be considered fragile, the average score must be smaller than 3.2.

[7] In response to some external critics, the authorities have cited Angola's achievement of an enduring post-conflict peace and reconciliation, a booming economy that has become the third largest in Africa, and the rebuilding of key infrastructure destroyed entirely during the war.

[8] The President, shortly after the end of the civil war, had called for an international donor conference to address Angola's major post-war reconstruction needs. However, partners had indicated that the debt problem would first need to be addressed. Some former officials pointed to a feeling at the time that the international community had not recognized sufficiently Angola's constructive role in regional affairs and in achieving post-conflict political stability and reconciliation.

unsuccessful, to a significant extent foundering on transparency and governance issues associated with the management of oil sector revenues.

Figure 1.2. Angola: Timeline of IMF Engagement, 1994–2017



Notes: SBA=Stand-By Arrangement; SMP=Staff-Monitored Program.

Sources: SPR, List of Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, or after, November 1998 (as of July 31, 2017). IMF Members' Financial Data by Country, Transactions with the Fund.

8. Performance under the two SMPs spanning the period 2000–01 was judged to be unsatisfactory. Although progress was made in some areas, many planned measures were not implemented while progress towards macroeconomic stabilization was slower than expected. In 2002, in what was to become a recurrent theme, the IMF staff emphasized major governance concerns. The lack of transparency of Sonangol's operations, including its relationship to the budget, external borrowing practices, extra-budgetary expenditures, and large quasi-fiscal operations, was highlighted. At that time the authorities indicated that they were not interested in pursuing another SMP, in part because "they preferred not to be committed to public commitments and timetables."[9]

9. In the 2003 Article IV consultation report, the Fund staff continued to be critical of the authorities' policy stance. Despite (or perhaps because of) the booming oil sector, the non-oil sector had declined, inflation had soared, and extreme poverty had increased. There had been little progress on structural reforms. The authorities expressed renewed interest in an SMP and, with the staff reporting some improvements in 2004, discussions on a possible SMP continued. However, reporting on the 2006 Article IV consultation, the staff concluded that "little progress [had] been made on policy recommendations [of] Executive Directors," and painted an exceptionally gloomy picture of prevailing social indicators. In another reversal, the authorities stated that they did not wish to discuss further a possible SMP. The above themes were reiterated by the staff in 2007.

[9] The extensive technical assistance program provided by the Fund during the 1990s was largely wound down, mainly in reaction to the authorities' limited responsiveness.

B. The Second Phase (2009–12)

10. A new phase in Angola's relationship with the IMF began in 2009, when the global economic slowdown and the collapse in oil prices led to a sudden and sharp deterioration in the Angolan economy. The staff provided advice on the needed macroeconomic adjustment measures; discussions regarding governance, Sonangol, and public financial management-related issues featured somewhat less prominently. In late 2009, following a meeting in Italy between President dos Santos and the IMF Managing Director, understandings were reached successfully on a 27-month SBA. All six reviews under that arrangement were completed and the program was generally described as being "on track" throughout. Staff concluded at the end of the SBA that the program "had met the key objective of restoring macroeconomic stability." However, policy implementation was assessed more guardedly, especially as regards some aspects of public financial management.[10]

C. The Third Phase (2012–present)

11. Following the expiration of the SBA in 2012, the relationship entered a third phase, involving post-program monitoring (in 2012 and 2014) and surveillance in the context of Article IV consultation discussions, and regular staff visits and capacity development work. Several of the themes that arose during the earlier SBA continued to feature. Since the sharp declines in world oil prices in 2014, there have been some intermittent exploratory discussions as to whether the authorities might wish to consider adopting a program supported by the IMF.

III. STAKEHOLDER VIEWS

A. The IMF's Overall Impact

12. Current and former officials and staff members involved with Angola in the post-conflict period attributed the early lack of success to several factors. First, the IMF had underestimated the constraints, both political and administrative, that Angola faced as a legacy of the devastating civil war. As one former senior official put it, the authorities at the political level were "simply not in a position" to adopt the kind of far-reaching measures advocated by the IMF. For example, from their perspective, reliance on Sonangol to finance immediate financing needs outside regular budgetary channels could not be dispensed with quickly.[11] Second, although the

---

[10] Perhaps the most difficult issue was the discovery in early 2011 of a large unexplained residual in the 2007–10 budget accounts (about $32 billion, or 25 per cent of GDP) that mainly reflected quasi-fiscal operations by Sonangol not recorded in the budget. Other issues that emerged during the SBA included the need to strengthen debt management, deal with a large stock of domestic arrears, and establish a sovereign wealth fund.

[11] The approach to Angola, especially regarding transparency and governance issues, occasioned considerable debate within the IMF, including extensive interaction with management. Some staff members involved in these discussions indicated to the IEO that the IMF could have taken a more accommodating and gradualist approach, including by providing extensive TA to help address issues of public financial management arising from institutional weaknesses.

need for reforms was increasingly recognized at the technical level, it proved difficult to convince the political leadership to move ahead, absent a track record of mutual confidence.[12] Third, in the latter part of the period, sharply rising oil production and a boom in oil prices, together with greatly increased bilateral financing from China, reduced Angola's incentive for entering into a financial arrangement with the IMF.[13]

13. The situation changed sharply during 2008–09, in the wake of the onset of a serious internal financial crisis. The authorities had taken some steps to address the fiscal transparency issue, including an audit of Sonangol,[14] and the IMF and the authorities moved quickly to agree on a program supported by a 27-month SBA. In the view of all stakeholders, this represented a turning point. The SBA was accompanied by extensive IMF TA and largely succeeded in restoring macroeconomic stability. It also had a major lasting impact in helping the authorities to understand better the Fund's modus operandi and to develop their analytical and institutional capacities. It was noted, for instance, that the key officials involved in implementing the SBA successfully went on to occupy high-level positions within the administration.

14. After the expiration of the SBA in 2012, the relationship continued to develop positively. The legacy of earlier mistrust dissipated over time and the benefits of interaction with the IMF became more widely (although not universally) recognized throughout the Angolan administration. The authorities viewed the surveillance relationship as productive from an analytical perspective and also as important in enhancing Angola's relationship with the international financial community. They considered that the IMF could continue to play an important role in helping develop and monitor their macroeconomic stabilization efforts as well as in providing supportive TA to address well-identified outstanding analytical and institutional weaknesses.

B. The IMF's Policy Advice

15. Both the current and former officials interviewed for this evaluation accorded high marks overall to the professional competence and analytical capabilities of the IMF staff involved in Angola. However, some had a less positive view of the staff's willingness at times (especially in earlier periods in the context of discussions on a possible program) to appreciate and take sufficient account of political, administrative, and social constraints. This lack of realism, they thought, may have reflected the IMF's broader institutional constraints and approach at the time.

---

[12] For instance, in 2005 agreement was reached at the technical level as to the broad parameters of a possible SBA. But subsequently the political leadership decided not to proceed and the initiative lapsed.

[13] Against this background, in 2006 the authorities took the decision not to continue to seek a rescheduling with the Paris Club, opting instead to settle their outstanding debt obligations directly.

[14] This was followed by additional measures, such as a reconciliation of Sonangol's financial operations vis-à-vis the budget.

That said, the officials had observed a distinct improvement in the tone of the dialogue in more recent years and welcomed the open and frank discussions held with visiting teams.

16. The IMF's policy advice in the surveillance context was generally viewed as sound in substance. But while there was often agreement on the need for particular measures (for example, more flexibility in exchange rate policy or budgetary adjustments), the authorities emphasized that the timing of their possible implementation had to take into greater account elements such as the electoral cycle. They noted that the staff had sought to make clear that the timing of implementation was a matter for the authorities to decide, while at the same time pointing out the possible implications of alternative strategies.

17. Current and former officials expressed a range of views as to whether the IMF should provide more extensive advice on social-sector-related issues. Over the years, staff reports on a number of occasions drew attention to Angola's relatively weak social indicators, notwithstanding the overall prosperity associated with the oil boom. Some officials argued that achieving greater progress in this area was essential to underpin the gains from macroeconomic stabilization (the 2008 SBA included references to this aspect). Given the limitations of the IMF's mandate and expertise, close cooperation with the World Bank was generally viewed as the best way to proceed. The difficulties in assessing with confidence the impact of specific measures on social sector indicators were noted. As a separate matter, several stakeholders felt that the IMF should not hesitate to raise issues of fiscal transparency and governance when warranted.

C. The IMF's Financial Facilities

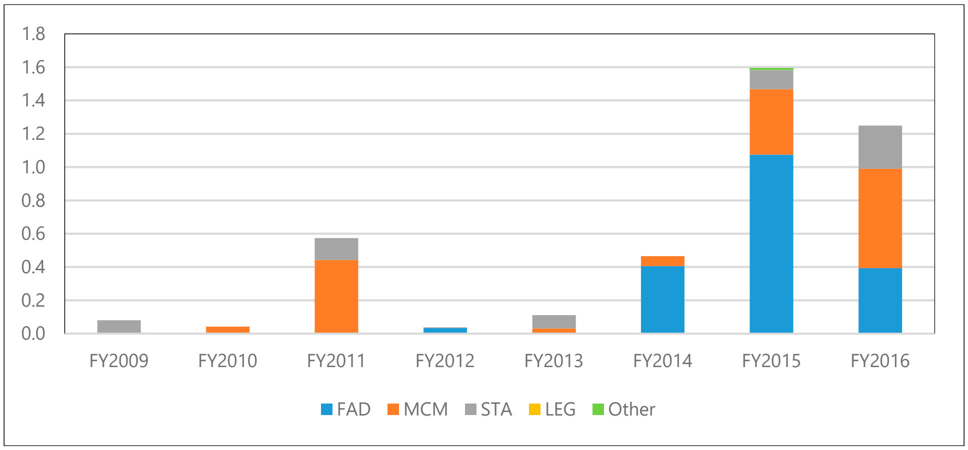
18. Several former officials observed that the failure of the SMP approach in the early period was partly due to the lack of financial incentives and to uncertainty about whether or when the SMPs might be followed by agreement on a program involving financing. Also, as indicated above, in their view the conditionality implicit in the discussion on SMPs had been too demanding to be complied with, and thus the SMPs had not been a realistic approach to establishing the needed "track record." However, they understood that the IMF had since widened its range of facilities and instruments. They welcomed the scope that this could provide for a more "graduated" and patient approach towards developing a program consistent with upper credit-tranche-type conditionality.

D. Capacity Development Work

19. The officials thought very highly of the quality of TA provided by the IMF, which has grown in the last few years (Figure 1.3). The National Bank of Angola had benefited greatly in all aspects of its operations, as had the Ministry of Finance more recently, especially on revenue issues; substantial assistance has been provided by AFRITAC South. The authorities had generally been receptive to TA-related recommendations, although in some areas—such as the structure and modalities of Angola's sovereign wealth fund and increasing nonoil sector revenue—the recommendations had been only partially implemented. While Angola had over the years

engaged external consultants to help address some aspects, this was not a substitute for the unique expertise and experience the Fund could provide, including, for example, on broader macro-fiscal issues. Looking forward, the authorities valued greatly this feature of the IMF's engagement.

Figure 1.3. Angola: IMF Technical Assistance, FY 2009–16
(In person-years)



Source: IEO estimates based on ICD data.

20. Officials raised two issues concerning IMF technical assistance. First, leaving aside the experience in earlier periods, there was a concern that at times the IMF tended to react too slowly to TA requests, especially when it itself had emphasized the need for action in certain areas.[15] While recognizing the timing and procedural constraints associated with the Fund's internal allocative processes for TA, some suggested that in certain cases where full TA engagement required preparatory steps (for example, the provision of needed data), the IMF should be open to providing "advance TA" to help lay the necessary groundwork. However, most of the officials felt that in order to promote ownership and a sense of shared commitment, the groundwork should be done by the authorities themselves.

21. Second, the officials emphasized the importance of providing "on the ground" training and support in practical implementation by experts who possessed a thorough knowledge of the Angolan environment and systems. For this, it would be usually better to use resident advisors rather than relying on long-distance communications and a series of short-term visits. It was suggested that given the Fund's budgetary constraints, flexible arrangements might be explored, if circumstances warranted, whereby the authorities themselves could help defray the expenses involved.

[15] An example cited was assistance to help establish a medium-term fiscal framework, a measure urged on several occasions in Article IV consultation reports. FAD did send three TA missions on this topic from 2013.

E. Cooperation with Partners

22. A structured forum for donor coordination is not currently present in Angola, but IMF staff interacts on an ongoing basis with representatives of the main partner countries, including via debriefings by visiting missions. The Article IV consultation reports are viewed as essential source documents covering recent developments and the outlook. Partners valued highly this cooperation and the opportunity it provided for a constructive and informed exchange of views on important issues.

F. Outreach

23. Stakeholders welcomed the more recent extensive outreach activities undertaken by the IMF via ongoing interaction of the Resident Representative in Angola with parliamentarians, the media, and representatives of civil society. They felt those activities had been very helpful in explaining the IMF's mandate and in dispelling possible misunderstandings, and should be continued and strengthened. Outreach had expanded over time as the relationship with the IMF matured.

References

International Monetary Fund (IMF), 2012, "Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations" (Washington).

Soares de Oliveira, Ricardo, 2015, *Magnificent and Beggar Land: Angola since the Civil War* (Oxford: Oxford University Press).

CHAPTER 2—CHAD[1]

SUMMARY

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.

I. BACKGROUND[2]

A. Brief History

1. Chad is Africa's fifth largest country in terms of land size (1.28 million km^2), with a population of some 15 million in 2017. About one-fifth of the population lives in the capital, N'Djamena, and other urban centers. The country has 120 languages and dialects, with the Sara dominating in the south and Chadian Arabs in the north.

2. Although by the beginning of the 20th century the French had effectively established their claim over the vast territory that comprises Chad today, a civil administration was not put in place until the 1920s. For Chad to pay its way and contribute to the metropolitan economy, France introduced cotton growing in the south, which largely set the pace for the country's economic development in the following decades. Education and literacy were likewise better

[1] Contributor: Steve Kayizzi-Mugerwa.

[2] Sources: Kasara, Fearon, and Laitin (2006); UNSC (2007); Tubiana (2008); Alper, Hobdari, and Uppal (2016); Taub (2017); Africa Confidential, various issues.

developed in the south than in the north. The social and economic cleavages that emerged during the colonial period contributed to the parochial politics of independent Chad.

3. Chad became independent from French colonial rule in 1960. In 1962, President Francois Tombalbaye, who was competing for power with politicians from the mainly Muslim north, banned all political parties except his own. In 1966, northern groups set up the National Liberation Front, which would be actively involved in the civil wars and putsches of the future. Tombalbaye made a failed attempt in the early 1970s to regain the political initiative by promoting *authenticité*[3] and reinvigorating his political party. In 1975, the army killed him and took power, ushering in an era of shifting political/military alliances and civil war in Chad, which lasted some 15 years and paved the way for the ascendancy of Hissène Habré, who would rule the country with an iron fist.[4] Habré's rule (1982–90) witnessed widespread civil strife and human-rights abuses.[5] Idriss Déby's rule (1990–present) has given Chad the longest period of relative political stability since independence, partly thanks to the onset of oil production in 2003, which expanded the resources available to the government and its capacity to exercise patronage.

B. Sources of Fragility

4. **Poverty, inequality, and ethnic fractionalization.** With almost half the population living below the poverty line, Chad ranks in the bottom decile (186 out of 188) of the latest Human Development Index. Its under-five child mortality rate, at 150 per 1000 live births, compares to 94 per 1000 live births for countries considered to have a "low level of development" by the United Nations Development Program (UNDP). Chadian livelihoods have been characterized by low levels of social achievement, poor access to services, and spatial inequality, not only between north and south but also between rural and urban areas. The shrinking of Lake Chad has implied additional hardship. The combination of these factors with ethnic fractionalization has hampered the mobilization of resources for national development, even in the absence of conflict.

5. **Narrow economic base and oil dependence.** Oil has not led to a structural transformation of Chad and, in the view of many former and current officials, the oil opportunity has been wasted. Instead, the country has developed dependence on unpredictable oil revenues and exposed its budget and economy to shocks. Between 2013 and 2016, for example, Chadian GDP fell by close to 10 percent as oil prices declined (Figure 2.1). Though the government increased social spending in the early 2000s when oil began to flow, the priorities it had agreed with civil society and the donor community were soon abandoned. In the absence of a credible

---

[3] Probably borrowing a leaf from Joseph Desirée Mobutu of Zaire (DRC), who in 1971 similarly changed his name to Mobutu Sese Seku Kuku Ngbendu Wa Za Banga.

[4] His early political vehicle was named cryptically the "Command Council of the Armed Forces of the North."

[5] He was later indicted in Senegal, where he had sought refuge, for human-rights abuses in Chad.

fiscal framework, oil revenues boosted discretionary spending and generally weakened public finance management. Real exchange rate appreciation damaged the cotton sector.

Figure 2.1. Chad: Key Macroeconomic Indicators, 2000–17

Sources: October 2017 *WEO* database; OECD DAC statistics.

6. **Regional insecurity and its spillover**. Regional insecurity has had severe economic and social implications, including for military expenditure and fiscal management. At the center of a turbulent region, Chad maintains a military presence in neighboring countries, including through contributions to peacekeeping forces. Regional conflicts and cross-border skirmishes have produced large refugee inflows, and led to large numbers of internally displaced persons (IDPs) and to the repatriation of many Chadians, notably from the Central African Republic. In the Lake Chad region, many communities have been disrupted by attacks from Boko Haram, with bases in northern Nigeria. The donor community has created camps for refugees, while the government's capacity to shelter its IDPs has been limited.

II. THE IMF'S RELATIONSHIP WITH CHAD

7. Chad became a member of the IMF in 1963, but the IMF's program engagement with the country began only in the second half of the 1980s. Given the politically charged situation, with security worries pitted against economic reform, the first set of programs did not meet their objectives. Following the onset of oil production in 2003, subsequent programs needed to address the policy and sectoral impacts of the oil syndrome during booms and downturns.

8. Throughout much of Chad's engagement with the IMF, the reform environment shifted with the vagaries of domestic politics and security, the political situation in neighboring countries, and the amount of oil revenue available to the government. These shifts prevented the achievement of significant reform and institutional breakthroughs in earlier years, although the past decade saw the country making some progress in poverty reduction, reaching the HIPC completion point,[6] and undertaking structural reforms to address the oil price decline.

9. The donor community in Chad is small, giving the IMF's role of "honest broker" additional importance. Starting from a low base, the IMF's provision of technical assistance to the government helped address some of the weaknesses in revenue administration, public financial management, debt management, and macroeconomic data. The IMF also gives technical assistance to the Central Bank of Central African States (BEAC), with which it conducts a dialogue on regional monetary policy.[7]

A. IMF-Supported Programs, 1987–2017

10. Chad has received a total of seven IMF-supported programs since 1987 (Table 2.1; Figure 2.2), with the latest three-year arrangement approved in June 2017. Given the widespread insecurity and institutional weaknesses from the late 1980s to the mid-1990s, the early programs gave the country limited access to Fund resources. There were also long periods without IMF financing, when Staff-Monitored Programs (SMPs) were used, not always successfully, to demonstrate the authorities' capacity to undertake reform.

11. The three-year program supported under the Structural Adjustment Facility (SAF) (October 1987–October 1990) coincided with the final years in power of President Habré. This program sought to establish macroeconomic stability, strengthen public administration, and reverse the ravages of the civil war. But given weak institutions and pervasive insecurity, very little was achieved. It would take three years before another program was negotiated.

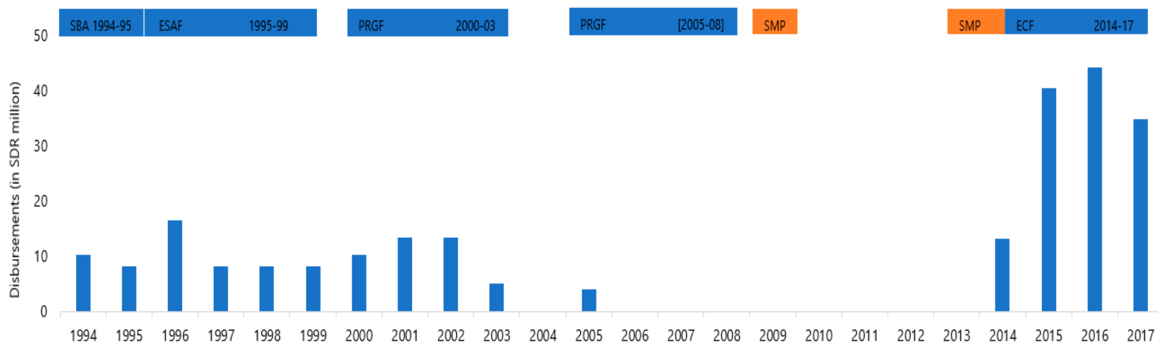
[6] Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, jointly launched by the IMF and the World Bank in 1996, involves a two-step process: decision point and completion point.

[7] The BEAC serves the Central African Economic and Monetary Community (CEMAC), which includes Chad and five other countries in Central Africa.

Table 2.1. Thirty Years of IMF-Supported Programs in Chad

Arrangement, Timing, and Amounts	Objectives, Measures and Outcomes
1. Structural Adjustment Facility October 1987–October 1990 Total: SDR 21.42 million Drawn: SDR 21.42 million	The objectives were to repair and diversify Chad's war-ravaged economy. Measures included enhancing revenue, making expenditure more efficient, and boosting competitiveness. Results were mixed, however, in the face of the civil war and displacement of the population.
2. Stand-by Arrangement March 1994–March 1995 Total: SDR 16.52 million Drawn: SDR 10.325 million	The objectives of the SBA included expanding the role of the private sector and bolstering growth. The focus was on fiscal policy and raising public-sector efficiency. The SBA proved difficult to implement, partly owing to domestic unrest. Only one purchase was made and slippages soon emerged.
3. Extended Structural Adjustment Facility September 1995–March 1999 Total: SDR 49.56 million Drawn: SDR 49.56 million	The ESAF sought to "go beyond stabilization" and support Chad in embarking on structural reforms and poverty reduction. Fiscal consolidation, the reform of business regulation, and regional policy harmonization were emphasized. Coming after the CFA devaluation of 1994, the ESAF proved generally successful. Growth was 3.8 percent on average, inflation was contained, and fiscal pressures reduced.
4. Poverty Reduction and Growth Facility January 2000–December 2003 Total: SDR 47.62 million Drawn: SDR 42.4 million	The objectives of the PRGF were to implement economic and social policies for development and poverty reduction. The measures were targeted at revenue performance, containing non-priority spending, and boosting social spending. The initial reviews were promising, enabling Chad to reach the HIPC decision point in May 2001, with interim debt relief worth US$260 million. But overall, results were mixed.
5. Poverty Reduction and Growth Facility February 2005–May 2008 Total: SDR 25.2 million Drawn: SDR 4.2 million	With the onset of the oil revenue era, the objectives included strengthening fiscal management and transparency and addressing impediments to growth, and poverty reduction. The impetus was on structural reforms, enhancement of non-oil revenues, and improving public expenditure management. The program ended without any reviews completed. A rebel assault on N'Djamena in 2008 deflated reform efforts.
6. Extended Credit Facility August 2014–July 2017 Total: SDR 106.56 million Drawn: SDR 98.34 million	The objectives were to promote fiscal sustainability, including the strengthening of institutions in the area of public financial management, and medium term-growth—with focus on "quick wins." However, the overall objective was to reach HIPC completion point. Measures targeted fiscal policy improvement, including addressing the sharp revenue retrenchment, while promoting growth. In the face of continued oil revenue volatility and regional insecurity, Chadian authorities discussed the possibility of a new program to address the protracted balance of payments pressures. The ECF was cancelled, but with the bulk of the loan having been drawn.
7. Extended Credit Facility June 2017–June 2020 Total: SDR 224.32 million Drawn: SDR 35.05 million	A new ECF arrangement was approved by the Board in June 2017, to support policies to stabilize the economy and revive growth.

Figure 2.2. Chad: Timeline of IMF Engagement, 1994–2017



Notes: ECF=Extended Credit Facility; ESAF=Enhanced Structural Adjustment Facility; PRGF=Poverty Reduction and Growth Facility; SBA=Stand-by Arrangement; SMP=Staff-Monitored Program; years in brackets reflect original duration of program at approval, in case where program went off-track.

Sources: SPR, List of Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, after, November 1998 (as of October 31, 2017). IMF Members' Financial Data by Country, Transactions with the Fund.

12. The Stand-by Arrangement (SBA) (March 1994–March 1995) was designed in the wake of the devaluation of the CFA franc in 1994—and was similar to the arrangements that the Fund reached simultaneously with other countries in the CFA franc zone.[8] Owing to continued domestic unrest in Chad, however, only one purchase was made and slippages soon emerged. The SBA-supported program was replaced by a Staff-Monitored Program (SMP), which was successful in paving the way for another financing arrangement.

13. The new program, supported under the Enhanced Structural Adjustment Facility (ESAF) (September 1995–March 1999) entailed more financing than its predecessors (about 90 percent of quota compared to less than 50 percent before) and sought to "go beyond" stabilization. It was successful in raising growth, while keeping inflation in single digits and reducing fiscal pressures. Chad's prospects for reaching the HIPC decision and completion points within a reasonable timeframe improved.

14. During the PRGF-supported program (January 2000–December 2003), Chad reached the HIPC decision point (in May 2001), with interim debt relief worth $260 million. The subsequent PRGF-supported program, February 2005–May 2008, sought to boost non-oil revenues and improve public expenditure management, with an implicit understanding that the benefits of the oil revenue would be shared broadly among the population.[9] In the event, the government overhauled the Petroleum Revenue Management Law, eliminating the future generations fund

[8] The devaluation of January 1994 was understood to be a prior action. At the time, alleviating the region's balance of payments challenges was the key consideration, although specifics varied among countries. Support from the French government was crucial for pushing through the coordinated effort.

[9] The priority sectors to benefit from the oil revenue were: public works, health, education, rural development, and the environment. Security was not listed explicitly but would later emerge as the main beneficiary.

(desired to extend the benefits of the oil endowment to future generations), and elevating security to a priority spending area. However, the program soon went off track. The staff report for the 2007 Article IV consultation attributed its failure to "widening non-oil deficits, inadequate poverty orientation of spending, and slow structural reform." There was a roughly four-year interregnum, with an SMP in 2008 failing to pave the way for new IMF financial engagement.

15. The ECF-supported program (August 2014–June 2017) helped the country to finally reach the HIPC completion point in 2015, but it was premised on the continuation of high oil prices, which did not materialize. In spite of two augmentations, it was cancelled in June 2017 and replaced by a new ECF-supported program that took account of changes in the external environment and the country's balance of payments pressures, and aimed to reestablish debt sustainability and stabilize the fiscal position.

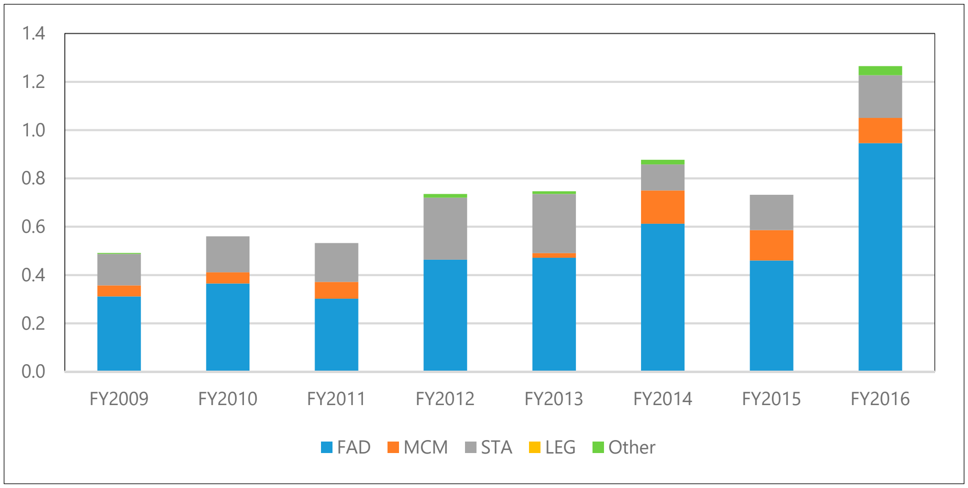
16. IMF-supported programs, coupled with appropriate technical assistance (see below), were effective in helping the country achieve economic stability and reach the HIPC completion point. From 2001 onwards, real GDP growth was well maintained (except after the recent oil price decline), inflation stabilized, and external debt was reduced (Figure 2.1). At the same time, Chad's experience demonstrates that, given institutional fragility and the many interruptions, upper-credit-tranche conditionality programs were not well suited to providing a sustainable framework for economic reform. At several points during the long "on and off" engagement, staff reviews expressed exasperation at the structural impediments that were reflected in some of the discussions with the authorities.

17. Domestic politics were mentioned in staff reports as an important hindrance, but the efforts required to address some of the governance issues arising in the oil sector, and those related to domestic security, lay outside the IMF's mandate. The reports also indicated that given Chad's relatively small donor community, broad collaboration with the key lenders and with other providers of TA such as the African Development Bank, the World Bank, the EU, and France, was often necessary to make progress on the IMF's areas of focus.

B. Capacity Development Work

18. Chad has received considerable technical assistance from the IMF in the past decades to address a range of institutional weaknesses, including low levels of fiscal accountability, inability to manage complex "reform dossiers" such as public-sector reform or the Poverty Reduction Strategy Paper process, and dearth of trained civil servants. In recent years, the volume of TA increased nearly three-fold, from less than 0.5 person-years of field delivery (person-years) in FY 2009 to more than 1.2 person-years in FY 2016, with the Fiscal Affairs Department (FAD) contributing the largest share (Figure 2.3).

Figure 2.3. Chad: IMF Technical Assistance, FY 2009–16
(In person-years)



Source: IEO estimates based on ICD data.

19. The IMF's medium-term TA objectives for Chad revolved around strengthening public financial management (PFM), especially in view of the country's heavy dependence on oil revenue. TA priorities since 2010 have included building capacities in budgeting, petroleum revenue management and expenditure, and public investment control to avert budget overruns and reduce the risk of sending programs off track. Additionally, the IMF staff targeted financial sector reforms, including for bank soundness; public debt management; surveillance; and statistics, to improve the capacity to deliver timely and accurate fiscal and monetary statistics and ensure the soundness of national accounts.

20. With lower oil revenues after 2014, Chad emphasized domestic resource mobilization once again. It received TA on PFM reforms, notably general tax and customs matters, cash forecasting and program budgeting, budget preparation, and public investment. TA from the Statistics Department (STA) helped to standardize data collection and to update national accounts and consumer price statistics as well as government financial statistics. The Monetary and Capital Markets Department (MCM) provided technical assistance in liabilities and public debt management.

III. STAKEHOLDER VIEWS

A. Perspectives on Fragility and Reform

21. Government officials and development partners who were interviewed for this evaluation generally acknowledged that there were limits to what reforms a fragile country like Chad could achieve in the short run in an environment of regional insecurity. They noted that security spending took a substantial amount of resources from the budget and competed directly with

spending on social welfare. They argued, however, that while this was an impediment to reform, Chad's social sectors should not be allowed to collapse.

22. A number of development partners argued, in contrast, that the country's oil receipts were far from negligible and had potential to transform the country's economy and capacity for providing social services. While noting that the IMF staff could have done more to dissuade the authorities from the expenditure booms that followed the start of oil production, and to save for the future, they acknowledged that it was often difficult to undertake reforms in the midst of plenty. In their view, today's more constrained financial environment might help refocus the authorities on meaningful reform measures that had been neglected in the days of oil affluence.

23. IMF staff members argued, in turn, that Chad's political and economic situation, though complex and often difficult, did not make it an outlier—the country has potentially more financial and human resources than some of its neighbors. They argued that to benefit fully from its natural resources and create a real opportunity to escape from fragility, Chad must strengthen domestic institutions and enhance its governance and accountability. They agreed that the domestic ownership of reforms was important, but that the process was tied to the country's politics. Rapid turnover of leadership in the technical ministries meant that institutional memory was dissipated quickly, making it difficult to identify champions and drivers of reform.

B. IMF Lending Instruments

24. Views of the IMF's role were quite varied. Some former IMF mission chiefs felt, for example, that the IMF had been too timid in deploying financial support, often making too little financing available. They agreed that for the Fund a reputational risk was always there, but, given the small amounts of financing at stake, the risk was limited. Moreover, some of the risk could have been addressed through the pursuit of a more hands-on approach, based on well-targeted TA and sustained policy advice. They also underlined the importance of going for "low-hanging" fruit, and only escalating gradually to more difficult program targets, to encourage the authorities to stay the course. Knowing the Executive Board's partiality to "strong" programs, some former staff members conceded that they became expert at playing the game of waivers—as the Board typically did not object to waivers ex post. They noted that a better ex ante appreciation of the serious capacity deficits in fragile states would have eliminated the need for this kind of posturing.

25. Officials and donors in N'Djamena stated that they had always felt encouraged when the IMF put some money behind the programs, because cash remained a serious constraint and without it government motivation might be lacking. SMPs do not have a similar effect—which perhaps explains why they failed to have much traction in Chad. Still, some commentators felt that the limited capacity in fragile states called for longer-lasting arrangements that would give governments more time to establish a good track record and better signal their intentions. The size of the most recent ECF arrangement (160 percent of quota, compared to half that amount in the previous arrangement) and its design (a greater focus than previously on "quick wins") seems

to have responded to these considerations, although it is still too early to tell how the program will perform.[10]

26. On the reliability of program projections in fragile states, current and former staff members evinced a healthy dose of skepticism on current practice. They noted that standard analytical tools for debt sustainability analysis and external balance assessment required at least five- to ten-year projections to make sense. Such assessments were ultimately based on "guesstimates," requiring cautious interpretation, and those for fragile states, with their poor data, might not mean much. There was a need to be more candid about this, and not pretend that the numbers used were robust.

C. Technical Assistance

27. All stakeholders identified TA as a key instrument for IMF engagement in Chad, but many called attention to issues of the coordination of IMF TA with that of other providers, including the World Bank. Especially in the earlier phases of oil extraction and the construction of the pipeline, such coordination was sometimes made difficult by donors' wish to link their support to definite pro-poor policy commitments by the government. While TA generally helped enhance capacities in critical areas, cases were cited where it did not work properly for lack of early and sufficient engagement by the authorities, and where training was not well targeted between the policy-making and implementing agencies, pointing to inadequate TA design and coordination.

28. Chad's experience indicates that policy issues in governance and related areas may not be resolved simply by providing technical assistance. TA was most effective when it was informed by peer experience, when the areas and extent of coverage were well defined, and when follow-up was provided to support a gradual process of absorption. In this regard, the IMF's regional training center (AFRITAC Center) was commended as an important innovation, providing proximity and greater access to TA advisors and resident experts and offering well-paced programs that enabled government officials to continue with their work during training.

D. Collaboration with Partners

29. Almost everyone interviewed reported that IMF collaboration with partners in Chad had improved in recent years, even though for historical and strategic reasons some bilateral donors had remained more cautious and reluctant to collaborate than others. Many donor representatives noted that in a country like Chad, the lines of official communication and interaction could be blurred, and missteps arising from lack of familiarity with the country's political economy could be disruptive. Noting that the IMF was currently responsible for donor coordination in Chad, some donor representatives in N'Djamena asked how effectively the Fund could combine its coordinating role with the role of technical adviser to the government in the

[10] In the event, the first review of the ECF-supported program was delayed as negotiations on debt restructuring continue.

crisis-ridden policy environment of Chad. Donor representatives underlined that, in their experience, no particular donor was best-placed to act as coordinator and that the most important ingredients for success were maturity and patience.

REFERENCES

Africa Confidential (various issues): www.africa-confidential.com.

Alper, E., N. Hobdari, A. Uppal, 2016, "Food Inflation in Sub-Saharan Africa: Causes and Policy Instruments," IMF Working Paper, 16/247, December (Washington).

Hicks, C., 2016, "After Squandering its Oil Wealth, Chad Faces an Economic Reckoning," *World Politics Review*, November 15.

Kasara, K., J. Fearon, and D. Laitin, 2006, "Chad," July, Stanford University.

Taub, B., 2017, "Lake Chad: The World's Most Complex Humanitarian Disaster," *New Yorker*, December.

Tubiana, J., 2008, "The Chad-Sudan Proxy War and the Darfurization of Chad: Myths and Reality," The Small Arms Survey, The Graduate Institute of International Studies, University of Geneva.

United Nations Security Council (UNSC), 2007, Report of the Secretary General on Chad and the Central African Republic, August (New York).

CHAPTER 3—THE DEMOCRATIC REPUBLIC OF THE CONGO[1]

SUMMARY

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 that would address, among other issues, 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.

I. BACKGROUND

A. Brief History[2]

1. In 1960, the Democratic Republic of the Congo (known at the time as the Republic of the Congo (Leopoldville) and later as Zaire) declared independence from Belgian colonial rule,[3] under which the exploitation of vast mineral riches had intensified and foreign-run investment flourished. At independence,[4] a new coalition government under President Joseph Kasavubu and with left-wing nationalist Patrice Lumumba as prime minister took office, while Belgian interests mounted armed resistance to the new government. The DRC has since experienced frequent periods of extreme fragility. Politically, a dictatorship lasting three decades gave way in the 1990s to a devastating six-year civil war followed by an uneasy peace. Economically—despite immense mineral wealth and very substantial external aid—human, economic, and social development has lagged far below potential. In 2006, a UN official described the DRC as the "world's deadliest human catastrophe."

---

[1] Contributor: Donal Donovan.

[2] Sources: Deibert (2013); Van Reybrough (2014).

[3] In 1909, in the wake of reports of widespread atrocities, the Belgian authorities transformed what had hitherto been the private domain of Belgian King Leopold into a colonial state.

[4] The new state had little by way of a functioning national administration. At the time of independence there were reportedly only 30 university graduates and 136 secondary school graduates in a country of more 20 million people.

2. In 1965, Joseph Mobutu assumed absolute power. President Mobutu's 32-year rule was marked by suppression of political dissent and major human rights violations, as well as high levels of corruption. He is also remembered for developing a cultural pan-Africanist movement (that included changing the country's name to Zaire) and efforts to indigenize its economic wealth. However, from the mid-1970s and despite continuing extensive western aid, the regime's economic policies came to be viewed as a failure. By 1993, average incomes had shrunk to 35 percent of their pre-independence levels. The Hutu-led Rwandan genocide in 1994 was the spark that led to the demise of the Mobutu regime and ensuing civil war. Counter-attacks by Tutsi forces led by Paul Kagame caused many genocide perpetrators to flee across the Zairian border. In late 1996, Rwandan troops who were allied to domestic opposition forces invaded Zaire and Mobutu departed into exile.

3. The new government led by Laurent Kabila (who changed the country's name to the Democratic Republic of the Congo) proved highly unstable. Tutsi groups rebelled against Kabila and the subsequent conflict involved forces from six neighboring states and threatened to engulf all of Central Africa. Despite attempts at ceasefire and the dispatch of a UN force, Kabila was assassinated in early 2001 and was succeeded by his son, Joseph Kabila. A peace agreement in late 2002 established transitional power sharing, and foreign troops began to withdraw. In 2006, Kabila won what were considered broadly free and fair presidential elections, but fighting between various internal factions continued. The elections of 2010, which returned him to power, were fraught with violence and irregularities. In early 2015, violence broke out after Kabila proposed electoral changes to extend his term beyond a second six-year period ending in 2016. No election date has thus far been set and, amid an increasing unstable political and security environment, President Kabila has remained in office.

B. Sources of Fragility

4. Although the sources of the DRC's ongoing fragility are multifaceted, a number of underlying dominant elements have featured throughout much of its history:

- The original territory of the Congo emerged from 19th century adventurist western interests aimed at extracting the maximum resources possible. Borders were arbitrarily defined with little regard for size, ethnic homogeneity, or governability. The objective of constructing a "modern state" thus was seriously compromised from the outset. By the time of independence, negligible efforts had been made to establish institutions to govern the vast heterogeneous territory several times the size of France.

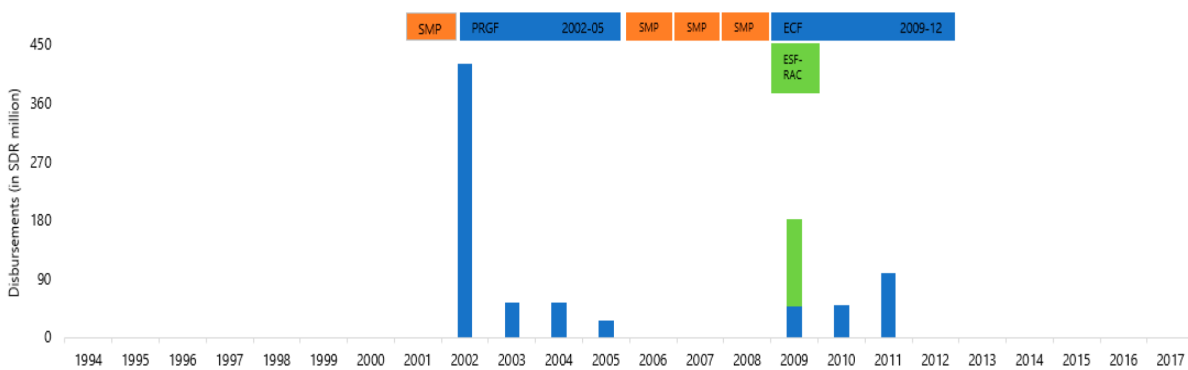
- The subsequent seizure and retention of power—with western tolerance and support—by the three decades-long regime of Mobutu needs to be viewed in the context of Cold-War rivalries. His regime largely succeeded in preventing significant foreign incursions or domestic uprisings, but severe political repression, the widespread diversion of state resources, and stunted economic and social development constituted major impediments to the emergence of a viable state.

- The DRC's immense mineral resources, coupled with an inability to police its borders, have been a toxic factor throughout. Thus, although a range of motives was involved, a major aim of many of the external interventions in the post-Mobutu DRC was to "plunder" the country's extractive wealth. The DRC appears to be a classic instance of how, in the absence of adequately functioning state institutions, the "natural resource curse" can exacerbate a state's inherent fragility.

II. THE IMF'S RELATIONSHIP WITH THE DRC

5. The IMF has provided various forms of support to the DRC from the outset of IMF membership. More recently, between 2001 and 2012, the IMF engaged in an intensive "post-conflict program relationship" encompassing Staff-Monitored Programs (SMPs) and financial assistance (Figure 3.1), coupled with extensive capacity-building activities. After 2012, involvement mainly took the form of surveillance in the context of Article IV consultation discussions and technical assistance.

Figure 3.1. Democratic Republic of the Congo: Timeline of IMF Engagement, 1994–2017



Notes: ECF=Extended Credit Facility; ESF/RAC=Exogenous Shocks Facility/Rapid Access Component; PRGF=Poverty Reduction and Growth Facility; SMP=Staff-Monitored Program.

Sources: SPR, List of Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, or after, November 1998 (as of October 31, 2017). IMF Members' Financial Data by Country, Transactions with the Fund.

A. The First Phase

6. The first phase of IMF engagement in the post-conflict period initially took the form of an SMP targeted at restoring macroeconomic stability and making a start on structural reforms. Supportive TA from the IMF and others was stepped up sharply.[5] The program quickly achieved significant results and, with progress made on the political and security fronts, the IMF deepened

[5] The economic situation in 2001 was characterized by the IMF staff as "a vicious circle of hyperinflation, continued depreciation of the currency… lack of saving, … falling production…deterioration of economic infrastructure, generalized impoverishment … and the reappearance of previously eradicated diseases."

its engagement. In mid-2002 (after clearance of the DRC's arrears to the IMF via a bridge loan), a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) was approved. In parallel, an interim poverty reduction strategy paper (I-PRSP) was completed, helping to pave the way for assistance under the HIPC Initiative. Although external financial assistance from other partners was initially absent, the World Bank soon approved three large grants or credits to the DRC.

7. The IMF staff consistently described performance during the first two years of the PRGF arrangement as "broadly satisfactory." Nevertheless, unprogrammed "security and sovereign-related" expenditures inhibited the reallocation of resources towards pro-poor objectives, and there were significant shortfalls in external assistance. By mid-2005, the staff's assessment had become distinctly less positive. Political, security, and social tensions were intensifying and, despite two extensions, the final program review was not concluded.

8. During 2006–08, a sequence of SMPs tried to help re-establish a track record. But their performance overall was mixed, and external financing other than from the IMF remained very limited. In 2009, following a dramatic fall in commodity export prices and a major escalation of the conflict in the east of the DRC, the IMF approved a disbursement from the Rapid Access Component of the Exogenous Shocks Facility, supported by a program that was similar, albeit less detailed and comprehensive than the earlier SMPs. Again, performance under this program was described as "mixed."

B. The Second Phase

9. In a second phase of IMF involvement, a successor PRGF/Extended Credit Facility (ECF) arrangement was approved in early 2010. The staff highlighted several themes it had mentioned earlier and stressed that program implementation would "require strong leadership." The authorities emphasized that rebuilding capacity would necessitate substantial donor support; staff outlined a scheme of "burden sharing" with respect to partner assistance for structural reforms. In mid-2010, following the first review under the arrangement, the HIPC completion point was reached. Although the second and third reviews were concluded, the fourth and fifth reviews were not, due to "mixed" performance and continued long-standing policy weaknesses.

C. The Third Phase

10. With the expiration of the ECF arrangement, during 2012–15 the IMF's relationship with the DRC entered a third phase, centering on surveillance and technical assistance. Against the background of rising commodity prices and continuing discussions with staff over governance-related issues in the natural resources sector, the authorities and staff did not reach agreement on a successor arrangement from the IMF. The 2013 and 2015 Article IV consultation reports noted, *inter alia*, that while macroeconomic performance had been "broadly" satisfactory, only limited progress had been made in poverty alleviation, while policy coordination and the provision of timely data to the IMF had weakened and poor governance and business conditions

continued to impede private sector development and growth inclusiveness. Though in 2014 growing optimism was reported for the return of lasting peace to the DRC, in 2015 the staff observed that the DRC continued to "display some characteristics of fragility," such as extensive economic vulnerabilities, a fractious political setting, heightened uncertainty regarding the 2016 elections, and residual security risks.

11. In mid-2016 (when no Article IV consultation took place), at the authorities' request the staff prepared and published an "assessment note" regarding the current situation and outlook. Subsequently, against the background of depressed commodity export prices and continued political uncertainty, macroeconomic performance weakened sharply, reflected in rapidly rising inflation and a depreciating exchange rate.

III. STAKEHOLDER VIEWS

A. The IMF's Overall Impact

12. It is difficult to disentangle the impact of the IMF's role in the attainment or nonattainment of outcomes from that of other factors. That said, a number of themes were raised by many of the IEO's interlocutors for this evaluation. First, the IMF was viewed as having played a major role in assisting the DRC to emerge successfully from the massive financial chaos at the start of the Millennium. The Fund's ability to respond promptly in a critical situation with sound policy advice supported by essential technical assistance, as well as its readiness to take the lead despite others' hesitancy, were widely commended. Second, interviewees pointed out that the IMF became a key player in the process that culminated in the DRC reaching the HIPC completion point in 2010. Many noted that although the relationship with the government was very turbulent at times, the IMF's overall role in helping prevent a return to the disastrous starting point of a decade and half earlier should not be downplayed. During 2002–16, annual real GDP growth and inflation averaged 6 percent and 9.7 percent, respectively (Figure 3.2).

13. The programs supported by the IMF encountered frequent slippages, and several of the planned reviews could not be completed. These shortfalls often occurred against the background of a volatile domestic political and security environment and significant weaknesses in policy implementation, especially in the structural area. Stakeholders agreed that the Fund's potential influence in helping overcome obstacles such as these—themselves symptomatic of the DRC's underlying fragility—was inevitably rather limited. But they expressed concern that extensive involvement by the IMF and several other partners in the DRC for more than 50 years had yielded only modest overall progress, at best.

Figure 3.2. Democratic Republic of the Congo: Key Macroeconomic Indicators, 2000–17

Sources: October 2017 *WEO* database; OECD DAC statistics.

B. The IMF's Financial Instruments

14. Between 2001 and 2012, IMF support for the DRC involved a mixture of instruments, including Staff-Monitored Programs designed to establish (or reestablish) a track record of performance, two programs under the PRGF/ECF, and a drawing under the Exogenous Shocks Facility. These instruments tended to be employed fairly flexibly. Thus, the periods covered by programs/arrangements were frequently extended in an effort to make up for lost ground (though often with only mixed success).

15. Current and former officials by and large felt that the range of available IMF instruments had been sufficient to address the needs of a fragile state such as the DRC. However, several opined that the amounts provided (including from partners other than the IMF) should have been significantly larger. They argued that notwithstanding the risks of a reemergence of debt distress, without much greater financing a country such as the DRC would never be able to develop sufficiently to emerge from fragility.

16. A range of views were expressed regarding the usefulness of Staff-Monitored Programs. Some interlocutors suggested that an SMP by itself did not provide the financial incentives necessary to spur and sustain reform, nor was it likely to elicit sufficient partner support. From this perspective, even in the presence of significant uncertainty and risk the IMF should stand ready to consider financial support—perhaps through some combination of access to a lower-conditionality facility (possibly phased) such as the Rapid Credit Facility, buttressed by an SMP. Several stakeholders, including some former officials, stressed that in an environment of continued fragility, ongoing external monitoring via an SMP, while not optimal, could at least provide an objective assessment of the situation and outlook and convey useful signals to stakeholders. There was general agreement that the "surveillance only" relationship over the last few years, although helpful for technical exchanges, had not afforded the Fund much traction in promoting a broader reform agenda.

C. IMF Conditionality

17. Interviewees said that a central issue was the need for "growth inclusiveness;" they emphasized the challenge of ensuring that the wealth associated with the DRC's extractive resources sector was allocated equitably among the population at large, and that transparency relating to this sector was a key concern both domestically and for external partners. Program conditionality relating to macroeconomic stabilization was not a significant source of contention. Nor was the principle—stressed by the IMF staff throughout—that, without structural reforms to help address underlying fragility issues, the DRC's hard-won gains in macroeconomic stabilization would not be sustainable.

18. A dominant theme in discussing structural reforms was the role of "good governance," which featured centrally in the IMF's policy dialogue throughout the period. Interlocutors, while agreeing on the importance of governance issues, noted that this term had different meanings

for different people and there were likely divergences between principles and practice. Some observed that governance problems were present across the political spectrum.

19. There was general support for the IMF's emphasizing governance aspects in program design, although there was less clarity as to what exactly this might entail. Some drew attention to the difficulties facing outsiders in trying to obtain a firm grasp of the different interrelationships present in as large and complex a country as the DRC. They stressed the need for conditionality in structural areas (and in particular governance issues) to be clearly spelled out and agreed to explicitly by concerned parties beforehand.[6]

20. Views diverged to a certain extent as regards the setting of floors on budgetary social spending when designing programs. Some believed that the IMF, in conjunction with other partners, should be actively and explicitly involved in this area, given the key role of social development issues in the DRC. Others argued that focusing on aggregate figures in a budget that was often significantly underfunded was by itself inadequate (and could even be counterproductive). Some suggested that the IMF should be careful not to stray from its traditional mandate into more microeconomic (and socially and politically sensitive) areas in which it had limited expertise.

21. Finally, officials raised concerns about the introduction of what they termed "political conditionality." It was agreed that for any IMF-supported program to succeed, politically stable and effective leadership was essential to help ensure adequate program monitoring and implementation. Support from partners was also required in order to address the DRC's large financing needs. That said, they argued that an unduly prescriptive approach by the IMF was inappropriate and counterproductive. A general concern was also expressed that in this area external partners should be seen to apply the same standard for the DRC as for other countries in the region.

D. Capacity Development Work

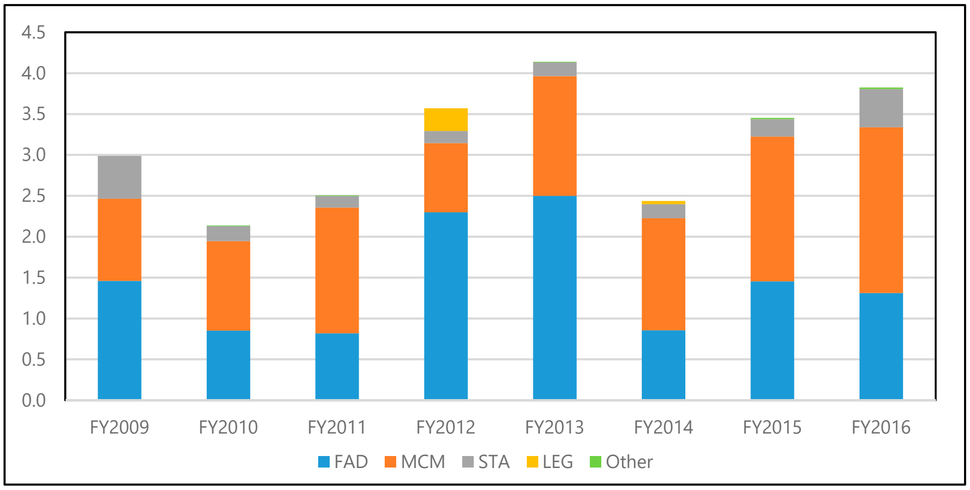
22. The DRC has been a relatively large recipient of IMF TA, receiving on average more than three person-years of support per year in recent years (Figure 3.3). Stakeholders accorded high marks to the support for capacity building provided by the IMF.[7] They noted, in particular, the very extensive assistance given in the immediate post-conflict period, especially to the Central Bank, as well as in several areas of public financial management. Assistance was of high quality

[6] This aspect arose in 2012 in the case of a controversial issue concerning the non-publication of a mining sector contract, which led to non-completion of a program review under the PRGF arrangement. In the authorities' view the conditionality involved had not been spelled out clearly enough in advance.

[7] Staff reports typically did not discuss the effectiveness of TA activities undertaken by the IMF, nor the prioritization among future TA needs. Given the absence of comprehensive information it is difficult to assess systematically the effectiveness of the IMF's TA program in the DRC.

and generally made available in a timely manner. An increasing focus on practical approaches that took into account institutional constraints was also viewed positively.

Figure 3.3. Democratic Republic of the Congo: IMF Technical Assistance, FY 2009–16
(In person-years)



Source: IEO estimates based on ICD data.

23. Both officials and donor representatives welcomed the increased resources for capacity building that were provided through the IMF's Africa Technical Assistance Center (AFRITAC). However, they observed that short-term visits by experts might not be as effective as the placement of resident advisors who could provide ongoing momentum to sustain reform initiatives. Some commented that without more fundamental improvements in institutional arrangements and related governance issues, the impact of TA might turn out to be somewhat limited.

E. Collaboration with Partners

24. Especially in view of the largely catalytic role of IMF financing, support from the wider donor community was considered crucial to promoting and sustaining reforms. In what was described as a candid and productive dialogue, IMF staff (both visiting missions and resident representatives) had regularly shared available up-to-date data and apprised donors of their assessments and outlook.[8] Many donors appreciated the efforts made by IMF staff in more recent periods to encourage partners to prepare possible support operations for the DRC in advance. Some also observed that greater cooperation would be desirable within the donor community as regards projects being considered or being implemented.

[8] A "Friends of the Congo" forum, involving multilateral and bilateral representatives and in which IMF staff participated, met regularly in Kinshasa (as well as in Brussels and Washington).

F. Communication and Outreach

25. The technical expertise of the IMF staff, especially relating to core macroeconomic stabilization issues, was widely acknowledged, and there was widespread agreement that the overall quality of the dialogue between the IMF staff and the authorities had improved significantly over time. Many former and current officials noted favorably what they described as a shift by the staff over time to a less "mechanistic" approach involving broader consideration of alternative courses of action. This shift, some believed, may have partly been a response to increased technical and analytical expertise among the authorities, to which earlier capacity-building efforts by the IMF and others had contributed.[9]

26. Although personalities and styles naturally had varied, IMF missions (especially mission chiefs) as well as resident representatives were generally regarded as having demonstrated extensive experience in dealing with fragile states similar to the DRC.[10] However, some officials felt that although the staff appeared quite conscious of the importance of non-economic factors, differences of view had emerged as to the political and social sustainability of some proposed measures, especially given the DRC's very fragile political and security history.

27. Interviewees emphasized that to retain credibility, and given experiences with past program slippages, the IMF needed to galvanize the advance support of key domestic players for measures that were likely to prove sensitive. In this regard, several interlocutors suggested that the staff should intensify its outreach activities, including vis-à-vis Parliament and the media, so as to explain to a wider audience the Fund's mandate and role and the positive contribution it could provide. At the same time, they recognized that such interaction needed to be carefully prepared—to avoid the possibility of public airing of differences between the IMF and the authorities on sensitive matters in a politically volatile atmosphere.

---

[9] The level of expertise in the core economic institutions in the DRC is generally regarded as more developed than that in some other fragile states.

[10] IMF staff indicated to the IEO team that in their experience there had been somewhat fewer staffing difficulties overall with respect to working on the DRC than in some other fragile states. This was attributed partly to the major challenges (and hence potential professional satisfaction) present as well as the fact that that the DRC dossier had a relatively higher profile within the institution than did those of some other fragile states.

References

Deibert, Michael, 2013, *The Democratic Republic of the Congo: Between Hope and Despair*, African Arguments.

Van Reybrough, 2014, *Congo: The Epic History of a People* (Harper Collins).

CHAPTER 4—CÔTE D'IVOIRE[1]

SUMMARY

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.

I. BACKGROUND[2]

A. Brief History

1. Côte d'Ivoire is large in terms of land size (about 322,463 km^2), with a population of some 24 million people in 2016. The country is the world's leading cocoa exporter and is also rich in minerals. Despite Côte d'Ivoire's agricultural potential, the French selected Senegal as their main administrative outpost for the colony of French West Africa towards the end of the 19th century. This decision had consequences for the economic and political development of the region until the early 1960s, when most of the former French colonies gained independence. To make Côte d'Ivoire pay its way, and provide manpower to plantations and public works, the colonial government introduced a system of forced labor, which was strongly resisted by the local chiefs in most areas. Putting an end to coercion in recruiting labor featured prominently in the demands for Ivorian self-determination and independence.

---

[1] Contributor: Steve Kayizzi-Mugerwa.

[2] Sources: Ridler (1988); Fall (2002); UNDP (2017); Africa Confidential, various issues.

2. Since independence in 1960, Côte d'Ivoire has emerged as Francophone West Africa's leading economy and the main destination for French investment. Ivorian economic ascendancy was cemented under Félix Houphouët-Boigny's leadership, from 1960 to 1993. Almost singularly in Africa, he made agriculture the basis for economic development, avoiding the strategy of import-substituting industrialization that other countries adopted. Cocoa and coffee production boosted incomes and welfare in the countryside, and helped close rural-urban gaps. Using a price stabilization fund (known as the *Caisse de Stabilization*), the government protected farmers' incomes from price- and weather-related shocks, and funneled resources to infrastructure development.

3. The decade following Houphouët-Boigny's death in 1993, however, saw the country gradually change from star performer and regional economic motor to a crisis-ridden economy. The multi-party democracy he had introduced in the 1980s became extremely partisan. A coup d'état in late 1999 was followed in quick succession by a contested election, human-rights abuses, and a full-fledged civil war in 2002. Massacres were reported periodically by human rights groups and by the UN, governments changed incessantly, and numerous agreements were reached between belligerents only to be broken. The economy went into steep decline, poverty became pervasive, notably in the politically significant urban areas, and migrants and their households returned home in large numbers.

4. Africa's regional leaders and the international community worked together to find a peaceful solution to Côte d'Ivoire's political crises. Thanks to the presence of UN and French forces, and urgent support from a range of development agencies, including the IMF, the socio-economic conflicts were contained and the political unravelling of the country was avoided. In 2010, Alassane Ouattara (who had spent some years at the IMF as Deputy Managing Director) won the elections and was installed as president the following year, committed to reversing the country's economic decline.

5. Since the end of the political crisis in 2011, Côte d'Ivoire has made steady economic progress. Investment, public and private, has been strong as has growth. The country has improved in its "ease of doing business" rating, partly thanks to the rehabilitation of transport infrastructure and utilities. Even so, the crisis years took a heavy toll: Côte d'Ivoire's ranking on the Human Development Index remains in the bottom quintile of 188 countries. It will require much effort to restore the reputation the country once enjoyed for political stability and economic dynamism under the Houphouët-Boigny presidency.

B. Sources of Fragility

6. **Poverty, inequality, and inadequate social services.** Côte d'Ivoire's incidence of disease and levels of child malnutrition are comparable to those of its less-endowed neighbors.[3] The national poverty incidence was estimated at 46.3 percent in 2015, compared to 11.1 percent in 1985, with a poverty rate of more than 50 percent in rural areas and only slightly lower in urban areas. Overall, rural inequality has worsened, partly owing to unequal access to land. A sharp rise of poverty in urban areas (poverty incidence was only 1 percent in Abidjan in 1985) helped to destabilize the political environment.

7. **Commodity dependence and rent-seeking.** While Côte d'Ivoire has benefitted greatly from its exports of cocoa, coffee, cotton and more recently, oil, commodity dependence has exposed the country to external shocks, sometimes with knock-on effects on domestic political stresses. Moreover, it has led to various forms of rent-seeking and corruption at different levels of the commodity supply chain. Once a strength and major source of savings, commodity production became a persistent source of fiscal pressures as revenues declined. During the political crises of the 2000s, the rich natural endowment literally became a "resource curse" that fueled the conflicts.

8. **Unplanned urbanization.** At independence, only about 18 percent of the population lived in urban areas, compared to 54 percent today. Up to 30 percent of the population of Abidjan has no access to potable water, modern sewerage, or sanitation. The breakout of waterborne diseases is a constant threat. The social discontent pervading these areas, and their youthful households, continues to pose a high risk of political disruption.

9. **Nationality, ethnicity, and religion.** At independence, Côte d'Ivoire was the most cosmopolitan among France's former colonies. The abundance of employment opportunities, on farms and in the urban areas, helped to alleviate social frictions over nationality, ethnicity, and religion. But the crises of the 1990s and 2000s heightened the social and economic cleavages underlying Ivorian society.[4] In late 2002, following the military rebellion in the north, the central government destroyed many shanty towns in urban areas, hitting the migrant community hard.

---

[3] It is a lower middle-income economy, with an income per capita of about $1,410. In 2015, life expectancy at birth was estimated at 58.7 years (57.2 for males and 59.5 for females), compared to 62 years for Senegal and 66 years for Ghana. Adult literacy was 43.3 percent (53.1 percent for males and 32.5 percent for females), compared to 77 percent for Ghana.

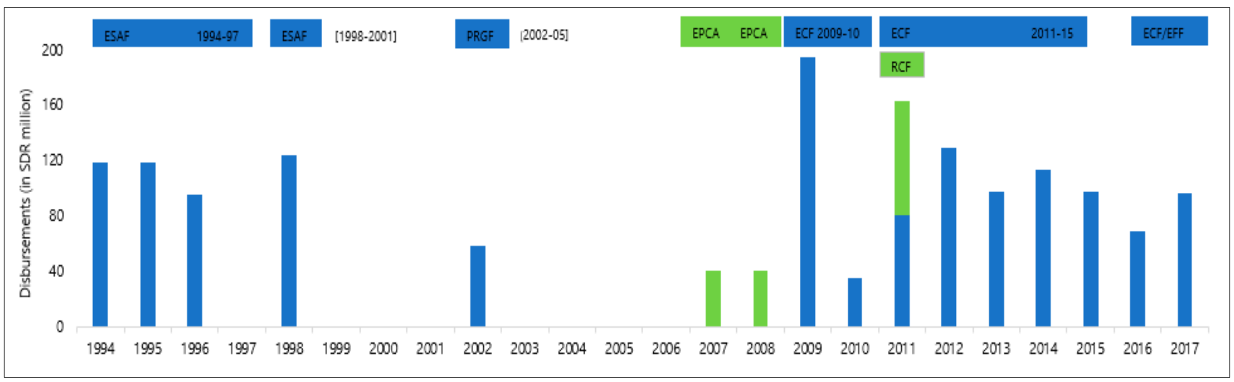
[4] Article 35 of the 2000 Constitution, requiring that both parents of presidential candidates should be Ivorian, was passed by referendum in July 2000. The article was suspended in 2003 as part of the political settlement that followed the civil war of 2002, allowing Alassane Ouattara to run. It was formally removed by the 2016 Constitution.

II. THE IMF'S RELATIONSHIP WITH CÔTE D'IVOIRE

A. IMF-Supported Programs

10. Côte d'Ivoire has been a member of the IMF since March 1963. An arrangement under the Extended Fund Facility (EFF) agreed in 1981 was followed by several Stand-By Arrangements (SBAs). IMF involvement with Côte d'Ivoire intensified from the mid-1990s onwards, with a succession of adjustment programs approved under the Enhanced Structural Adjustment Facility (ESAF) and the Poverty Reduction and Growth Facility (PRGF)/Extended Credit Facility (ECF), interspersed with a Staff-Monitored Program (SMP) and two purchases under Emergency Post-Conflict Assistance (EPCA) (Figure 4.1; Table 4.1). Internal documents show that throughout the crisis-ridden years, the IMF's interest in Côte d'Ivoire's progress continued unabated. The IMF participated in many initiatives in the region and internationally to return stability to the country.

Figure 4.1. Côte d'Ivoire: Timeline of IMF Engagement, 1994–2017



Notes: ECF=Extended Credit Facility; ESAF=Enhanced Structural Adjustment Facility; PRGF=Poverty Reduction and Growth Facility; RCF=Rapid Credit Facility; SMP=Staff-Monitored Program; years in brackets reflect original duration of program at approval, in case(s) where program went off-track.

Sources: SPR, List of Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, or after, November 1998 (as of October 31, 2017). IMF Members' Financial Data by Country, Transactions with the Fund.

1994–2000: emerging fragility

11. The 1994 ESAF-supported program, anchored by a 50 percent devaluation of the CFA franc, helped to restore conditions for rapid growth and competitiveness, but the authorities failed to consolidate these gains under the 1998 ESAF-supported program. The 1998 program went off-track after the first review because of weak reforms in tax and customs administration and in the cocoa and coffee sectors, where little improvement in governance was made. The coup d'état of 1999 and the contentious elections of early 2000 created a difficult atmosphere unsuited to rectifying the policy slippages.

Table 4.1. IMF-Supported Programs in Côte d'Ivoire, 1994–2017

Arrangement, timing, and amounts	Objectives and Outcomes
1. Enhanced Structural Adjustment Facility, 1994–96 SDR 333.48 million (all drawn)	To restore rapid growth—given the 50 percent devaluation of the CFA franc—through regulatory reform, trade and price liberalization, and privatization. Growth was restored, reaching 7 percent in 1996. Government revenue rose to 22 percent of GDP in 1996, from 5 percent in 1993, and the overall deficit was reduced to 2 percent of GDP. Inflation fell to single digits, while competitiveness was enhanced. The program was assessed successful by the IMF Executive Board.
2. Enhanced Structural Adjustment Facility, 1998–2000 SDR 285.84 million (123.86 million drawn) Remarks: Program went off track after first year.	Further liberalization of cocoa and coffee, strengthened governance, and poverty reduction. The coffee sector was liberalized, but overall growth slowed to 5 percent. Issues of tax fraud, nonperforming crop credit, and fraudulent exporters were not resolved. In the absence of corrective measures, program went off-track. A Staff-Monitored Program was embarked on in 2001 to reestablish reform focus.
3. Poverty Reduction and Growth Facility, 2002–04 SDR 292.68 million (58.54 million drawn) Remarks: Army mutiny in September 2002 and partition of country derailed program.	To ensure macroeconomic stability and reduce poverty, help consolidate public finances, and remove impediments to private sector development. An assessment in April/May 2002 indicated that progress was "broadly satisfactory." Following the military mutiny in the north, in 2002, crisis-related expenditure reached 0.7 percent of GDP in the second half of the year.
4. Emergency Post-Conflict Assistance I, 2007 SDR 40.65 million (all drawn)	To help remove constraints on economic and social recovery, enhance transparency and governance, and strengthen the role of the financial sector; envisioned to normalize relations with external creditors and reach enhanced HIPC decision point. Assessed successful in helping to build a foundation for normalization.
5. Emergency Post-Conflict Assistance II, 2008 SDR 40.65 million (all drawn)	To sustain economic recovery and poverty reduction, focusing on fiscal consolidation, creation of fiscal space for urgent needs, making public expenditure more efficient, and increasing transparency in the utilities sector. Assessed as successful, paving the way to an ECF arrangement.
6. Extended Credit Facility, 2009–12 SDR 373.98 million (230.89 million drawn) Remarks: Went off-track. Cancelled in 2011.	To consolidate peace and reconciliation in the unified country, and embark on sustainable poverty reduction. Derailed by the post-election crisis of 2010–11.
7. Rapid Credit Facility, 2011 SDR 81.3 million (all drawn)	Improving the fiscal position and meeting urgent balance of payments needs. Assessed by staff to have met its objectives.
8. Extended Credit Facility, 2011–15 SDR 520 million, as augmented (all drawn); extended by 12 months to end-2015 Remarks: HIPC completion point reached in 2012.	Consolidating post-crisis recovery: removing impediments to growth, creating employment, enhancing business competitiveness, creating fiscal space for poverty reduction, and extending infrastructure. Assessed to have reduced macroeconomic imbalances and helped the country to normalize relations with external creditors (notably reaching HIPC completion point), while improving the business climate and boosting growth.
9. Extended Fund Facility and Extended Credit Facility, 2016–19 SDR 650.4 million, as augmented (SDR 263.26 million drawn by December 2017).	To support authorities' structural transformation agenda, including strengthening economic institutions, enhancing governance and transparency, and removing vulnerabilities in the financial sector. Soldier mutinies in early 2017 over salaries and benefits posed a disruption, but the program remains ongoing.

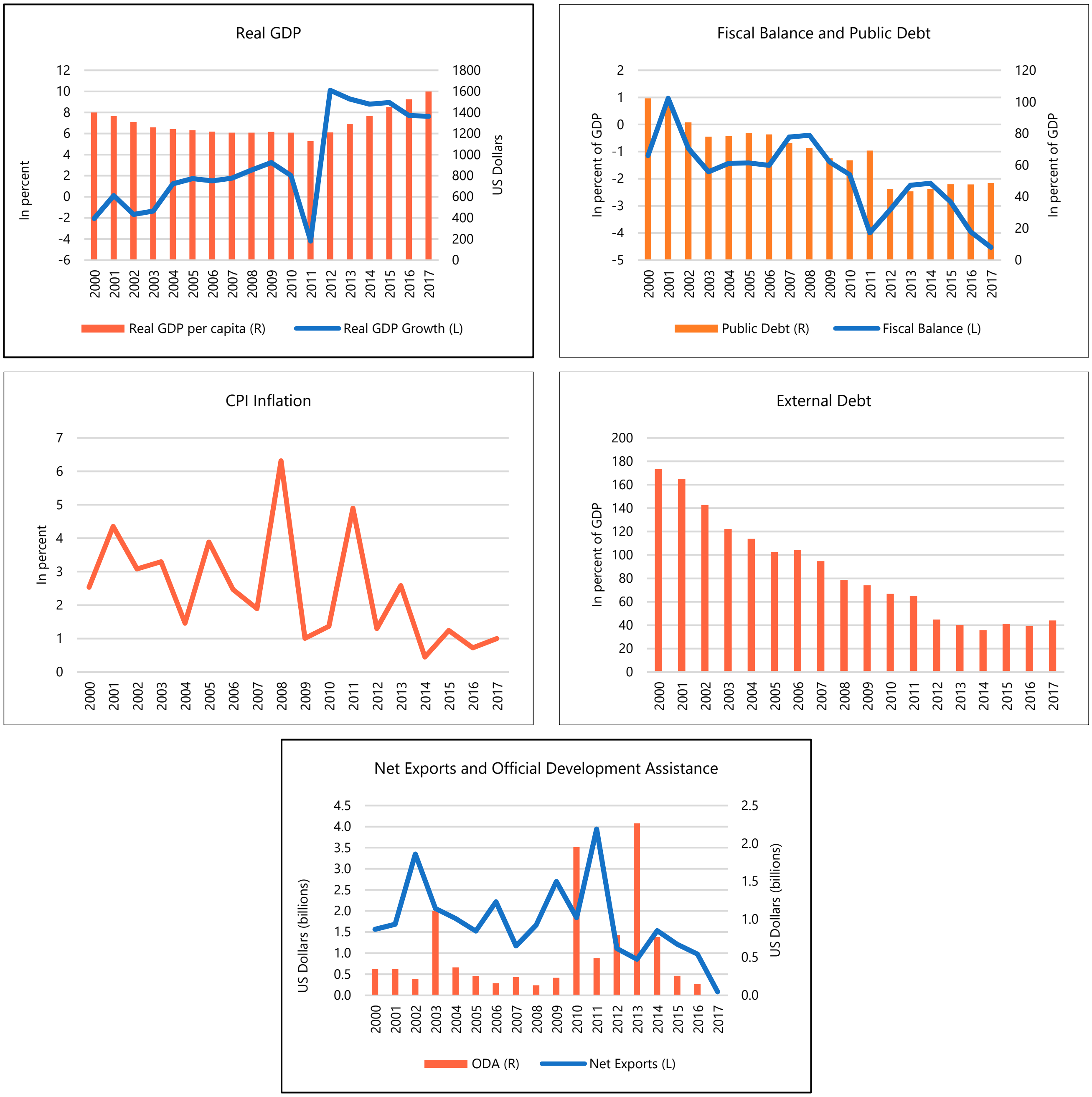
Sources: IMF staff reports and internal IMF documents.

2001–11: Decade of relentless crises

12. During the first decade of the 21st century, Côte d'Ivoire's macroeconomic performance deteriorated, with volatile growth, relatively high inflation, and curtailed aid flows (Figure 4.2). When the political situation seemed to stabilize in the latter part of 2001, the authorities requested a SMP leading to approval of a PRGF-supported program in 2002. But a military

insurrection and partition of the country in the second half of 2002 derailed the program. There followed an interregnum (2002–07) without a program with the IMF.[5]

Figure 4.2. Côte d'Ivoire: Key Macroeconomic Indicators, 2000–17



Sources: October 2017 *WEO* database; OECD DAC statistics.

[5] In early February 2003, with escalating security concerns, the UN elevated the security level in Abidjan to IV, which led to the evacuation of the IMF Resident Representative. The planned inauguration of the IMF's Africa Technical Assistance Center (AFRITAC WEST) in Abidjan was postponed, and eventually the Center was relocated temporarily to Bamako, Mali.

13. The 2007 breakthrough in peace negotiations between the government and the New Forces that controlled the north (with their leader Guillaume Soro becoming the new Prime Minister) enabled the authorities to request assistance from the IMF. The first drawing under Emergency Post-Conflict Assistance (EPCA) was approved in August 2007, followed by a second drawing in March 2008. The two purchases boosted prospects for growth and poverty reduction in a reunited country.

14. The approval of a new ECF-supported program (2009–12) seemed to signal that the country was finally emerging from its political crises, with the country reaching the HIPC decision point in 2009. The IMF staff called this a "big step toward recovery." Adding to the optimism, the IMF Managing Director visited Côte d'Ivoire in May 2009. However, the ECF-supported program was derailed by the conflict that followed the 2010 elections.

2011–17: Road to recovery

15. After a new government was installed in 2011, the IMF Executive Board approved a drawing under the Rapid Credit Facility (RCF). This was followed six months later by another program, supported under the ECF, which was augmented and extended by 12 months to 2015. Although performance was generally satisfactory, and formed the basis for reaching the HIPC completion point in 2012, staff reviews underlined the need for urgent structural reforms in the public, commodity marketing, and electricity sectors, as well as for addressing domestic arrears. A notable outcome was the creation of the *Conseil du Café-Cacao*, a hybrid system (replacing the *Caisse de Stabilization)* that set the prices for these crops and licensed traders, while keeping clear of commodity trading on its own account and subsidizing fertilizers. The launch of the system led to a strong response by producers, mostly smallholders. In addition, the ECF-supported program emphasized the need to devise a medium-term strategy to control the wage bill, which had escalated during the crises.

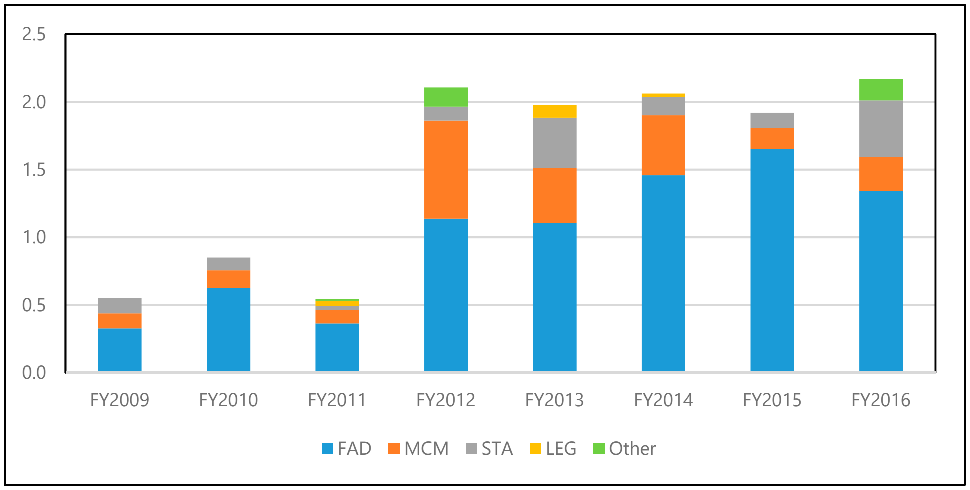
16. In December 2016, the Executive Board approved two new arrangements—one under the EFF and another under the ECF—to support an economic program designed to promote structural reforms, rehabilitation of the economy, and poverty reduction. Total access under the two arrangements was augmented by SDR 162.6 million (25 percent of quota) to SDR 650.4 million (100 percent of quota) in June 2017, in view of a sharp drop in world prices for cocoa, the country's main export crop.

B. IMF Technical Assistance

17. The IMF provided relatively little TA to Côte d'Ivoire during the early 2000s, but the volume increased after the country was reunited and as the authorities embarked on upper-credit-tranche conditionality programs (Figure 4.3). The TA priorities included strengthening public financial management, customs reforms, and formulating strategies for financial sector development and debt management. The Fund also carried out a Public Investment Management Assessment (PIMA). On reforming the payments system, the IMF worked closely

with the World Bank, which led on the implementation of the Public Expenditure Management and Financial Accountability Review. Here, the IMF focused on strengthening the core processes of the expenditure chain.

Figure 4.3. Cote d'Ivoire: IMF Technical Assistance, FY 2009–16
(In person-years)



Source: IEO estimates based on ICD data.

18. In the financial sector, the IMF's Financial System Stability Assessment (FSSA) under the Financial Sector Assessment Program (FSAP) identified several shortcomings, including weak compliance with prudential norms, obstacles to credit access, a bankrupt microfinance sector, and weak public debt management. TA was provided, again in collaboration with the World Bank, covering areas of mutual interest such as private and financial sector development. In statistics, the key goal was to improve data linked to the fiscal reporting system.

19. After 2012, the implementation of TA recommendations substantially improved, driven by the IMF's newly launched medium-term Capacity-Building Framework, which relies partly on strategic inputs and financing from other donors including the World Bank and the EU. An internal IMF assessment indicated that the most progress had been made in strengthening public financial management (given a rating of 3, on a scale of 1 to 4), notably in implementing WAEMU directives on public finance i.e. program budgeting, commitment authorization system, and budget transparency as well as enhancing the efficiency of tax administration, broadening the tax base, and improving the debt management process, but that progress had been slower in financial sector reforms and statistics, with a rating of 2.

III. STAKEHOLDER VIEWS

A. Perspectives on the IMF's Role

20. Officials and development partners in Abidjan for the most part complimented the IMF's role in Côte d'Ivoire, indicating that the Fund had shown flexibility and willingness to engage on issues with a broad spectrum of stakeholders, including the opposition. Above all, through well-sequenced actions, the IMF had encouraged the authorities to clear arrears with key institutions such as the World Bank and the African Development Bank in order to enable greater inflows of support, notably under the HIPC Initiative. IMF mission chiefs had made frequent trips to Paris to discuss progress with the French authorities, who were key stakeholders, and they understood the importance that key donors attached to political conditionality.[6] IMF staff members who were interviewed highlighted the role played by President Ouattara after 2011 in moving the reforms forward, while recognizing the political constraints on his actions.

21. The IEO was told that the IMF staff had been candid in bilateral meetings with the authorities and did not "beat about the bush" in messaging on key challenges. The staff had underlined the threat to the country of national fragmentation, caused by incessant clashes over nationality, ethnicity, and religion. It had also highlighted the danger that rampant corruption, especially within the commodity-marketing chain,[7] posed to fiscal consolidation and growth. They noted that failure to address domestic arrears and other PFM issues (including the wage bill) would not only hinder economic recovery, but would also delay effective poverty reduction.

22. IMF staff members who were interviewed noted that, given the political crises and frequent changes of government since the late 1990s, reform messages needed to be voiced repeatedly, which meant that the IMF had played an important advisory role even in the absence of program engagement. This was especially true with respect to public sector reforms, where progress was slower in spite of innovations in the cocoa-coffee marketing chain. The staff members argued that they had made it clear to the authorities that financing unaccompanied by effective sector and institutional reforms, for example in state-run enterprises, would ultimately not be sustainable. They underlined that while the government's transformation agenda and its push for expanding infrastructure investment were laudable, it was critical to safeguard the country's capacity to service debt, and hence its reputation as an investment destination.

[6] In the context of discussions for a SMP in 2001, IMF staff made it clear that adherence to EU conditions for resuming financial support was a key precondition. EU conditions included opening the political system to all shades of political opinion; establishment of a national reconciliation committee; investigation of atrocities; and guaranteeing freedom of expression. After the civil war, the IMF also focused on arrears clearance for major agencies, which would be key to financing the disarmament, demobilization, and reintegration effort.

[7] An audit of *Caisse de Stabilization*, the commodity price stabilization fund, that was undertaken at the end of the 1990s had revealed that of the CFA franc 60.7 billion extended to various stakeholders in loans for production and crop purchases, only CFA franc 0.8 billion, about 1.5 percent, had been recovered.

23. Officials and some donor representatives emphasized that the IMF's support to Côte d'Ivoire, as the region's anchor economy, had an important regional dimension (Ousmane and others, 2003). Officials at the national office of the Central Bank of West African States agreed, noting that IMF-supported programs raised the quality of the macroeconomic policies pursued not just in Côte d'Ivoire but across the region, ameliorating risks and boosting confidence.

24. Some Ivorian officials were critical of the IMF's financing role. They underlined that although they were pursuing an ambitious agenda, they had doubts about the level of support they could expect from donors, and about whether the IMF had played its catalytic role to the full, given the country's growth potential. The authorities argued that the IMF's growth numbers had been overly pessimistic, with discouraging ripple effects on investment in the country and the whole region. They noted that the IMF's forecasts had trailed theirs by 2 percentage points since 2011, with staff catching up ex post. They argued that the limits set on external borrowing were not consistent with their country's growth performance.

25. Some officials suggested that the IMF at times was overly conservative in assessing the volume of resources required to rebuild the country, or in believing that the sums being suggested were out of reach. They felt that, given the government's commitment to reform, second-guessing their estimates was not necessary. They alluded to the strikes and other disruptions within the public sector that affected service delivery, and argued that reforms must always keep in mind the country's fragile social and political situation.

26. By contrast, staff members argued that for the IMF the challenge in supporting Côte d'Ivoire lay in how to craft a realistic and credible program that took into consideration the country's needs and constraints. It was important not to appear to be setting up a country for failure.[8] They insisted that the question of the quality of investment was crucial, as was the question of how quickly the capacities in the planning and executing agencies within the public sector could be recreated to raise efficiency in economic management. They concluded that "an ambitious program must be accompanied by an ambitious reform agenda."

B. Collaboration with Partners

27. Côte d'Ivoire did not have a formal donor-coordination mechanism until recently, when the government created a unit for this purpose. However, donors met frequently to coordinate approaches, and the IMF's role in framing the macroeconomic strategy gave it prominence.

28. Donors appreciated the IMF's "seal of approval" for macroeconomic policies but pointed out that postponements of reviews or programs tended to delay their own plans—notably key ones focused on post-conflict "state building." Donor representatives urged the IMF to introduce

---

[8] According to staff, the authorities generally agreed that politics and structural constraints were key impediments to reform during crises, whereas, post-crises, they tended to see financing as the only constraint.

innovative mechanisms (e.g., an assessment letter) to enable them to go ahead before Fund negotiations were complete.

29. The IMF collaborated closely with the World Bank on many fronts during the crises, including on PFM, the financial sector, and debt sustainability. But other agencies active in Côte d'Ivoire felt that they had had much less influence with the IMF, especially on issues related to the budget. Their representatives who were interviewed noted that the IMF's language in briefs and during meetings had lacked candor in describing the budgetary pressures faced by the government. They also wanted the IMF to use its leverage more assertively on governance issues.

30. IMF staff members noted that time pressure had prevented them from meeting regularly with representatives of UN agencies such as UNDP and WHO and that in hindsight they saw this as a serious shortcoming, given that these agencies had important knowledge on how to address post-conflict situations, including the demobilization and resettlement of combatants.

C. Technical Assistance

31. Officials agreed that the IMF's recent TA to Côte d'Ivoire was demand-driven, focusing on statistics, budget preparation, and PFM. The government was fully in charge of coordinating TA. The transfer of AFRITAC West from Bamako to Abidjan in 2012 has provided the country with unprecedented access to high-quality expertise and training. The authorities noted that the Center provided crucial exposure to regional best practices in areas for reform, and recalled that when they were establishing a tax policy unit during 2013–14, they found the examples of Ghana, Rwanda, and Senegal presented to them very useful. Similar approaches are planned in the areas of value-added tax reform, PFM, and revenue and expenditure.

32. How the TA provided by the IMF (and other donors) is affecting the public sector's capacity to deliver has not been systematically assessed. The authorities interviewed generally argued that capacities in the public service were not seriously impaired by the crises, and that Côte d'Ivoire is among the few countries in the region where all issues related to reforms are handled by the country's own experts. However, IMF staff recognized the need for a more strategic approach to technical assistance to boost capacities across the breadth of the public sector. Outside the Ministry of Finance, they saw a lack of capacity in several agencies, especially below the director-general level. They also argued that Côte d'Ivoire could have benefited from the assistance of long-term experts to mentor local teams and transmit knowledge directly. Though the AFRITAC West model provided some of this proximity, they felt that resources were needed to expand that role.

APPENDIX 4.1. MAJOR POLITICAL EVENTS IN CÔTE D'IVOIRE, 1993–2015

Date	**Event**
December, 7, 1993	President Félix Houphouët-Boigny dies; Henri Konan Bédié is sworn in shortly thereafter as president.
October 1995	Presidential elections held. Henri Konan Bédié wins elections as candidate for the ruling PDCI. Other parties boycott elections in protest at provision that excluded candidates not born of two Ivorian parents, which was targeted at Alassane Ouattara, a former prime minister.
December 24, 1999	President Bédié overthrown by the army; General Robert Guéï takes over as president and appoints ministers from RDR, Alassane Ouattara's party and FPI, Gbagbo's party, the military, and members of civil society.
May 19, 2000	General Guéï reshuffles; fires all RDR ministers except one, but keeps FPI ones.
August 1, 2000	Referendum on new Constitution, whose article 35 restricts eligibility to candidacy for presidency.
October 2000	Robert Guéï, now turned civilian, stands for presidential elections and claims a win against FPI of Laurent Gbagbo; following protests, Guéï flees and Laurent Gbagbo is installed as president on October 26, 2000. RDR and PDCI party leaders excluded from taking part in elections.
September 2002	"New Forces" led by Guillaume Soro, move towards Abidjan and cut off half of the country at the city of Bouaké.
October 2005	Laurent Gbagbo's five-year mandate ends, but is extended by one year by UN mandate.
March 4, 2007	Laurent Gbagbo signs deal with the New Forces, whose leader, Guillaume Soro, becomes prime minister, ending the military standoff and division of the country. Elections were planned for 2008, but subsequently postponed to 2010
November 28, 2010	Second round of presidential elections held in Côte d'Ivoire, with Alassane Ouattara declared the winner. Laurent Gbagbo refuses to concede, and a new military confrontation ensues.
April 11, 2011	Laurent Gbagbo is removed from a bunker in his official residence and arrested. Alassane Ouattara is sworn in as president.
November 11, 2011	Laurent Gbagbo is sent to the International Criminal Court in The Hague.
October 25, 2015	Alassane Ouattara is re-elected president.

Source: IEO

REFERENCES

Africa Confidential (various issues), London.

Fall, B., 2002, "Social History in French West Africa: Forced Labour, Labour Market, Women and Politics," South-South Exchange for Research on the History of Development (Amsterdam).

Ousmane, D., Benoit, A. and Engman, D., 2003, "Regional Impact of Côte d'Ivoire's Sociopolitical Crisis," IMF Working Paper No. 03/85 (Washington).

Ridler, Neil, B., 1988, "The *Caisse de Stabilisation* in the Coffee Sector of the Ivory Coast," *World Development* 16 (12).

Shepherd, R., 2017, "Building Inclusivity in Côte d'Ivoire," Research Paper, June, Chatham House (London).

United Nations Development Program (UNDP), 2017, *Human Development Report* (New York).

CHAPTER 5—LIBERIA[1]

SUMMARY

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 though 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.

I. BACKGROUND[2]

A. Brief History

1. Liberia is a country of unique origin established in the early 19th century as a destination for former African-American slaves. This project, spearheaded by the American Colonization Society, was from the beginning opposed strongly by the indigenous population, and several domestic revolts were suppressed with U.S. military intervention. From independence in 1847 until 1980, Liberia was ruled by "Americo-Liberians," who were culturally and religiously different from the native groups. Beginning in the late 19th century, Liberia began to benefit from major inflows of foreign direct investment, especially in the rubber and iron ore sectors,[3] and from shipping registration fees. Large-scale internal rural-urban migration contributed to increasing tensions vis-à-vis the ruling elite. Throughout, the U.S. maintained strong cultural, business, political, and military links with Liberia.

2. In April 1980, in the wake of major domestic unrest, soldiers led by the chief of the president's bodyguard, Samuel Doe, revolted and killed President Tolbert and most of his cabinet. President Doe's government was supported initially by most of the population and by

---

[1] Contributor: Donal Donovan.

[2] Sources: Johnson Sirleaf (2009); Waugh (2011); Ciment (2013).

[3] The U.S. company, Firestone, established what was at the time the world's largest rubber plantation.

the U.S. Reagan Administration which, in the context of broader Cold War rivalries, increased economic and military aid sharply to Liberia. During the following five years, Doe survived seven coup attempts, and domestic political repression intensified. Following his reelection in 1985 by a narrow margin amid widespread violence, the U.S. began to withdraw its earlier support, foreign interest waned sharply, and the economy quickly descended into chaos.

3. In the late 1980s, opposition to Doe's regime coalesced around Charles Taylor, who organized a rebel force that invaded Liberia. Other rebels soon took over most of the capital, Monrovia. In 1990, despite the presence of an international peacekeeping force, Doe was captured by rebels, tortured, and executed. During 1990–96 Liberia had no effective central government and fighting continued to rage between different factions. In 1997, a disputed presidential election was won by Taylor and thereafter the situation deteriorated further. The Taylor government was accused of supporting rebels in neighboring Sierra Leone, and a different rebel force invaded Liberia from Guinea. In 2003, the International Special Court on Sierra Leone issued an arrest warrant against Taylor, and soon afterwards, in the face of mounting pressure, Taylor departed for asylum in Nigeria.[4]

4. After the installation of a transitional government led by President Gyude Bryant, the situation stabilized somewhat. Although some fighting continued, disarmament proceeded as planned and there were signs of economic recovery. In 2005, in what were regarded as relatively free and fair elections, Ellen Johnson Sirleaf, a former World Bank and United Nations (UN) official, was elected president in the second round by a decisive margin. With international support, peace and economic reconstruction began to take hold in the years that followed. In 2011, Johnson Sirleaf was reelected president, again by a wide margin. However, in 2014 the Ebola epidemic hit West Africa and spread quickly to Liberia. Ebola caused many deaths and massive social damage, placed huge strains on the government's limited technical and financial resources, and elicited a major international response.

B. Sources of Fragility

5. Even before the 1980 coup and the subsequent civil war, Liberia could be said to have exhibited many of the underlying features of fragility, including the potential for major political instability associated with ethnic and social tensions, widespread poverty, and heavy dependence on world commodity prices. Weak social indicators overall (including high rates of child mortality) and spatial inequalities were compounding factors. Instability and conflict in several surrounding countries contributed significantly to Liberia's civil war. In any event, the massive human, physical, and institutional destruction caused by the hostilities placed Liberia firmly within the group of fragile states.

---

[4] In 2006, the former president was extradited to Sierra Leone and subsequently transferred to The Hague where in 2012 he was sentenced by the Sierra Leone Special Court to a 60-year prison term. Around the same time, his successor, Gyude Bryant, was charged by the Liberian authorities with embezzlement during his time in office.

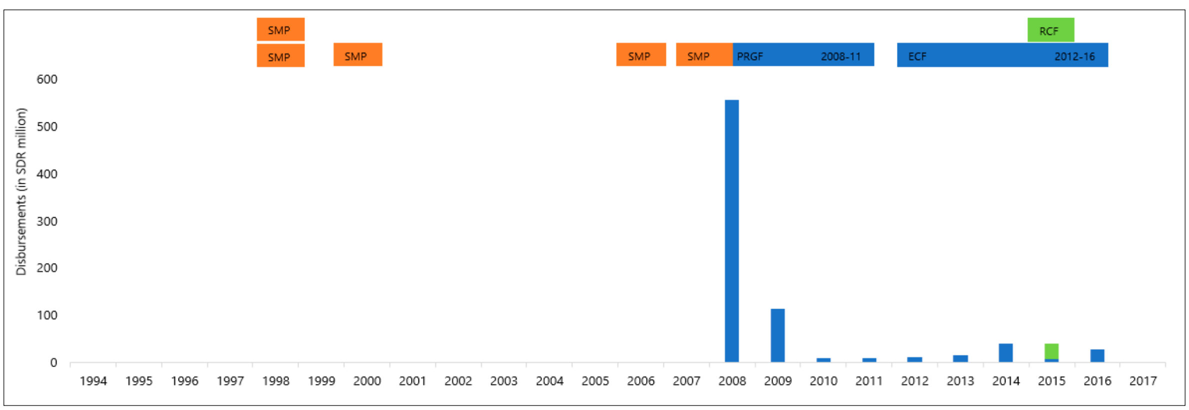
6. Nevertheless, the country has made considerable progress since the mid-2000s. Three sets of presidential elections (including in late 2017), together with parliamentary elections, have taken place without major violence and the overall security situation is viewed as stable. Beginning several years ago, the essential institutions of economic governance have been largely restored to their pre-civil war status. Major macroeconomic and financial upheavals have been avoided.[5] At the same time, in the view of most observers, Liberia remains a highly fragile state. Concerns about governance, weak institutions, and slow improvements in social indicators are major ongoing challenges. Liberia's underlying fragility was highlighted by its inability to provide a modicum of needed health and other social services at the time of the Ebola outbreak.

II. THE IMF'S RELATIONSHIP WITH LIBERIA

A. IMF-Supported Programs

7. Prior to and after the 1980 revolt, the IMF was involved, including financially, in Liberia. From the mid-1990s onwards, the IMF stepped up its engagement through a succession of Staff-Monitored Programs (SMPs), arrangements under the Poverty Reduction and Growth Facility (PRGF) and the Extended Fund Facility (EFF) (preceded by clearance of Liberia's arrears to the IMF) and, in 2012, an arrangement under the Extended Credit Facility (ECF), followed by special emergency assistance in the wake of the Ebola epidemic (Figure 5.1).

Figure 5.1. Liberia: Timeline of IMF Engagement, 1994–2017



Notes: ECF=Extended Credit Facility; EFF=Extended Fund Facility; PRGF=Poverty Reduction and Growth Facility; RCF=Rapid Credit Facility; SMP=Staff-Monitored Program.

Sources: SPR, List of Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, or after, November 1998 (as of October 31, 2017). IMF Members' Financial Data by Country, Transactions with the Fund.

---

[5] Also, Liberia's ranking on the Transparency International Corruption Perceptions Index had risen to 91 (out of 164 countries) by 2013, and by 2014 Liberia had achieved a larger improvement in the World Bank's CPIA rating than had a selected group of other post-conflict countries in Sub-Saharan Africa.

8. Between end-1980 and end-1983, Liberia's use of Fund credit rose from SDR 126 million to SDR 319 million. Liberia's arrears to the IMF first emerged in December 1984. Following the establishment of a transitional government in 1993, the IMF staff sought to intensify engagement with the Liberian authorities. This first phase of post-conflict assistance, which lasted more than a decade, consisted largely of efforts to agree on SMPs as a precursor to addressing Liberia's massive debt problem, including clearance of arrears to the IMF. Some IMF technical assistance was provided and Liberia made token payments to the Fund.

9. Up until 2005, this engagement yielded very limited and sporadic results overall. There were periods when agreement on Staff-Monitored Programs could not be reached and at times contacts between the IMF and the authorities ceased completely. Even when SMPs were adopted, performance was typically described as "mixed." Against a background of continuing political instability and renewed outbreaks of hostilities, the authorities were unable to implement measures to arrest the worsening political and economic crisis. By 2002–03, the staff was describing the "continued dire and desperate state of the economy…. [and] the barely functioning [government]." In 2003, Liberia's voting rights in the IMF were suspended. Although following the enforced departure of Charles Taylor in late 2003 a program of "immediate basic measures" was largely implemented, progress was mixed thereafter due to severe governance weaknesses.

10. The election in late 2005 of President Johnson Sirleaf was a turning point that led to a stepped-up IMF involvement. In early 2006 a new, more far-reaching SMP was agreed and, in a departure from the past, two reviews under the program were completed and a further SMP agreed for 2007.[6] During 2007, efforts to normalize Liberia's financial relations with the IMF intensified. The IMF Executive Board agreed to modify the PRGF–HIPC Trust instrument to facilitate the settlement of arrears to the IMF, and the SMP was extended. In March 2008, following the activation of a bridging loan from the U.S. Treasury, Liberia's arrears to the IMF were cleared; three-year arrangements under the PRGF and the EFF were approved and the bridge loan was repaid.[7] All eight program reviews were completed under the arrangement, which was twice extended. In 2010, Liberia's post-conflict economic stabilization was described as "essentially complete" and conditions for meeting the HIPC completion point were met.

11. In late 2012, another arrangement was approved under the ECF. The authorities' program placed heavy emphasis on structural and development issues.[8] Although initially satisfactory, performance weakened by the second and third reviews. Following the Ebola outbreak in

---

[6] Of significance as regards the modalities for the subsequent clearance of Liberia's arrears to the IMF, the policies of the SMP were judged to have met the standard of upper-credit-tranche conditionality except for the absence of sufficient funding to fully finance the program.

[7] The amount available under the EFF was drawn down immediately and used to repay the bridge loan.

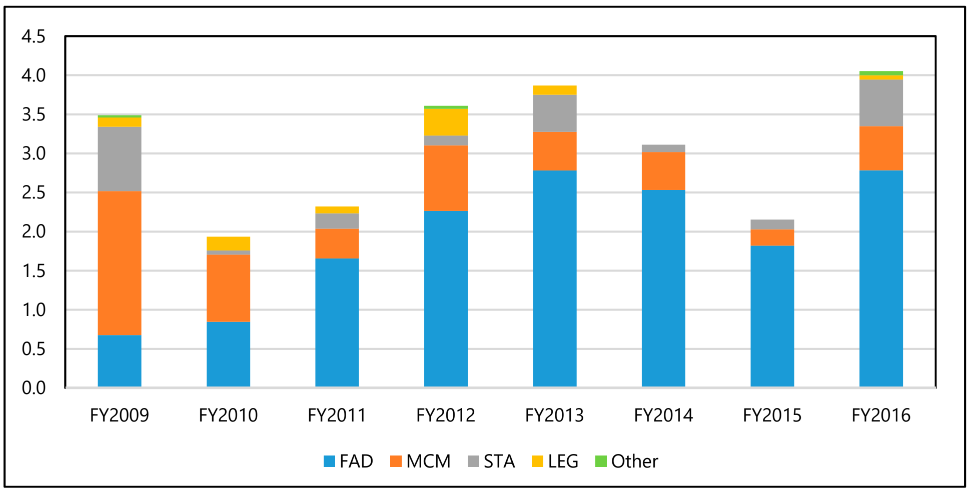
[8] Three key policy "pillars" were identified: (i) creating fiscal space for higher capital spending; (ii) strengthening monetary policy and the financial sector; and (ii) structural reforms to further improve public financial management, governance, and the business climate.

mid-2014, the IMF quickly responded by agreeing to augment access under the ECF and to a disbursement under the Rapid Credit Facility (RCF) along with debt relief under the newly established Catastrophe Containment and Relief Trust. Discussions on the fourth ECF program review were put on hold, and in late 2015 the ECF arrangement was extended to early 2016. The fourth program review was concluded (performance was described as "mixed") and the arrangement was further extended until end-2016. The fifth and sixth reviews were completed in December 2016, and simultaneously the arrangement was augmented and extended for a third time, until end-November 2017, at which point the seventh and eighth reviews were completed.

B. Capacity Development Work

12. Between 2000 and 2016, the IMF provided a large amount of technical assistance to Liberia, averaging about three person-years annually, predominantly in the areas of public finances and monetary and financial sector issues (Figure 5.2).

Figure 5.2. Liberia: IMF Technical Assistance, FY 2009–16
(In person-years)



Source: IEO estimates based on ICD data.

13. Staff reports typically did not assess the effectiveness of IMF TA.[9] However, in 2013, as one of the lessons learned from earlier experience, staff referred to the need to better "customize" TA and quoted the authorities' view that TA (including from other providers) had been "too prescriptive, with too many recommendations to implement given the limited capacity." Officials indicated to the IEO that in general the IMF had responded promptly and effectively to their TA needs, especially in the immediate post-conflict period (when, for example, FAD TA had played a prominent role in revenue mobilization), and that its contribution

[9] An exception occurred in 2002 when staff referred to the pending cessation of TA activities, in the absence of sufficient cooperation by the authorities.

to capacity building would remain essential. That said, several officials, as well as IMF area and TA-providing department staff, suggested ways in which TA could be made most effective.

14. A common theme was the need for the design of institutional reforms to be practically feasible. Especially in earlier years, the staff had tended to give advice on a "grand strategy" without a sufficiently realistic roadmap that would consider "second best" (or even "third best") approaches. However, interviewees welcomed a recent shift that they had perceived in IMF TA towards more pragmatic approaches; the provision of lengthy reports by headquarters-based teams had given way to emphasizing implementation, with a focus on training as a key component.[10] The posting of long-term resident advisors, especially those with practical experience in dealing with similar problems elsewhere, had proved helpful, although it was subject to security concerns (for the IMF staff, Liberia has been a nonfamily posting).

15. In 2016, African Department (AFR) staff launched a Capacity Building Framework (CBF) with Liberia on a pilot basis, as part of its efforts to enhance the integration of TA with surveillance and program work inputs from the authorities. It is expected that, "in line with the CBF and the authorities' requests, delivery of TA [would] shift in part from diagnostic missions to hands-on capacity development such as training and workshop." The authorities and AFR have agreed on capacity building priority areas, reflected in a document shared with donors.

III. STAKEHOLDER VIEWS

A. The IMF's Overall Impact

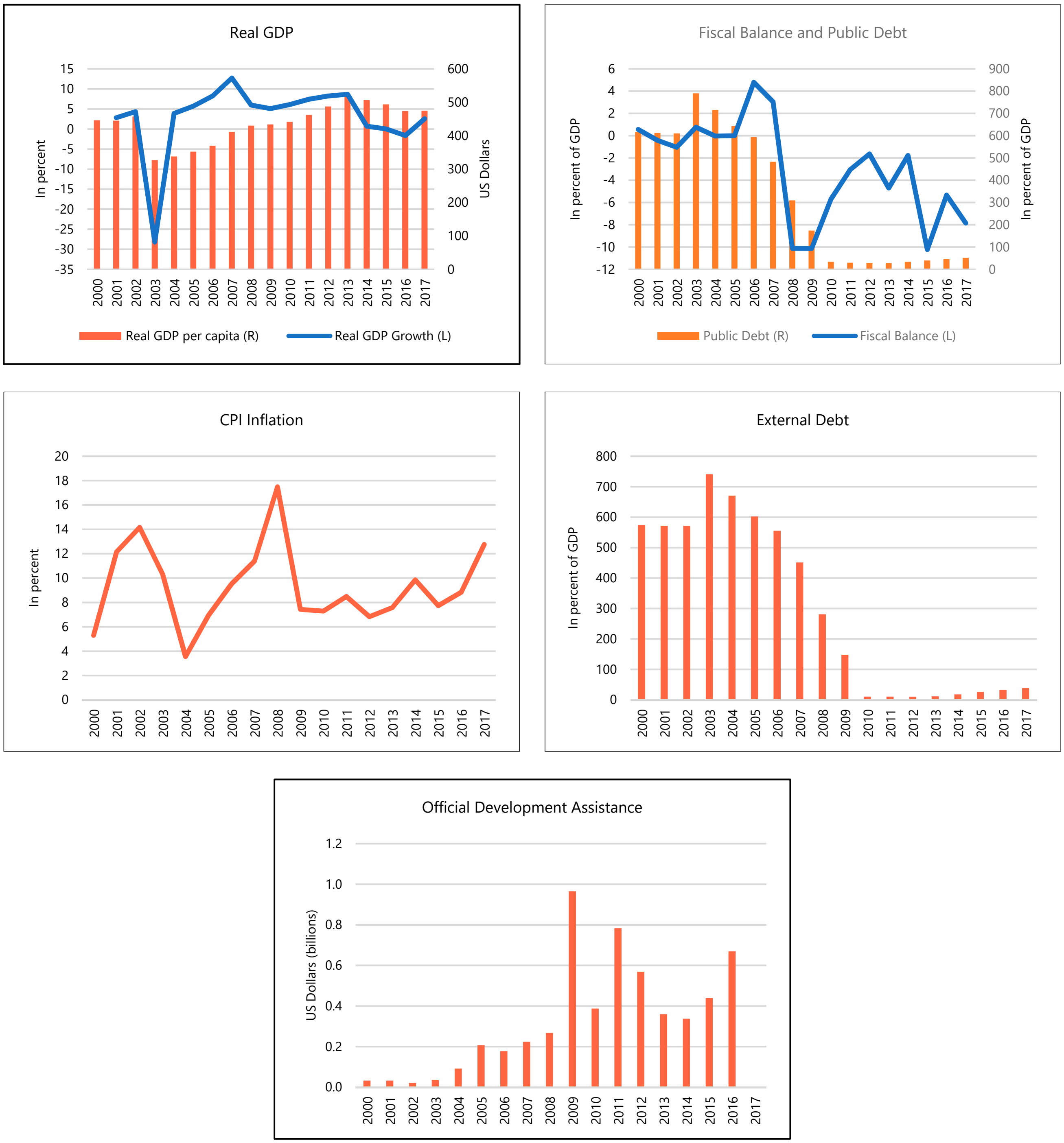
16. As in many other fragile states, IMF engagement sought to restore or maintain macro-financial stability and help achieve higher growth and better living standards. While rebuilding most key economic and financial institutions virtually from scratch after the civil war was critical, subsequently the structural reform agenda extended well beyond these immediate needs and aimed at reducing Liberia's underlying fragility.

17. After a precipitous decline during the period of hostilities, Liberia achieved a high (albeit from a low base) annual average rate of economic growth of around 8 percent until 2013 (Figure 5.3). Growth slowed sharply in 2014, before turning slightly negative in 2015–16, mainly due to Ebola and a slump in iron ore prices. Consistent with the observance of most of the programs' quantitative performance criteria, fiscal and monetary policies helped to keep inflation within single digits. Progress on structural reforms, measured in terms of meeting structural

[10] For training to have a sufficient impact, turnover among key officials—seen as a major issue for some ministries and agencies—needed to be kept to a minimum. Those who acquired skills were attracted by job opportunities available in the private sector or in international and bilateral donor agencies present in Liberia. A related issue noted by the staff was the authorities' reluctance at times to move away from reliance on externally financed advisors and directly implement reforms—a reluctance that perpetuated a cycle of weak local capacity.

benchmarks, was more mixed. Despite some setbacks, most scheduled reviews under the IMF arrangements were completed, albeit often with delays.

Figure 5.3. Liberia: Key Macroeconomic Indicators, 2000–17



Sources: October 2017 *WEO* database; OECD DAC statistics.

18. Whether the glass should be viewed as “half full” or “half empty” is a matter of debate, depending in part on the counterfactual assumed. On the positive side, apart from broadly helping to maintain macroeconomic stability, institutional achievements in which the IMF played a major role include the rebuilding of capacity in the Central Bank of Liberia, the establishment of the Liberia Revenue Authority in 2014, and several improvements in aspects of public financial management. Normalizing relations with external creditors was a critical step in tackling the legacy of past borrowing and lending decisions, including those by the IMF.

19. On the other hand, progress was at best mixed on broader metrics such as living standards, key social indicators, and unemployment/underemployment—which, the authorities emphasized, were particularly sensitive in view of Liberia’s violent recent history. In interviews, many officials and IMF staff members singled out key elements underlying fragility, including a lack of economic diversification, serious weaknesses in institutional capacity, and continuing governance and corruption issues.

20. Interviewees all felt that despite setbacks, the IMF overall had played a positive role in Liberia and that, given the formidable outstanding obstacles, its continued close involvement for many years to come would be essential. That said, several stakeholders discussed some possible ways to enhance the IMF’s effectiveness, even while recognizing that many aspects of Liberia’s fragility were beyond the IMF’s traditional spheres of influence. Several staff members viewed the IMF’s role as helping create “windows of opportunity” that other domestic and external actors cold exploit.

B. Policy Advice and Program Design

21. Interviews expressed a range of views as to the sensitivity of IMF staff advice to political, social, and institutional factors. Officials welcomed the flexibility the staff had shown in the speedy provision of additional financing after the Ebola outbreak, the agreement that these resources could be used for budgetary support, and the acceptance of the authorities’ preferred approach to dealing with a failed bank. However, some current officials thought that the staff’s prescriptions had not always given sufficient weight to Liberia-specific characteristics.

22. Several topics that were raised help illustrate some of the tensions that arise when seeking to balance stabilization with developmental objectives in a fragile state such as Liberia. For example, officials felt that abrupt movements in the exchange rate and associated adjustments in the prices of key commodities (such as petroleum products) might spark damaging social and political disturbances. This was of particular concern in a fragile post-conflict setting, and is a set of circumstances to which the IMF should be especially sensitive.

23. A second source of debate at various times was the appropriate path of gross official reserves.[11] At the time of the 2012 PRGF-supported program, the staff argued that three months’

[11] These issues were complicated by the coexistence of a dual currency system involving U.S. and Liberian dollars.

import coverage was the minimum required to cover the foreign exchange needs of the banking system, given Liberia's rapid monetization and volatile external environment.[12] However, several officials considered this target to have been arbitrary and not to have given sufficient weight to preventing undue exchange rate depreciation or to the opportunity cost of holding reserves. The staff expressed ongoing concern about the deteriorating net external reserve position of the Central Bank of Liberia (CBL), which mainly reflected operating deficits and "quasi-fiscal" operations involving direct CBL funding in support of specific lending activities. The staff was consistently critical of these initiatives, citing the below-market lending margins involved and the reputational risk to the CBL, as well as potential political pressures to share credit losses. Former CBL officials assured the staff at the time that the risks were small and would be mitigated by strengthened CBL supervision of banks' risk management. More fundamentally, they later emphasized to the IEO in interviews that in the circumstances of Liberia, the IMF staff should have given greater weight to the need for unconventional arrangements to spur economic activity in a credit-starved system.

24. A third, at times contentious, topic was the IMF programs' limitations on Liberia's external borrowing. The staff indicated growing concern that these (indicative) limits were generally exceeded. In 2013, on the basis of detailed debt sustainability analysis, they concluded that Liberia's risk of debt distress had gone from "low" to "moderate" and that by 2016, assuming no recovery in export prices, the risk could become "high."[13] The authorities suggested that, although a cautious approach to debt management was needed, especially in view of Liberia's previous experience, the prescribed limits unduly constrained concessional borrowing. Many at the political level had argued that Liberia would be unable to break out decisively from low-income fragile status without a major boost in infrastructure spending and that it was important for the IMF to be seen as actively supporting growth and development.[14]

25. Some former officials did not share these concerns. For instance, several observed that adjustments in administered prices were often sensitive politically and that more than a decade after the end of the civil war Liberia's particular circumstances should not be exaggerated. Others questioned whether enough thought had been given to the financial viability of some of the

[12] The 2008 PRGF-supported program had set a target of one month's coverage, which was exceeded.

[13] Under the 2008 PRGF-supported program, non-concessional borrowing was not permitted (a performance criterion), except on a case-by-case basis, and an indicative limit was placed on total external borrowing, set initially at 3 percent of GDP and raised subsequently to 4 percent in net present value (NPV) terms. The 2013 ECF-supported program maintained this framework. However, by 2015 actual borrowing had reached 8.3 percent of GDP (of this increase, 1 percent reflected the combined impact of higher Ebola-related borrowing and lower GDP). In concluding the fourth ECF review, it was agreed, in line with a change in overall IMF policies, to establish as a performance criterion a limit on the NPV of total (concessional and non-concessional) debt.

[14] Some interviewees noted with concern a statement attributed to an IMF representative at a donor meeting chaired by the Liberian President, to the effect that "the Fund was not into development." However, staff reports, particularly from 2012 onwards, stressed the critical need to boost infrastructure spending and, in this context, the importance of addressing major constraints in project development, analysis, and execution.

projects for which foreign borrowing was being sought. It was also noted that the central bank's particular lending schemes had drawn considerable criticism from some within the government.[15]

26. Stakeholders agreed that, as shown by Liberia's mixed experience, implementing essential structural reforms was in many respects a more far-reaching and difficult task than sustaining macroeconomic stabilization. It required a combination of strong ownership (including political stability), effective technical advice, and adequate physical and human resources. Some suggested that at times programs' structural benchmarks may have been specified without sufficient assurances in advance as to these elements.[16,17] Dependence on crucial donor support, often linked to a successful outcome to program negotiations, could lead to too hasty an agreement between the staff and the authorities and contribute to the nonobservance of benchmarks. Many (including on the IMF staff) also urged a strong focus on the most productive and feasible structural measures. Several former officials emphasized that—provided that structural measures had been well thought through beforehand—the IMF should not exercise too much flexibility, as the leverage associated with its support was key in overcoming resistance from vested interests.

C. Collaboration with Partners

27. Relative to its size, Liberia has received significant support from multilateral and bilateral donors. In interviews with the IEO, issues of aid coordination and absorptive capacity were viewed as higher-priority concerns than any pressing requirement to increase significantly the overall volume of assistance. Cooperation between the IMF staff and the broader donor community was judged to have been quite positive. The staff played a critical role in helping draw up and disseminate key macroeconomic and budgetary data against the background of continued major weaknesses in official statistics, while the IMF Resident Representative and visiting missions provided regular structured briefings to donors. The relative stability of IMF mission chief assignments had promoted a relationship of trust whereby views on current policy issues could be exchanged candidly and productively. Typically, individual personalities had also played an important role.

28. The extent of donor activity allied to ensuring the effectiveness of TA in general suggested room for more structured coordination among providers. Some interviewees saw scope for the IMF staff (perhaps together with others) to play an enhanced role in promoting

[15] As a reaction, in 2014 an amendment to the Central Bank of Liberia Act was passed that constrained former CBL officials from running for political office for three years.

[16] An example cited was the integration of the Bureau of the Budget with the Ministry of Finance, a reform that was achieved only after very considerable delays.

[17] This question is difficult to answer since staff reports did not spell out ex ante what was required or indicate ex post why structural benchmarks had not been observed—for example because of lack of resources, shortfalls in external assistance or, simply, a change of mind on the authorities' part.

coordination in IMF-specific areas. This might require additional staff resources (and possibly, more specialized skills), as meaningful donor coordination can be a time-consuming activity. Also, possible “turf tensions” vis-à-vis different agencies would need careful handling.

D. Achieving Sustained and Inclusive Growth

29. Several interviewees stated that “the Fund is good at achieving macroeconomic stabilization but (no more than others) does not have a clear-cut recipe for promoting sustained growth.” That said, various staff reports analyzed extensively the potential future impact on growth of foreign direct investment and a major boost in well-thought-out public infrastructure projects, including associated (positive) financial feedback effects.

30. IMF policy advice generally urged restraint on the budgetary wage bill, at times with limited success, so as to permit increased outlays on social sectors and infrastructure. The staff in 2008 outlined elements of the authorities’ food security program aimed at cushioning the impact of higher imported commodity prices. From 2008 onwards, programs included as indicative targets quarterly floors on social spending; during 2013–15, the floor was not met on about 40 percent of the test dates.

31. Current and former officials conveyed various views as to the benefits associated with raising social expenditure, especially if expenditure composition issues were not addressed.[18] Some felt that there was not a great deal to show for the very substantial amounts that had already been spent and that expanded facilities would have limited impact in the absence of improved infrastructure to ensure access. Also, they stressed that greater infrastructure expenditure would facilitate higher growth and budgetary revenue to ensure a durable improvement in social conditions.

E. The IMF’s Financing Facilities and Risk Assessment

32. Given the unique situation Liberia faced in the wake of the civil war, the only vehicle realistically available to the IMF was Staff-Monitored Programs as a precursor to normalizing the country’s external financial relations. The first SMPs met with little success but from 2005 onwards efforts intensified in a complex and ultimately successful process that involved IMF management and staff (as well as the Executive Board), other multilateral organizations, and key bilateral partners. Former officials, as well IMF staff members, indicated to the IEO that, broadly speaking, the operation had proceeded as smoothly and expeditiously as possible under the circumstances.

33. Subsequent access to Fund resources was relatively modest (Figure 5.1). However, in response to the 2014 Ebola outbreak, the IMF augmented access under the ECF and approved a purchase under the RCF as well as debt relief under the newly established Catastrophe

---

[18] Some former officials mentioned the high proportion of expenditures on “ghost workers” in the social sectors.

Containment and Relief Trust. These initiatives were regarded very positively in Liberia, as was the agreement that the disbursements could be used for budgetary support.

34. Officials who were interviewed expressed broad satisfaction with the current set of IMF financing facilities available to Liberia. They accepted that the IMF's financing role was essentially catalytic and that large-scale lending by the IMF to Liberia would not be appropriate. However, some thought that slightly greater access to Fund resources, together with a longer maturity period, would be helpful. They were open to the idea of a facility to address specifically the needs of fragile states such as Liberia—perhaps involving more appropriate conditionality—but they took no firm view as to what that might entail.

35. Although Liberia's debt-to-GDP ratio remained very low (Figure 5.3), the economy remained highly vulnerable. From 2006 onwards, staff reports consistently noted various risks of both external and domestic origin (mainly related to political instability or opposition to reforms and weak institutional capacity). Some of the staff members interviewed felt that in retrospect, especially in earlier years, the major domestic constraints and risks Liberia faced could have been highlighted more prominently at the outset of staff reports, rather than being treated as something of an afterthought. This would have provided a better framework for assessing policy options and priorities, including as regards structural reforms and capacity building.[19]

36. There was general agreement that the staff should not hesitate to provide a realistic and candid picture of prospects for progress, given Liberia's inherent fragility and the unavoidable limitations of the IMF's role. Also from this perspective, a willingness to meaningfully engage and avoid a "stop and go" approach that may prove costlier in the end could imply acceptance of a greater appetite for risk on the IMF's part.

[19] Later papers, such as the 2012 RCF request and the 2016 Article IV staff reports, moved significantly in such a more "holistic" direction.

REFERENCES

Ciment, James, 2013, *Another America: The Story of Liberia and the Former Slaves Who Ruled It* (New York: Hill and Wang).

Johnson Sirleaf, Ellen, 2009, *This Child Will Be Great: Memoir of a Remarkable Life by Africa's First Woman President* (New York: Harper Collins).

Waugh, Colin M., 2011, *Charles Taylor and Liberia: Ambition and Atrocity in Africa's Lone Star State* (London: Zed Books).

CHAPTER 6—RWANDA[1]

SUMMARY

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.

I. BACKGROUND

A. Brief History[2]

1. Although Rwanda has a unique national language and culture, there are two main ethnic groups, the Hutus and the Tutsis. In the first half of the 20th century, Rwanda's colonial experience under Belgian rule escalated the existing social tensions: the Belgians relied on the Tutsi power structure to administer the country. The Tutsis were the royal class while the Hutus, though the majority, were the labor class. Following World War II, Rwanda became a UN trust territory but with Belgium as the administrative authority. Reforms instituted by the Belgians in the 1950s encouraged the growth of democratic political institutions but were resisted by the Tutsi traditionalists who saw them as a threat to Tutsi rule. In the late 1950s, the Belgians reacted to the political turmoil created by the wave of decolonization in Africa by shifting their allegiance to the Hutus when the Tutsi elite began demanding an end to Belgian colonialism. Repressed Hutu animosity toward the Tutsi exploded in a Hutu "social revolution" led by the Party of the

---

[1] Contributor: Lorenzo L. Perez.

[2] Source: Cannon (undated) and Oppong (2008).

Hutu Emancipation Movement (PARMEHUTU) in 1959. More than 20,000 Tutsis were killed and many more fled to neighboring countries. After the 1959 revolution, the state became more centralized in Hutu power. In July 1962, Belgium granted Rwandan independence, and two Hutu leaders, Gregoire Kayibanada (1962–73) and Juvenal Habyarimana (1973–94), successively served as the country's president.

2. By the early 1980s, more than 600,000 Rwandans, mostly Tutsis, were living as refugees in the countries surrounding Rwanda. In Uganda, Yoweri Museveni became president in 1986 by fighting his way into Kampala after a long guerrilla war waged against the government; crucially, many of his soldiers were of Rwandese extraction. When the conflict in Uganda ended, Rwandan exiles banded together as the Rwandan Patriotic Front (RPF) and invaded Rwanda from their base in Uganda. They hoped to remove Habyarimana from power and establish a more democratic government to facilitate the return of the refugees. Responding to political pressure for political reform, President Habyarimana announced in July 1990 his intentions to transform Rwanda's one-party state into a multi-party democracy. When the ban on political parties was lifted in 1991, some of the parties that emerged had a Tutsi or Hutu orientation, which led them increasingly to engage in violence against each other, with some turning their youth groups into armed militias.

3. After further clashes, the RPF and the Rwandan government signed a ceasefire at Arusha, Tanzania in July 1992, through the mediation of the Organization of African Unity. In October 1993, the UN Security Council established the United Nations Assistance Mission for Rwanda, with a mandate for peacekeeping and humanitarian assistance. From the outset, however, the will to achieve and sustain peace was subverted by some of the Rwandan political parties that participated in the Arusha agreement. In April 1994, the plane carrying President Habyarimana along with the president of Burundi to the Rwandan capital of Kigali was brought down by a rocket attack. Immediately, slaughtering of hundreds of thousands of Tutsis and moderate Hutus began. Between April and June 1994, an estimated 800,000–1,000,000 Rwandans (out of the population of less than 10 million) were killed, as the world passively stood by.

4. The RPF, led by Paul Kagame, renewed its fight against the Hutu government as the genocide continued. By early July 1994, the RPF took military control of the entire territory of Rwanda. Soldiers and militia who had participated in the genocide fled to the Democratic Republic of the Congo, taking with them more than 1 million civilians, most of them Hutus who feared retaliation from the Tutsis. Back in Kigali, a national unity government was formed with Pasteur Bizimungu, a Hutu, as president and Kagame as vice president and minister of defense. In 2000, Bizimungu withdrew from the RPF-dominated government and Kagame took over the presidency. More than a million refugees had returned to Rwanda and, in 2004, ethnicity was

formally outlawed in Rwanda in an attempt to promote a culture of healing and unity. In 2015 the constitution was amended to allow President Kagame to run for a third term in 2017.[3]

B. Sources of Fragility

5. Rwanda has made important economic progress since the 1994 genocide and is no longer classified as fragile by either the World Bank or the IMF. It is among the few resource-poor, landlocked countries that have managed to achieve rapid economic growth, price and external stabilization, a steady reduction in poverty, and a narrowing of inequality (Figure 6.1). A recent IMF African Department paper on building resilience in fragile states notes the progress made by Rwanda in delivering basic services to the population, mobilizing domestic resources, obtaining donor support, and promoting private sector and foreign direct investment (IMF, 2015). However, lack of economic diversity, a large external current account deficit, and high dependency on aid remain sources of economic vulnerability to external shocks.[4]

6. Various sources, including the Economist Intelligence Unit, have reported that a lack of opportunity for peaceful, public disagreement, together with underlying social and ethnic tensions, may pose a threat to continued political stability in the environment of a volatile regional climate.[5] Following President Kagame's convincing reelection, however, domestic risks to Rwanda's underlying political stability appear to have largely faded.

II. THE IMF'S RELATIONSHIP WITH RWANDA

A. Program Engagement

7. Rwanda became a member of the IMF in 1963. Since the 1990s, the IMF has been closely engaged in Rwanda, supporting the authorities' economic policies through early and continued programs (Figure 6.2). In addition to providing financial and technical support for the country's development strategy, IMF-supported programs have played an important catalytic role in unlocking support from donors and obtaining debt relief.

---

[3] The amendment potentially allows Mr. Kagame to run three more times.

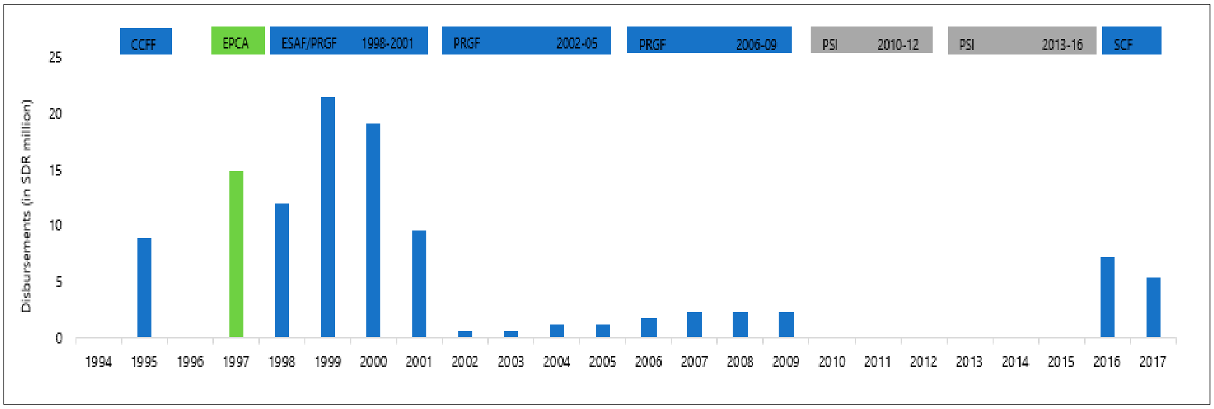
[4] In addition, holding companies controlled by the RPF and the Ministry of Defense played a large role in the country's economic activity and their size and connections with the government may have hindered new private sector activity and competition.

[5] A large influx of refugees escaping violence in Burundi may worsen Rwanda's latent domestic social and ethnic tensions. And the DRC army's slow progress in disarming militia groups who oppose the Rwandan government, and Rwanda's slow progress in handing over the rebels fighting the DRC government, continue to weigh on their mutual relations.

Figure 6.1. Rwanda: Key Macroeconomic Indicators, 2000–17

Sources: October 2017 *WEO* database; OECD DAC statistics.

Figure 6.2. Rwanda: Timeline of IMF Engagement, 1994–2017



Notes: CCFF=Compensatory and Contingency Financing Facility; ECF=Extended Credit Facility; EPCA=Emergency Post-Conflict Assistance; ESAF=Enhanced Structural Adjustment Facility; PRGF=Poverty Reduction and Growth Facility; PSI=Policy Support Instrument; SCF=Stand-by Credit Facility.

Sources: SPR Databases: List of Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, or after, November 1998 (as of October 31, 2017). IMF Members' Financial Data by Country, Transactions with the Fund.

8. The IMF's involvement in Rwanda since the 1994 genocide had four phases: (i) provision of emergency financing during the immediate post-genocide period (1995–97), while capacity was rebuilt to implement upper-credit-tranche (UCT) conditionality programs; (ii) support under the Enhanced Structural Adjustment Facility and the Poverty Reduction and Growth Facility during 1998–2009; (iii) program support backed by Policy Support Instruments (PSIs) during 2010–15; and (iv) an 18-month program supported under the Stand-by Credit Facility in 2016–17, to boost international reserves in the face of adverse external shocks. After 2001, except for the 2016 SCF arrangement, the IMF's financial support was at a relatively low access level, partly because of concern for the sustainability of Rwanda's debt.

9. **The first phase of IMF involvement** (1995–97). During the initial period, emphasis was placed on boosting international reserves to compensate for the fall in exports and on setting up a basic fiscal and monetary framework to begin rebuilding capacity to implement UCT conditionality arrangements. A comprehensive program of technical assistance was initiated that aimed at improving macroeconomic management and at adopting a coherent economic policy framework.

10. In 1997, the IMF approved a drawing under Emergency Post-Conflict Assistance, and the authorities' program was formulated as a transition toward the adoption of an ESAF-supported program. Its key elements were fiscal consolidation through bolstering revenue, a monetary policy aimed at reducing inflation, and the establishment of central bank independence. Financial sector reforms focused on capacity building at the central bank and on strengthening commercial banks through recapitalization and accelerated provisioning for risky assets. Designed in the aftermath of a civil war, the government's strategy for 1997–98 was noteworthy for its coverage and ambition. Policy initiatives during this period included army demobilization

efforts, regulatory and incentive measures for the private sector and the financial system, and sectoral strategies in key producing sectors.

11. **The second phase of IMF involvement** (1998–2009). A three-year ESAF arrangement was approved in 1998 (and was converted in 1999 into an arrangement under the Poverty Reduction and Growth Facility). For the program to be supported under this arrangement, the authorities had prepared a detailed and comprehensive policy framework paper, which focused on stepped-up revenue mobilization, a significant increase in social spending, strengthening of expenditure management and prioritization, and a number of front-loaded actions in civil service reform. Structural reforms were to be phased over three years, given Rwanda's capacity constraints and need for technical assistance.

12. In view of Rwanda's large social and rehabilitation needs, the program had two important features that provided flexibility: (i) the targets for social spending would be reconsidered for 1999, following a scheduled public expenditure review; and (ii) the fiscal program incorporated an exceptional level of social spending, to assist the victims of the genocide as well as the demobilization and reintegration of ex-soldiers. These expenditures were to be funded largely by external assistance and were not be considered part of the fiscal primary balance to be monitored. Technical assistance was planned for macroeconomic management, economic and financial statistics, and public administration.

13. Though Rwanda's macroeconomic performance was good in 1999 and 2000, the IMF-supported programs during these years experienced implementation difficulties in the fiscal area, with many missed targets that required requests for waivers and re-phasing of purchases. The third annual arrangement under the PRGF was approved in 2001 after the second annual arrangement had expired in November 2000 without a completed review. Performance vis-à-vis program targets remained uneven. Overruns in nonsocial expenditure negatively affected compliance with the fiscal targets, the reduction of domestic arrears was not achieved, and external arrears accumulated. Concerns were raised by IMF management and staff about higher-than-budgeted military expenditures.

14. After difficult negotiations that directly involved IMF management, agreement was reached on a new three-year PRGF arrangement in August 2002 to support Rwanda's poverty reduction strategy. The structural reform agenda emphasized improvements in governance and transparency. TA was to be provided to strengthen revenue administration, improve internal accounting and audits at the Ministry of Finance, and draft a new budget law. At the request of the authorities, access to Fund resources under the new PRGF was set at a minimal level of 5 percent over the three-year period, in view of the relatively strong foreign reserve cover in place and the availability of more concessional loans and grants. Because of Rwanda's alleged military involvement in the DRC, the IMF Executive Board approval of the new arrangement was not easy, and Directors from several major countries abstained.

15. The 2002–05 PRGF-supported program required a lot of effort to remain on track. Fiscal targets were frequently missed, requiring waivers. Unanticipated outlays related to the withdrawal of troops from the DRC in 2002, unbudgeted election expenditures, and quasi-fiscal spending linked to the refurbishing of a government-owned hotel were among the contributing factors. Differences of opinion arose regarding the appropriate amount of concessional borrowing and the assessment of external debt sustainability, particularly given the lack of growth in the export sector. Performance in 2003 under the program was unsatisfactory and the review of the program had to be delayed until mid-2004 so that Rwanda could show that the program was back on track. In 2005, the sixth and final review of the PRGF-supported program was delayed due to policy slippages in the third quarter, but the program was brought back on track by the end of the year. In December 2005, Rwanda received debt relief under the Multilateral Debt Relief Facility covering debts to the IMF, the World Bank, and the African Development Bank.

16. In January 2006, after more than ten years of IMF involvement the Executive Board discussed the staff's ex post assessment (EPA) of longer-term program engagement with Rwanda. The EPA found that Rwanda had undertaken an impressive national rehabilitation effort and had largely achieved macroeconomic stability. Economic and financial institutions had been rebuilt, with the provision of a critical mass of TA. The country's post-conflict economic recovery was strong, with low inflation and a comfortable level of international reserves. In the EPA's judgment, macroeconomic objectives under the program were generally realistic, except for exports whose performance had been weaker than projected. However, the EPA found that fiscal consolidation efforts had yielded mixed results. Rwanda had successfully improved domestic revenue mobilization and reallocated budgetary funds to priority areas, but there were recurrent expenditure overruns. The EPA found that the fiscal impact of reforms in tax administration had at times been overestimated and that programs had not put in place safeguards against a deterioration in debt sustainability.

17. Executive Directors, discussing the EPA, noted that shortcomings in program implementation reflected conditionality that was excessive in light of Rwanda's capacity constraints. Looking to the future, most Directors supported continuing IMF support through a low-access PRGF arrangement, given the country's strengthened reserve position and debt sustainability concerns.

18. In June 2006, a new three-year PRGF arrangement was approved for Rwanda, with attention to (i) how to absorb increasing aid without risking currency overvaluation; (ii) how much external borrowing could be permitted on non-concessional terms to address the infrastructure gap; (iii) how to improve public expenditure management; and (iv) how to make debt more sustainable. The reviews of the 2006 PRGF arrangement were concluded successfully through July 2009, but waivers continued to be needed (e.g., for total priority spending); credit targets were missed as a result of temporary delays in aid, and there were delays in structural reforms (e.g., of civil service pay). The IMF allowed a widening of the fiscal deficit to

accommodate the implementation of investment projects with high rates of return financed on less concessional terms.

19. Economic growth was strong during 2006–09, but progress in reducing poverty was disappointing. Inflation rose in 2008 and 2009, reflecting an increase in commodity prices and domestic demand pressure. On the positive side, Rwanda's capacity to handle economic shocks strengthened over this period, as measured by a reduction in the public-sector debt burden, the accumulation of international reserves, and a rising level of budget resources. An indicator of Rwanda's debt risk distress improved from high to moderate, though the country remained vulnerable to export shocks and dependent on concessional financing.

20. **The third phase of IMF involvement** (2010–15). From 2010, the country was considered a "matured stabilizer" and a good candidate for a program under the Policy Support Instrument (PSI). The authorities wanted to maintain Rwanda's engagement with the IMF to signal to donors the continued strength of the country's economic policies, at a time of uncertain prospects for aid and a negative global environment, as well as to provide a framework for capacity building and enhanced TA. In June 2010, a three-year PSI was approved, as staff projections indicated no balance of payments need over the medium term. While Rwanda remained vulnerable in some areas (e.g., moderate debt risk, high aid dependence, a narrow export base, and an uneven track record on inflation), the authorities' medium-term program presented a credible effort to mitigate these weaknesses and ensure macroeconomic stability. Although some structural reforms experienced delays, the 2010–13 PSI was by and large successfully implemented with an extension through January 2014. Its implementation was supported by strong TA organized by the regional technical assistance center AFRITAC-East in the areas of revenue administration, macro-fiscal analysis, and public financial management, monetary policy, financial sector supervision, and statistics.

21. In December 2013, at the time of the seventh and final review of the 2010 PSI, a new three-year PSI was approved. This aimed at supporting the authorities' strategy to mobilize more revenue, and at improving revenue administration based on TA recommendations that were made by the Fiscal Affairs Department in anticipation of a possible reduction in external grants. In addition, it sought to maintain the progress being made in strengthening public financial management, preserve debt sustainability within a strategy of relying on external borrowing, and improve the effectiveness of monetary policy. Five reviews were completed successfully.

22. **The fourth phase of IMF involvement** (2016–17). Over the past two years, Rwanda faced adverse external shocks related to a fall in the volume and prices of mineral exports and tighter conditions for accessing private capital inflows, notwithstanding the successful completion of reviews for the 2013 PSI. In June 2016, the Executive Board approved an 18-month program under the Stand-by Credit Facility (SCF), for the amount of $204 million (or 90 percent of quota), to help Rwanda boost its international reserves. The financing supported an adjustment program based on greater exchange rate flexibility, public spending restraint, and

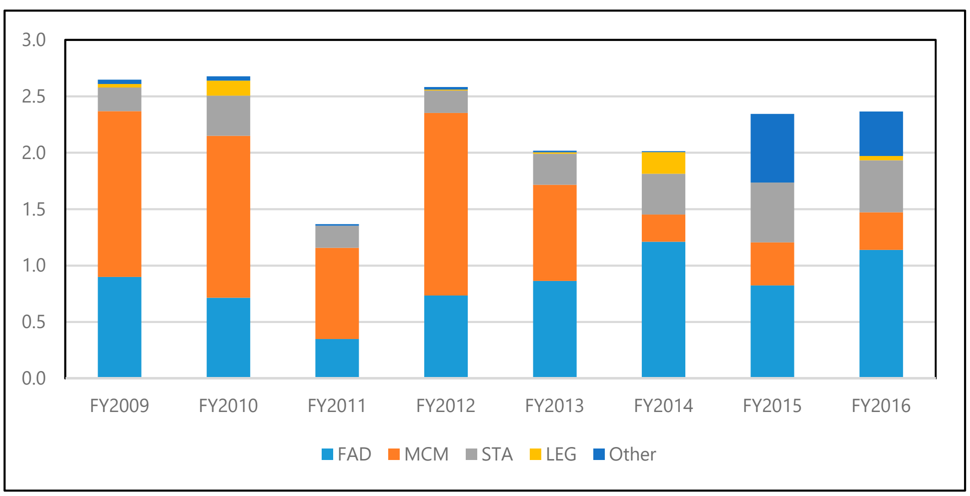
prudent monetary policy. The program adjusted fiscal targets so that earmarked grants and revenues that had been received but not yet been spent during FY 2015/16 could be spent.

23. Even with this balance of payments support, the authorities continued to seek medium-term engagement with the Fund through a PSI, a modality that had served them well in terms of supporting macroeconomic objectives. The ongoing PSI was therefore extended to the end of 2017. The sixth and seventh reviews of the PSI and the first two reviews of the SCF-supported program found that program performance had been strong and that the adjustment policies had been working well. The IMF staff emphasized the importance of maintaining exchange rate flexibility and rebuilding foreign exchange buffers and of raising revenue performance to provide space for public investment and reduce aid dependence.

B. Capacity Development Work

24. Rwanda has received a substantial amount of technical assistance from the IMF, focusing on revenue mobilization, public financial management, monetary and exchange rate management, financial market development, and statistics. From FY 2009 through FY 2016, Rwanda received on average 2.3 person-years of field TA delivery from IMF functional departments, AFRITAC East, and IMF-provided external consultants (Figure 6.3). This amount compares favorably with that for countries such as Chad and Sierra Leone but is considerably less than that for the DRC and Liberia.

Figure 6.3. Rwanda: IMF Technical Assistance, FY 2009–16
(In person-years)



Source: IEO estimates based on ICD data.

25. Rwanda has a good track record of benefiting from IMF TA. The authorities were careful to request that TA be delivered at the right pace and with proper sequencing so that recommendations could fully be absorbed and implemented. TA originated both at the suggestion of IMF staff and at the request of the authorities. In instances where the authorities

disagreed with IMF providers about TA priorities, the authorities generally prevailed. Quick progress was made in strengthening the Central Bank, and key steps were taken to improve the availability of economic and price data. Progress in boosting capacities at the Ministry of Finance was slower, but IMF TA eventually made progress in this area as well. In fact, IMF TA was instrumental in creating the Rwanda Revenue Authority, a key institution.

26. Rwandan officials received training from the IMF's Institute for Capacity Development on a variety of topics, including financial sector and legal issues; macroeconomic policies and statistics; and specialized fiscal issues. From FY 2009 to FY 2016, the number of Rwandan officials participating in training courses averaged 75 per year. This number was slightly more than 2 percent of all participants in IMF training courses—a relatively large percentage given Rwanda's small size. Specialized fiscal issues were by far the most popular topic.

III. STAKEHOLDER VIEWS

27. Former and current authorities interviewed by the IEO were largely complimentary of the IMF's work in Rwanda. They felt that the IMF's involvement had been timely and useful in helping rebuild the country's key economic institutions. The IMF had played a catalytic role in mobilizing assistance from donors, and IMF-supported programs had paved the way for debt relief. Rwandan officials also emphasized the importance of national authorities owning the policies and reforms. They stressed that Rwanda's reconstruction policies were fully owned by the government under President Kagame's leadership and that they had only sought IMF advice on how best to implement them. This had been the formula for Rwanda's success. In general, the authorities also felt that in fragile states IMF conditionality should take better account of the limited administrative capacity and weak institutions and be shaped by a longer-term approach.

28. An interviewee who had been a senior official during the critical 1998–2005 period noted that the IMF's help had been particularly useful in formulating a policy framework to help the country absorb large assistance flows. But, notwithstanding the flexibility shown by the Fund on social spending under the 1998 ESAF, he felt that in general the IMF's ESAP/PRGF conditionality for Rwanda had been no different from the typical conditionality applied for non-fragile states. He felt that the IMF staff had been generally inflexible regarding the level of permissible exceptional spending (except, perhaps, that financed by donors). He also stressed that the staff should guard against being dogmatic about privatization or taking a specific position regarding tax rates. During 1998–2005, the Rwandan authorities had broken off negotiations with the IMF in order to continue with their plan to refurbish a government-owned hotel. The IMF staff had also pushed the government to accept a highly unattractive offer from a foreign investor, which was politically unacceptable. The government's investment on the hotel had turned out to be worthwhile, providing space for meetings and lodging for an increasing number of visitors. Another controversial area of conditionality during that time was the choice of a VAT rate. The authorities wanted to have the final say on what should be the rate and they focused on improving collection rather than on adopting a higher rate. The disagreement was ultimately settled by IMF management in the authorities' favor.

29. A long-term external advisor to the Ministry of Finance noted the importance of IMF negotiators not getting hung up on minor details but considering the overall package of policies. While acknowledging that prior actions in the structural area could be important for macroeconomic stability, officials stressed the need to recognize the lack of capacity in fragile states to implement prior actions in the short run. For this reason, it was important that the IMF avoid overloading or frontloading programs with structural conditionality.

30. The Rwandan officials interviewed stressed the importance of individual personalities in the IMF's work and that it was important for mission chiefs and teams to invest time in learning about the conditions in the country. The authorities praised the IMF staff's high level of knowledge and felt that the sometimes relatively junior level of mission chiefs had not hampered the work in Rwanda. In general, mission chiefs had been well trained and quick learners. The officials found the resident representatives to have been very useful because they were well placed to learn the reality of the country and provide advice on the ground.

31. Representatives of development partners who were interviewed by the IEO felt that the IMF's role in Rwanda had been appropriate and that the staff's work had provided an important input for designing their own engagement in the country. Bilateral and multilateral donors had depended on the IMF to assess the viability of the authorities' macroeconomic framework in developing their aid programs. Currently, the IMF resident representative participates in monthly meetings of the Development Partner Coordination Group in Kigali. They also appreciated the IMF missions' practice of briefing them at the beginning and end of each visit.

32. The IMF staff's cooperation with the World Bank on the ground was generally close, with Bank economists participating in meetings of IMF missions. A government official, however, commented that in some years the government could not get Fund and Bank staff members in the same room. A bilateral donor representative felt that the IMF had improved its outreach to the donor community, and that this facilitated coordination. Another bilateral donor felt that, given the IMF's catalytic role, its resident representative office in Kigali was too small; fuller staffing would enable it to do more work on political economy risks and promote more transparency in government operations including those of public-sector conglomerates.

33. In interviews conducted for the evaluation, IMF staff members who had worked on Rwanda in the pre- and post-genocide periods shared the view that the role of the authorities was paramount in the country's success. Most agreed that the IMF had played an important role in Rwanda's reconstruction and in enhancing the country's economic management.

34. Staff interviewees felt that the IMF had sufficient instruments to deal with the problems of fragile states, except perhaps for the length of engagement that the existing instruments allowed. They stressed that it was important to ensure that engagement lasted for more than three years, given the time needed to implement certain strategies and reforms. They also felt that, in fragile states, the Fund should focus on "bread and butter" issues and on delivering real money expeditiously. They noted that it had taken some time for donors to warm up to the idea

of a PSI in Rwanda, given that this did not involve IMF financing and would therefore play a diminished signaling role. In their opinion, the choice of a PSI was vindicated by the fact that when Rwanda needed waivers, more discussions were generated and new understandings were reached in relevant areas. Donors' apprehension about a PSI had dissipated over time, and the fact that the IMF had returned with financing in 2016 proved that it could step in with financing if necessary.

35. One mission chief noted that there was bound to be tension between IMF conditionality and the need to be flexible. External borrowing for infrastructure development, particularly on less concessional terms, has been a challenging area for policy debate in Rwanda, where a trade-off between external debt-financed investment in infrastructure and debt sustainability was aggravated by the relatively slow development of the export sector.

36. Area department staff members believed that IMF capacity development work in Rwanda had addressed the real needs of the country in several areas and helped to inform their work in formulating policy advice. They noted that coordination with other stakeholders was crucial both in financing and in technical assistance, and that the staff had taken the necessary steps to ensure that this was achieved in Rwanda. One staff member felt, however, that there had been room for greater coordination with other TA providers.

REFERENCES

Cannon, Patrick, not dated, "Elusive Quest? The Political Economy in Post Genocide Rwanda," Department of Government, California State University, Sacramento.

Economist Intelligence Unit, various reports on Rwanda.

International Monetary Fund (IMF), 2015, "Building Resilience in Sub-Saharan Africa's Fragile States" (Washington).

IMF Regional Assistance Center for East Africa, various press reports.

Oppong, Joseph R., 2008, *Rwanda* (New York: Chelsea House).

World Bank, 2014, "Rwanda: Country Partnership Strategy for the Period 2014–2018" (Washington).

CHAPTER 7—SIERRA LEONE[1]

SUMMARY

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.[2]

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.

I. BACKGROUND[3]

A. Brief History

1. Sierra Leone is a small, multi-ethnic state in West Africa with a population of about 7 million. The population consists of some 17 ethnic groups, each with its own language, but two are the most dominant: Temne and Mende, which together account for roughly 60 percent of the population. Sierra Leone is rich in mineral resources, including diamonds and gold, and is among the largest producers of titanium and bauxite. Its capital Freetown, founded in 1787 by the British as a haven for freed slaves, was once the headquarters of British West Africa, which included the Gold Coast (present-day Ghana) and the Gambia settlements. Sierra Leone developed as the

---

[1] Contributor: Shinji Takagi.

[2] The Catastrophe Containment and Relief (CCR) Trust, established in February 2015, provides grant assistance to be used as debt relief for countries experiencing public health disasters.

[3] Sources: Alie (2001), Douma (2003), Gbla (2013), and Kargbo (2001).

educational center of British West Africa, earning the country the title of "Athens of West Africa." In 1896, the British expanded their effective control of the territory beyond Freetown by establishing a protectorate.

2. Following independence from British colonial rule in 1961, Sierra Leone enjoyed six years of democracy under Milton Margai (1961–64) and Albert Margai (1964–67), both of the Sierra Leone People's Party (SLPP). After the opposition All People's Congress (APC) took power in 1967, there began to emerge a highly centralized, inefficient, and corrupt bureaucratic system of government, which marginalized the people and robbed them of their rights and freedoms. The country has since experienced years of political instability, which resulted in six coups, including one by foreign intervention. Authoritarian rule, a poor economy, rampant corruption, a lack of educational opportunities, and high youth unemployment created fertile ground for rebellion against the central government. It was against this fragile political background that, from 1991 to 2002, the country experienced a civil war between the Revolutionary United Front (RUF) and the successive governments.[4]

3. Sierra Leone's civil war was known for its atrocities. More than 24,000 people were killed, 2 million Sierra Leoneans were displaced, and thousands were injured or maimed in the conflict. During much of the war, no government was able to ensure the security of the people, maintain order, or provide basic social services outside of Freetown. The war contributed to the destruction of the economy and much of the physical infrastructure. As the rebels destroyed the mining facilities, revenue from diamond mining plummeted. Large quantities of diamonds were smuggled out of the country.

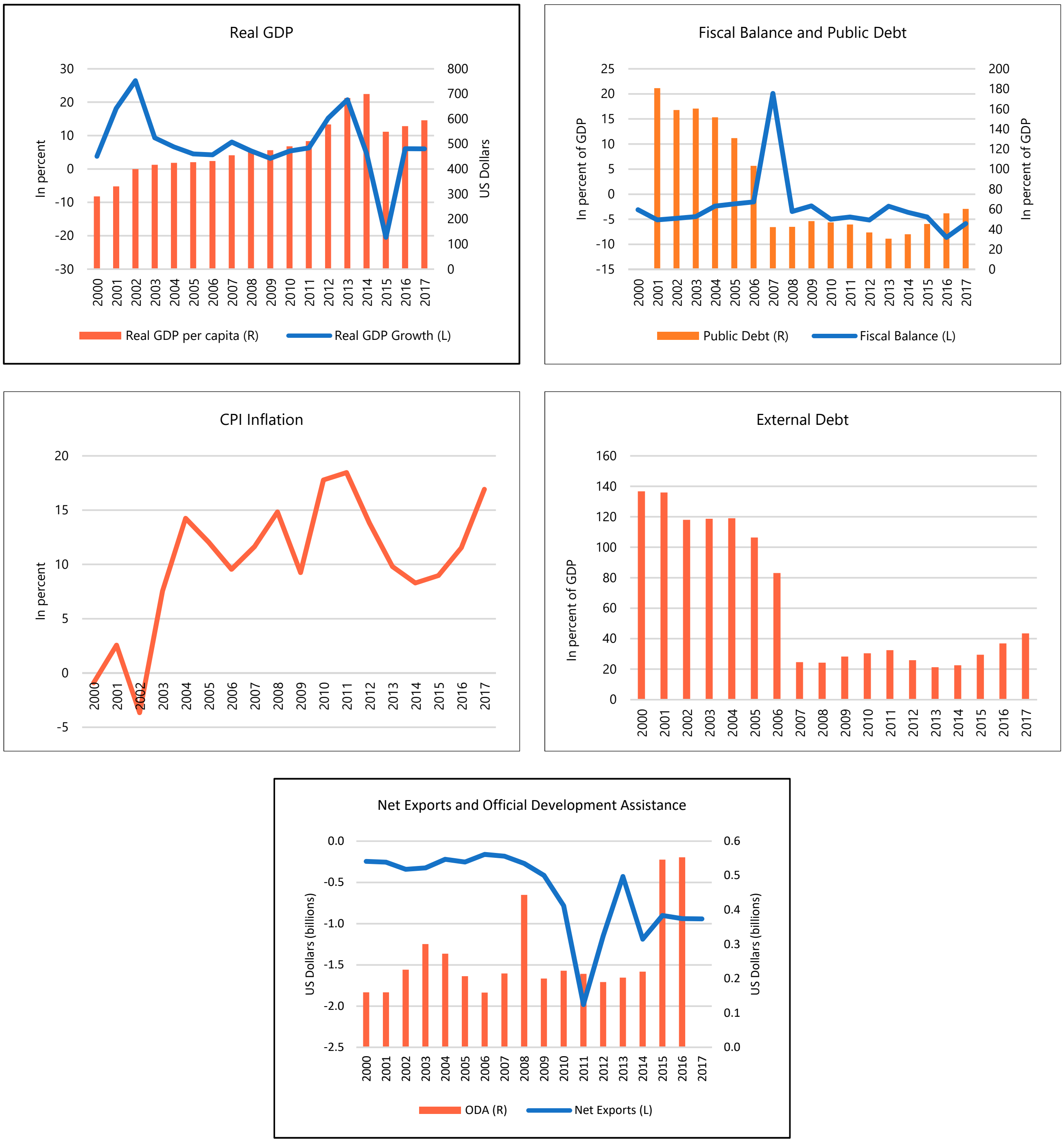
4. In January 1999, a coalition of the Revolutionary United Front and the Armed Forces Revolutionary Council (AFRC) mounted a revenge surprise attack on Freetown, resulting in widespread killings and mutilations. The mayhem of January 6 prompted a nation-wide impetus advocating for peace. Protracted diplomatic contact between the government and the RUF started in Togo in May 1999. Finally, on July 7, 1999, a Peace Agreement between the Government of Sierra Leone and the RUF of Sierra Leone was signed in Lomé, in what is known as the Lomé Accord.

5. By early 2002, the war was declared to be over, and the government assisted the RUF to transform itself into a political party. The country has since enjoyed a period of relative stability and experienced more than a decade of strong economic performance. From 2003 to 2014, the economy grew an average of 8 percent per year, while inflation fell below 10 percent (Figure 7.1). Economic growth surged in 2012 as large-scale iron ore mining production started, but in 2014 the country was hit by twin shocks: the Ebola epidemic and sharply lower iron ore prices. Growth declined dramatically from 4.6 percent in 2014 to -20.5 percent in 2015, with inflation rising to

[4] The incumbent civilian and military governments included: the northern-dominated All People's Congress, 1985–92; the military junta of the National Provisional Ruling Council, 1992–96; the Armed Forces Revolutionary Council, 1997–98; and the Sierra Leone People's Party, 1996–97, and 1998–2002.

double digits. The fiscal position (excluding grants) deteriorated by more than 4 percentage points of GDP. Growth has not yet recovered to pre-crisis levels.

Figure 7.1. Sierra Leone: Key Macroeconomic Indicators, 2000–17



Sources: October 2017 WEO database; OECD DAC statistics.

B. Sources of Fragility

6. Several factors have contributed to the fragility of Sierra Leone, including:

- **Regional disparity**. As a colonial legacy, the economy was more developed in the south where the main cash crops (coffee, cocoa) are grown and there are rich deposits of diamonds and other strategic minerals. As a result, the southerners are better educated. The country has become polarized along ethnic/regional lines.

- **Mineral wealth**. Diamond extraction and the capacity to command the benefits of this resource constituted a disputed resource for the contending parties.

- **Non-inclusive governance**. Political instability arose less from ethnic or religious rivalry than from a history of extremely poor governance, widespread corruption, and the marginalization of rural communities, caused by an overpowering, inefficient central government. Socio-economic development was confined to Freetown and a few other towns; the concentration of power in the hands of a few people led to a lack of equity in resource allocation, a feeling of deprivation and alienation by the rural folk, and rural-urban migration, which created conditions for mob action and revolt.

- **Geography and geopolitics**. Regional powers sustained the continuation of the conflict. The RUF was assisted by Liberian special forces, and the RUF/AFRC coalition was eventually ousted by the Nigerian-led Economic Community of West African States Monitoring Group forces.

II. The IMF's Relationship with Sierra Leone

A. IMF Surveillance

7. With escalating hostilities, Article IV consultations were interrupted after May 1997, when the Armed Forces Revolutionary Council was formed. After the security situation stabilized, in late 1999, the IMF was quick in reestablishing engagement with the country by using the contacts it had maintained throughout the conflict. The first Article IV consultation visit was made in October 2000, and the Board discussion took place in January 2001. Given the virtually continuous program relationship since then, the IMF has in principle held Article IV consultations on a two-year cycle, integrating surveillance with program and capacity development work. The IMF gave consistent policy advice throughout the post-conflict period, focusing on the need to (i) increase tax revenue; (ii) prioritize expenditure toward public investment; (iii) create a business climate conducive to private sector development; and (iv) develop the financial sector. These objectives received support under successive financing arrangements and through successive technical assistance programs (see below).

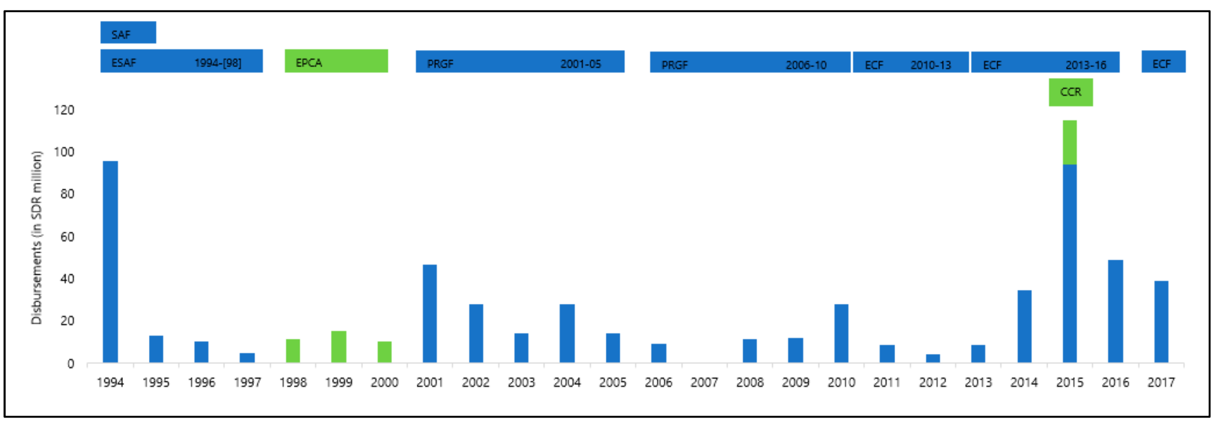
8. The financial sector received increased attention in recent years. In May 2006, there was a Financial System Stability Assessment (FSSA) mission to Sierra Leone under the Financial Sector

Assessment Program (FSAP), whose findings were discussed with the authorities during the Article IV consultation mission in September. The FSAP mission concluded that the financial system needed to be strengthened to support private sector-led growth. The 2016 Article IV consultation included a Macro-Financial Pilot, which identified macro-financial linkages in the economy and called for a comprehensive and sequenced reform roadmap to address the financial sector vulnerabilities. Given Sierra Leone's limited financial sector development, however, the exercise, which was conducted as part of the IMF's increased institutional focus on financial sector work, did not lead to concrete steps for policy actions.

B. IMF Financing Arrangements

9. Having provided financial support, including emergency financing, during the preceding years (Figure 7.2),[5] the IMF Executive Board approved in September 2001 a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for the amount of SDR 130.84 million. The PRGF-supported program focused on dealing with the immediate aftermath of the conflict by restoring law and order, infrastructure, institutional capacity, and macroeconomic stability and, in a second phase, strengthening the long-term basis for poverty reduction and development by improving public services, maintaining macroeconomic stability, and implementing structural reforms. Since 2001, Sierra Leone has concluded five successive IMF arrangements supported by the PRGF or its successor the Extended Credit Facility (Table 7.1). In addition, Sierra Leone received emergency assistance under the Catastrophe Containment and Relief Trust in March 2015 to deal with the impact of the Ebola epidemic.

Figure 7.2. Sierra Leone: Timeline of IMF Engagement, 1994–2017



Notes: CCR=Catastrophe Containment and Relief; ECF=Extended Credit Facility; EPCA=Emergency Post-Conflict Assistance; ESAF=Enhanced Structural Adjustment Facility; PRGF=Poverty Reduction and Growth Facility; SAF=Structural Adjustment Facility.

Sources: SPR, List of Fund Arrangements since 1952; LIC Arrangements and Instruments Approved on, or after, November 1998 (as of October 31, 2017). IMF Members' Financial Data by Country, Transactions with the Fund.

[5] The country had a Structural Adjustment Facility-supported program from 1994 to 1995 and an Enhanced SAF-supported program from 1995 to 1998, followed by drawings under Emergency Post-Conflict Assistance in 1998, 1999, and 2000.

Table 7.1. Sierra Leone: IMF Arrangements, 2001–17				
Arrangement	**Month of approval**	**Month of expiration or cancellation**	**Amount approved (SDR Millions)**	**Amount drawn (SDR Millions)**
PRGF	September 2001	June 2005	130.84	130.84
PRGF	May 2006	June 2010	51.88	51.88
ECF	June 2010	May 2013	31.11	22.20
ECF	October 2013	December 2016	186.66	186.66
CCR	March 2015	N.A.	20.74	20.74
ECF	June 2017	N.A.	161.8	Ongoing

Source: Various IMF documents.

10. The 2001 PRGF arrangement was fully disbursed. The 2005 ex post assessment (EPA) of longer-term program engagement noted that performance under the PRGF had been strong, reflecting not only the success of the post-conflict political transition, but also better external conditions and the wide public support the government had enjoyed. Real GDP growth objectives were achieved though financial sector objectives remained largely unmet. The 2005 EPA states: "The success under the PRGF was achieved against the background of a relatively high degree of conditionality … The number of performance criteria and prior actions under the PRGF program in Sierra Leone was four times and five times, respectively, the average number for PRGF countries as a whole." From this, the EPA concluded that "a relatively high level of conditionality may be needed to ensure strong policy implementation" (IMF, 2005).

11. Likewise, key elements of the successor 2006 PRGF-supported program were fiscal consolidation, to support macroeconomic stability and increased allocation of expenditures toward poverty alleviation, and financial sector reforms aimed at raising the domestic savings rate and promoting investment and growth. The arrangement was augmented twice in 2008 and 2009, and was extended by one year to June 2010. The policy focus under this PRGF arrangement became more development-oriented, as gradually permitted by the reestablishment of macroeconomic stability. Additional debt relief was provided after Sierra Leone reached the HIPC completion point at end-2006,[6] which freed up resources for poverty-reducing expenditure.

12. The implementation of structural reforms, however, was slow, reflecting capacity constraints and lack of ownership. Structural conditionality, initially extensive, became less intense during the program implementation. The 2010 EPA concluded: "There may have been merit in pursuing a more prioritized approach in defining the reform agenda in light of capacity constraints" (IMF, 2010). Progress was made on public financial management, but weaknesses remained in budget formulation and execution. The targeted improvement in revenue collection did not materialize, in part reflecting "a weakening in collection efforts in the run-up to the

[6] Sierra Leone had reached the HIPC decision point in March 2002.

elections in 2007." The 2010 EPA further noted: "There is growing recognition of the need for structural measures that capture the implementation of 'real changes' rather than the formulation of plans and policies only." According to the EPA, this lesson was incorporated in the design of the ECF-supported program approved in June 2010, whose structural component was simpler.

13. In June 2010, the IMF Executive Board approved a three-year ECF arrangement for SDR 31.11 million (30 percent of quota), in order to support the government's Agenda for Change for 2010–12. The agenda identified lack of infrastructure as the key impediment to economic growth and a need to support agricultural development and gradually strengthen health and education services. The focus of structural reforms was on improving tax administration, strengthening public financial management, and deepening the financial sector. In May 2013, the authorities canceled the ECF-supported program because key objectives were no longer achievable, and began negotiations on a new program.

14. As a replacement arrangement for the failed 2010 ECF-supported program, in October 2013 the Executive Board approved a new three-year ECF arrangement for SDR 62.22 million (60 percent of quota), which was augmented three times to SDR 186.66 million in view of the extraordinary policy challenges the authorities faced in the aftermath of the twin shocks of 2014. Sierra Leone also received debt relief under the CCR Trust.

15. While the objectives of the ECF-supported program were to strengthen fiscal discipline and to create space for priority spending, implementation was severely complicated by the twin shocks. In order to give the authorities flexibility to deal with the crisis, the IMF allowed the ceilings on the net domestic financing of the government to be relaxed from 2 percent of GDP to a range of 2.5 percent and 3 percent of GDP. There were some slippages, but waivers were granted to allow the authorities to keep the program on track. The arrangement was fully drawn.

16. Following the completion of the 2013 ECF-supported program, in June 2017 the Executive Board approved another three-year ECF arrangement for the amount of SDR 161.8 million (or 78 percent of quota), of which SDR 45 million was earmarked for budget support. The ongoing ECF-supported program aims to achieve economic stability and to allow priority spending to be increased on infrastructure and social protection, by restoring fiscal discipline over the near term and, over the medium term, supporting structural reforms in domestic revenue mobilization, public financial management, and the financial sector.

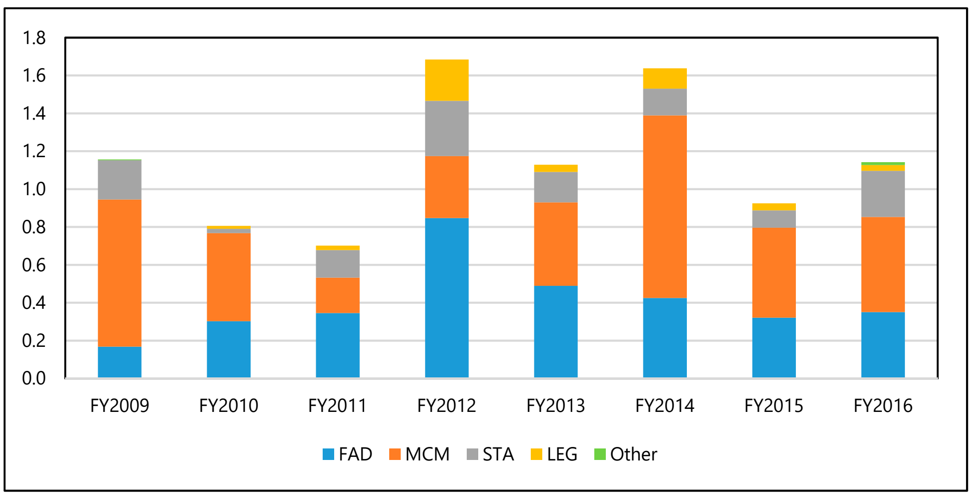
C. IMF Technical Assistance

17. Since October 1999, Sierra Leone has received more than a hundred IMF technical assistance missions from the Fiscal Affairs Department, Monetary and Capital Markets Department, Statistics Department, and Legal Department, covering such areas as public expenditure management, tax administration, banking supervision and regulation, national accounts statistics, and fiscal law. In addition, a long-term expert on financial stability was assigned to the country from 2013 to 2014. A foreign exchange auction was introduced in

February 2000, with technical assistance from the Monetary and Exchange Affairs Department (MAE).[7] The external tariff was restructured in 2001 following recommendations made by FAD technical assistance. IMF TA focused on strengthening the capacity of revenue agencies, the Bank of Sierra Leone, and the Central Statistical Office. A goods and services tax was implemented in January 2010, albeit with significant delays, based on 2006 FAD recommendations.

18. Between FY 2009 and FY 2016, the IMF on average provided the country with a little more than one person-year of TA per year, with FAD and MCM together contributing the predominant share (Figure 7.3). In 2017, the African Department launched a Capacity Building Framework (CBF), and selected Sierra Leone as one of the four pilot cases. The CBF involves the identification and coordination of priorities by the country team, authorities, and key stakeholders. The CBF for Sierra Leone includes several priority areas, such as: (i) mobilizing revenue, especially in the non-mining sector; (ii) controlling expenditure; (iii) deepening the financial sector; (iv) modernizing monetary policy; and (v) improving the quality of data (IMF, 2016).

Figure 7.3. Sierra Leone: IMF Technical Assistance, FY 2009–16
(In person-years)



Source: IEO estimates based on ICD data.

III. Selected Topics in IMF–Sierra Leone Relations

A. The IMF's Role in Sierra Leone

19. Almost everyone interviewed for the evaluation highly valued the helpful role the IMF had played in Sierra Leone as an independent assessor of the country's economic policies for the authorities as well as for the donor community.

[7] Predecessor of the current Monetary and Capital Markets Department.

20. Officials regarded their relationship with the IMF as good overall, but suggested that the Fund could improve its understanding of the political and social realities of the country. As an example, the IMF was thought to have been inflexible in having insisted on a particular level of foreign exchange reserves when the country had a critical need to import fuels and rice amid rampant black-market activity. Many considered that IMF-supported programs often had not fully taken into account the political and social consequences of policy actions (such as a removal of fuel subsidies) that might be sound on technical grounds. Being tough with the authorities (e.g., by requiring prior actions) would be unhelpful because it is they who are responsible for the consequences of difficult decisions.

21. On the other hand, some outside the government considered that fragility was often "overplayed." In particular, one former minister of finance, referring to Sierra Leone's lifting of fuel subsidies in 2014 and 2016, stated that the people affected had simply adjusted their lifestyles ("no one has died") and that the overplaying of fragility had created a mentality of dependence, minimizing the relationship between effort and outcome. Several former officials stated that the Fund had become too soft and accommodative in recent years. Donor representatives concurred, expressing the view that the IMF had been too willing to grant Sierra Leone waivers when targets were not met.

B. The IMF's Financing Role

22. Some interviewees noted that fragile states were more susceptible to unforeseen shocks, and recognized the Fund's rapid and flexible response to the Ebola crisis. However, officials who were interviewed noted that the repayment period for the existing IMF instruments (10 years, with a grace period of 5½ years) was too short, compared to 40 years for African Development Bank loans.

23. Several current officials thought that Sierra Leone's access to Fund resources had been too small, given the country's need to increase targeted spending on infrastructure and social protection; they also noted the budgetary pressure coming from military spending. One official in particular observed that, while the IMF's primary role was catalytic, Sierra Leone had few other sources of external financing. Access thus mattered, and so did maintaining an ongoing financial relationship. Officials argued that flexible conditionality, to ensure that the program relationship was maintained, was critical for this reason. In their view, program conditionality had not been sufficiently flexible to take account of capacity limitations or political reality.

C. Stabilization vs. Development Goals

24. The IMF was criticized for having focused too much on stabilization at the expense of development objectives. The Sierra Leonean authorities and the IMF had consistently disagreed regarding development spending, especially on large infrastructure projects, and on whether external borrowing should be permitted to finance such projects. Such disagreement on several occasions made it difficult to reach agreement on a program to be supported by the PRGF or the

ECF. The IMF tended to emphasize debt sustainability, but this conflicted with the government's priorities.

25. The view of many officials interviewed was that the IMF should have given greater attention to development needs in a fragile state like Sierra Leone. One official provided a caricature of a typical conversation between the government and the IMF: "We want to build a road;" "You don't have the money;" "We need to borrow;" "Debt would not be sustainable;" "Our people will continue to suffer." It was suggested that the IMF staff should carefully study the economics of infrastructure, rather than simply reiterating the need for fiscal discipline, and think instead how best to reconcile the conflict between needs and availability of financing.

26. Some observers also stressed that the IMF could have paid more attention to dealing with underlying sources of fragility. A former official explained that fragility in Sierra Leone had its origin in weak governance and institutions and that corruption was at the root of the governance problem. To help the country emerge from fragility, the IMF needed to understand the nature of its fragility, but the Fund's mode of operation (i.e., occasional short visits almost exclusively focused on dialogue with the ministry of finance and the central bank) did not allow it to gain a deep enough understanding. This former official said that to help Sierra Leone get out of fragility two things were needed: (i) building strong institutions and human resources; and (ii) providing the right incentives to keep people honest, including a good pension system.

D. The IMF's Role in Capacity Development

27. Officials of the Central Bank generally gave high marks to the technical quality of IMF-provided technical experts, while noting that some experts, though technically competent, had not been able to relate their policy advice to the particularities of the country. They observed that advisors who had come from more developed, neighboring African countries had been particularly useful, because they had prior experience dealing with similar circumstances. The Central Bank officials pointed to a clear improvement in the quality of IMF TA, which had become more hands-on and involved greater follow-up support. Representatives of other agencies also appreciated the contribution IMF TA had made to building institutions in the country. One official stated that the country's failure to raise the tax-to-GDP ratio was not a fault of the IMF but had reflected a structural feature of the Sierra Leonean economy, where agriculture, though a large part of GDP, was exempt from taxation.

28. Several concerns were expressed. One senior official stated that the fiscal responsibility law, which he described as a transplantation of global best practice, was much too sophisticated for a country at Sierra Leone's stage of development and should have received lower priority. Mention was made of five successive missions visiting Freetown over a two-month period on a similar topic, overwhelming the government's capacity. While these missions were all relevant, and granted that TA departments face competing demands on their time, they should have better sequenced their visits. These and other issues may become less of a problem once AFR's just-launched Capacity Building Framework is fully implemented.

E. Collaboration with Partners

29. At the outset of its post-conflict engagement, in October 2000 the IMF discussed Sierra Leone's technical assistance requirements with donors who were in Freetown. Collaboration with partners, including the U.K., the U.S., the EU, the World Bank, and the UN, was very close. According to the 2005 Ex Post Assessment, the World Bank "was closely involved in developing the key structural reforms, including budget and expenditure management reform, civil service restructuring, debt sustainability analysis, and institutional and government reform. In addition, Fund programs were coordinated with the European Union, … Paris Club creditors (debt relief), … and U.K. Department for International Development (technical assistance)" (IMF, 2005). The 2010 EPA further observed: "The collaboration with donors has been close. The mission team and donors interact frequently, including by video conferencing. … The authorities and donors share the view that the Fund has performed an essential role in advising on macroeconomic policy" (IMF, 2010).

30. IMF and World Bank staff members indicated to the IEO that the Fund's collaboration with the World Bank took place at all levels, including on the ground and at HQ. Representatives of development partners appreciated the IMF's role in providing a macroeconomic framework, which they used to design their own engagement with the country. At present, meetings of representatives of UN-affiliated agencies take place weekly; meetings of development partners, including the IMF, the World Bank, and bilateral aid agencies, are held quarterly or bi-monthly. However, much of what takes place in these meetings only involves an exchange of information. One donor representative complained that no substantive dialogue took place with the IMF, except for briefings on macroeconomic numbers.

31. Given its high capacity, the government assumed control of donor coordination in some areas. One senior official stated to the IEO: "Donor coordination is good because I am in charge." The IMF was not an active participant in donor coordination as this mainly related to sector work. However, an official involved wanted to see greater IMF involvement in coordination, because much of the aid was now being directed to budget support. The IMF did participate in the Multilateral Donor Budget Support Group where donors coordinated their positions on budget support. Authorities noted some duplication of TA efforts by bilateral donors, but not by the IMF.

References

Alie, Joe A. D., 2001, "Background to the Conflict (1961–1991): What Went Wrong and Why?" in Anatole Ayissi and Robin Edward Poulton (eds.), *Bound to Cooperate: Conflict, Peace and People in Sierra Leone* (Geneva: United Nations Institute for Disarmament Research), 15–36.

Douma, P. S., 2003, "The Political Economy of Internal Conflict: A Comparative Analysis of Angola, Colombia, Sierra Leone and Sri Lanka" (The Hague: Netherlands Institute of International Relations).

Gbla, Osman, 2013, "Governance Challenges of Sierra Leone," in Cassandra R. Veney and Dick Simpson (eds.), *African Democracy and Development: Challenges for Post-Conflict African Nations* (Lanham, Maryland: Lexington Books), 239–258.

International Monetary Fund (IMF), 2005, "Sierra Leone: Ex Post Assessment of Longer-Term Program Engagement," May (Washington).

———, 2010, "Sierra Leone: Ex Post Assessment of Longer-Term Program Engagement," November (Washington).

———, 2016, "Sierra Leone—Strategy for Countries under the Capacity Building Framework," African Department, revised September (Washington).

Kargbo, Abubakar, 2001, "The Long Road to Peace: 1991–1997," in Anatole Ayissi and Robin Edward Poulton (eds.), *Bound to Cooperate: Conflict, Peace and People in Sierra Leone*, (Geneva: United Nations Institute for Disarmament Research), 37–48.

Squire, Chris, 2001, "Bound to Cooperate: Peacemaking and Power-Sharing in Sierra Leone," in Anatole Ayissi and Robin Edward Poulton (eds.), *Bound to Cooperate: Conflict, Peace and People in Sierra Leone* (Geneva: United Nations Institute for Disarmament Research), 49–66.

CHAPTER 8—SOMALIA[1]

SUMMARY

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 the second and 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.

I. BACKGROUND

A. Brief History[2]

1. The Somali-speaking people constitute one of the largest ethnic blocks in Africa. Some 11 million of them live in Somalia in a great expanse of territory covering almost 400,000 square miles in the Horn of Africa, facing the Arabian Peninsula; a similar number of Somalis live in neighboring countries as well as in a diaspora across the developed world. Historically, political norms and cultural values linked up with economic structures by way of the ideology of kinship, thereby creating an interlinked web of social, economic, and political institutions.

2. Somalia first opened up to the world through trading networks mediated by Muslim Arabs and Persians. Then came the British who signed agreements with major kin groups to officially turn northern Somalia into a protectorate (British Somaliland) in 1886, followed by the French who eventually made full claim over French Somaliland (known as Djibouti today). The Italians came next and formally established a colony in 1893 in southern Somalia and later extended their control to northeastern, central, and southern Somalia. Following the end of World War II, British and Italian Somaliland united to form the independent Somali Republic.

---

[1] Contributor: Lorenzo L. Perez.

[2] Source: Lewis (2003).

3. An issue that immediately came to the fore after the inauguration of the first independent government in 1960 was the nature of the unification of the British and Italian Somali regions. It remains contentious to this day. In the event, politicians from the south took the lion's share of political positions including the presidency, the position of prime minister, and more than two-thirds of the senior cabinet posts. In the first post-independence national elections of 1964, the Somali Youth League (SYL) emerged as the majority party amid accusations of corruption and fraud. The fraudulent practices continued during the 1969 elections when the SYL openly raided the national treasury to buy votes.

4. In October 1969, a member of the police force assassinated the president and, six days later, a coup was staged by the armed forces, led by General Siad Barre and under the name of the Supreme Revolutionary Council (SRC). With wide initial popular support, the SRC acted decisively to settle issues that the ineffective parliament had debated endlessly. In 1970, Siad Barre announced the adoption of "scientific socialism" as his regime's guiding ideology, but the euphoria began to wane in the mid-1970s as it became clear that the regime was intent on monopolizing power and privileges. As conflict with Ethiopia (1977–78) further eroded Barre's position, his reliance on arbitrary force grew, and by the 1980s he resorted to terror and manipulations of clan identities to remain in power.

5. The Somali economy reached a crisis point as politics descended into a violent struggle for power. The economy had always been precarious and dependent on the vagaries of pastoral and peasant production. The implementation of the principles of scientific socialism negatively affected production and living standards. The 1980s also brought a sharp drop in meat export prices, which in turn severely affected state revenues and producer incomes. In addition, Somalia suffered from hyperinflation, declining social services (including education), and skyrocketing unemployment.[3] As various clans rebelled in the 1980s, the state started disintegrating, eventually leading to the complete collapse of state institutions in 1991 with the overthrow of Barre.

6. The collapse of the Somali state created a vacuum of legitimate institutions, and Somalia became a failed state. The vacuum of power was filled in different ways in different regions. Lawlessness, anarchy, and famine were most profound in southern Somalia, and in the capital of Mogadishu where competing groups fought each other. Nearly all public infrastructure was blown up or dug out in Mogadishu. In central and northeastern Somalia, rough stability was achieved by the leading clan that limited looting and prevented widespread famine. In the former British colony in the northwest, the self-declared independent Somaliland Republic was created.

7. During these years, the phenomenon of Somali maritime piracy appeared, requiring intervention from the leading shipping countries to bring it to a stop. As lawlessness and banditry escalated, a complex humanitarian emergency of massive proportions developed and

---

[3] Surprisingly, Somalia was still able to attract large amounts of economic aid during this time, and debt levels reached more than 200 percent of GNP.

eventually drew international attention.[4] The situation remained chaotic throughout the 1990s, and a large migration took place to neighboring countries.

8. Regional initiatives led to the creation of transitional governments from 2000 onwards. In 2001, Somalia found itself caught up in world responses to the September 11 attacks. The international war on terrorism recognized Somalia as a potential haven for terrorists escaping from Afghanistan. In 2004, the Transitional Federal Government (TFG) mounted a military campaign with the help of the African Union against the Al-Shabaab Islamic terrorist group that had emerged in Somalia.

9. In August 2012, the TFG was succeeded by the Federal Government of Somalia (FGS), the first permanent central government in the country since the start of the civil war, and a Federal Parliament was inaugurated under a provisional constitution. The FGS emphasized improved governance and economic management as the key pillars of its development plan and began laying the foundations for the implementation of a federal system of governance. Elections for a parliament took place in 2016, and in February 2017, Mohamed Abdullahi "Farmajo" Mohamed was elected by parliament as Somalia's president. Even with this peaceful transfer of power, and strong international support, political stability is likely to remain fragile amid continued fighting among competing clan-based factions.

B. Sources of Fragility

10. Weak institutional capacity, fragile security, and complex clan politics have complicated economic reconstruction and the provision of public services in Somalia. Institutional and policy implementation weaknesses exist in almost all areas of economic administration, including tax collection and allocation, the monetary and payments system, and statistics. The CPIA rating given to Somalia by the African Development Bank (AfDB) is 1.1, the lowest among all AfDB member countries (most countries have received a rating above 3). Political stress exists around the efforts to create a viable federal government, and is compounded by the continuing terrorist activities of the Al-Shabaab. The establishment of unified, competent, accountable Somali federal security institutions providing basic safety and security for citizens is still work in progress.

11. Social and economic conditions are difficult, and poverty is widespread. Lack of economic diversity and export capacity is a source of economic vulnerability. Somalia depends on food imports to feed its population and must import key inputs for its investment projects. The country is also vulnerable to external shocks, ranging from changes in the international prices of its commodity exports to weather conditions and drought. In 2017, the harsh impact of the ongoing drought on the agricultural sector put about six million people (about half the Somali population) at risk of food insecurity and in need of humanitarian and financial assistance.

---

[4] During the 1990s several international conferences were held to reconcile clan-based Somali factions to form a government. From 1992 to 1994, the U.S. sent troops to help transport humanitarian relief and protect the relief workers from gang attacks.

II. THE IMF'S RELATIONSHIP WITH SOMALIA

12. Somalia joined the IMF in 1962 and, after the advent of hostilities in the 1980s, effectively ceased to comply with its membership obligations. Though in the late 1990s the UN began providing a broad range of technical assistance, including in the macroeconomic area, and attempted to bring the IMF on board, the absence of an internationally recognized government prevented the IMF from providing assistance to Somalia. Requests for technical assistance were also made on behalf of Somaliland but had to be declined because it was a region within a collapsed state.

13. Beginning in 2000, the IMF started sending fact-finding missions to Nairobi to meet with Somali authorities and business representatives. The World Bank became active in Somalia before the IMF and, in 2003, started sending missions to the country under the Low-Income Countries under Stress initiative. The Bank staff prepared several documents, including a country economic report and a needs assessment paper, jointly with the UN for a donors' group. During this time, the IMF staff liaised with the Bank staff on topics of mutual interest, such as Somalia's external debt problems.

14. The IMF reengaged officially with the Federal Government of Somalia in April 2013, when the entity was recognized as the legitimate government. The recognition permitted staff contacts with the authorities, the delivery of badly needed technical assistance, and the opening of the Fund's first resident representative office to improve coordination and delivery of TA. But Somalia has remained ineligible to receive financial assistance due to its external arrears, which are estimated at about $5 billion (including the $328 million owed to the Fund) or about 85 percent of GDP. In order to help Somalia address the arrears problem, in 2013 the IMF began participating in a technical working group with development partners, including the World Bank, the AfDB, the EU, and the UK Department for International Development (DFID), to reconcile external debt data.

15. The FGS has undertaken a challenging nation-building effort, even with large parts of the country's territory outside its control.[5] In 2013, the IMF staff started periodic discussions with the federal authorities in Nairobi, focusing on Somalia's fiscal challenges, the need to improve economic institutions, and preparatory work to develop a basic macroeconomic framework. Staff teams adopted in 2014 the practice of leaving behind extensive aide memoires on their findings and recommendations. These aide memoires were made available to the authorities and development partners; they represented the IMF's first attempts in many years to review macroeconomic developments and to highlight key macroeconomic policy issues in Somalia. They quickly became a key source of information for Somali officials and development partners.

[5] Some of the territory is under the influence of the terrorist group Al-Shabaab. Somaliland is governed autonomously from the Federal government of Somalia.

16. In July 2015, the IMF Executive Board concluded the first Article IV consultation with Somalia in more than 25 years. This in itself was an important contribution to policy formulation in Somalia because the staff had put together a set of preliminary macroeconomic statistics that were previously unavailable. The consultation discussions highlighted the urgent need to build institutions and to improve governance.

17. The 2015 staff report noted that all areas of economic policy making needed to be strengthened. In the fiscal area, steps were necessary to build fiscal discipline through realistic budgeting and effective budgetary implementation systems. In the monetary and financial sector areas, the report stressed, currency reform should not be implemented until prerequisites were in place (counterfeited currency was circulating widely and the economy was predominantly dollarized); efforts were needed to develop the existing rudimentary financial system; and a monetary policy framework needed to be put in place.

18. In May 2016, a Staff-Monitored Program (SMP) was approved to help Somalia's economic reconstruction efforts and to establish a track record of policy implementation as a step toward clearing arrears and toward an eventual IMF-supported program of upper-credit-tranche quality. In light of Somalia's weak capacity, the SMP focused on anchoring economic policies and reforms while strengthening institutions. Technical assistance was an integral part of the program. Fiscal policy was to be underpinned by revenue measures, realistic projections of foreign grant disbursements, and prudent expenditure policy implemented through public financial management reforms. The Central Bank was to maintain a floor on its net foreign assets, initiate the first stage of a comprehensive currency reform, and strengthen bank supervision and regulation of the money transfer business.

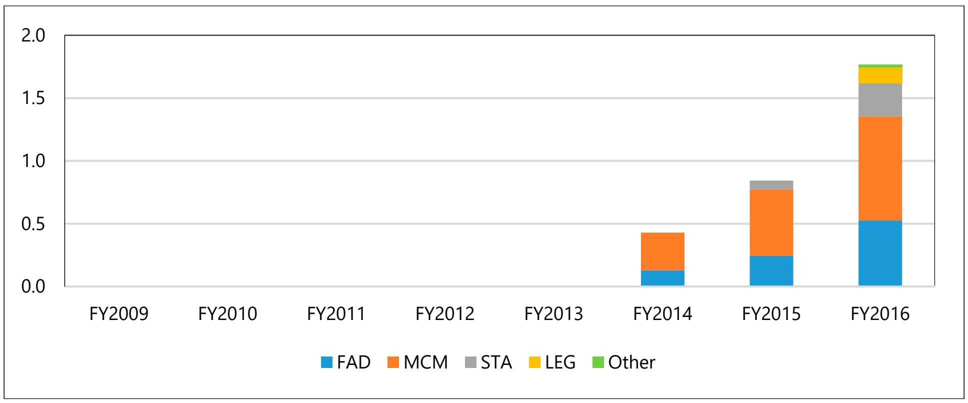
19. In the second half of 2016, despite a difficult political environment, complex clan politics, and the negative impact of the drought on economic activity, the FGS made significant efforts to restore key economic institutions and to keep the SMP on track. Two reviews were concluded satisfactorily. The indicative targets related to the fiscal balance,[6] government arrears, domestic debt, non-concessional external debt, and the net foreign assets of the Central Bank, while structural benchmarks covered public financial management, tax policy, the financial sector, and macroeconomic statistics. A second Article IV consultation was completed in February 2017. The new administration of President Mohamed requested a second Staff-Monitored Program which was approved in June 2017, to allow Somalia to continue its efforts to secure macroeconomic stability and to strengthen key institutions, as prerequisites for clearing arrears and attracting financial support.

[6] The FGS's budgetary expenditures are a small fraction of total donor-funded, off-budget expenditures. These off-budget expenditures will need to be brought into the budget to make fiscal policy transparent and to minimize corruption, but this first requires strengthening PFM.

III. THE IMF'S CAPACITY DEVELOPMENT WORK

20. The IMF has been providing technical assistance to Somalia since 2013 (Figure 8.1). The IMF's TA efforts have intensified through FY 2018. To support TA efforts, the Somalia Trust Fund for Capacity Development in Macroeconomic Policies and Statistics Subaccount was established on May 28, 2014.[7] In response to the country's dire situation, the IMF has fielded a large number of missions, but security concerns have limited the delivery to third locations, such as Nairobi, Addis Ababa, Istanbul, Dubai, and the IMF's Washington headquarters.

Figure 8.1. Somalia: IMF Technical Assistance, FY 2009–16
(In person-years)



Source: IEO estimates based on ICD data.

21. The IMF Fiscal Affairs Department began providing TA on such issues as PFM, tax policy, and arrears management. The Legal Department assisted the Central Bank of Somalia in the development of rules of conduct and ethics as well as administrative procedures and provided TA in AML/CFT and currency reform. The Monetary and Capital Markets Department provided support on accounting and financial reporting; bank licensing, supervision, and regulation; central bank governance; currency reform; and the like. From early 2014, the Statistics Department (STA) has provided support to strengthen statistical capacity in the national accounts, prices, and the balance of payments.

22. The staff's inability to travel to Somalia has created serious delivery problems. Organizing TA missions outside Somalia has proven challenging, not least because of the difficulty of obtaining visas for Somali officials. The staff has addressed these challenges by collaborating with the DFID and the World Bank, whose staff and experts are allowed to travel to Somalia.

23. To improve coordination, donors have set up working groups in Nairobi, including on revenue, PFM, and remittances, in which the IMF is represented by the Nairobi-based IMF

[7] The contributors are the Arab Fund for Economic and Social Development, Canada, DIFID, the EU, Italy, and the U.S.

Resident Representative. The IMF Res Rep also attends the meetings of TA departments with Somali officials. The Trust Fund's governing board, when it meets semi-annually, attempts to coordinate activities among development partners.

IV. STAKEHOLDER VIEWS

A. The IMF's Role

24. Former and current officials who were interviewed stressed that the IMF had played a critical role in drawing the Somali authorities' attention to the needed policy measures and reforms. The Somali government has two main objectives—getting the design of the structural reforms right and obtaining debt relief—and the IMF had played a critical role in both areas. Staff-Monitored Programs are important steps in this process, with IMF TA supporting the design of structural reforms. Officials also stated that the Fund staff's inability to visit Somalia had constrained its effectiveness by limiting its understanding of local conditions.

25. Partner representatives viewed the IMF's role as that of helping the country adopt appropriate macroeconomic policies to address fragility and solve the external arrears problem. They noted that multilateral institutions could provide more financial assistance once the arrears were cleared. While they valued the Fund staff's flexibility in program design, they felt that the staff's lack of on-the-ground contact in Somalia was constraining its effectiveness; the fact that IMF missions met for a few days in a hotel conference room in Nairobi with the cream of the Somali officials gave them a misleading impression of the Somali government's capacity to implement reforms.

B. Collaboration with Partners

26. Officials felt that the IMF staff could have been more proactive in promoting better donor coordination. A roadmap for policy measures prepared by the IMF in the context of an SMP could serve for this purpose. A suggestion was made that the Trust Fund be used to pay the salaries of Somali experts from the diaspora willing to relocate to Somalia.

27. Partner representatives saw room for improving their collaboration with the IMF. They noted instances in which actions that were envisaged in their TA programs had been included in SMPs without sufficient prior consultation on the timing. They said they would welcome more outreach by IMF staff, including to their ambassadors in Nairobi who visit Somalia frequently and could advocate for the Fund in their meetings with the Somali president or prime minister.

C. Technical Assistance

28. IMF staff members commented on the importance of TA in Somalia. The IMF had come late in the game, and, in some instances, was filling in areas that had received little support from other providers. It was recognized that the Fiscal Affairs Department had taken too long to

reengage in Somalia, but the staff felt that IMF fiscal TA had been made more challenging by the World Bank's prior presence and the fact that Bank staff members could visit the country.

D. Security Issues

29. Some staff members felt strongly that they should be allowed to visit the International Area of Mogadishu Airport, adding that a short visit there, even for a couple of hours, by the Managing Director would go a long way to raise the IMF's profile with political leaders.

E. The Manner of Engagement

30. IMF staff members recognized the authorities' commitment to reforms. Given the country's low capacity at the onset of engagement in 2013, the IMF staff had followed a didactic approach in its discussions with Somali officials, tempering its expectations and making special efforts to take account of political economy factors.

31. Some area department staff members felt that their work had received insufficient support or attention from IMF functional departments, which had initially been reluctant to engage with Somalia. In their view, the IMF had a role to play regardless of the circumstances the country was in, as long as the authorities were willing to implement an economic program. The institution had ultimately accepted this position albeit with some reluctance.

F. Clearing the Arrears

32. On debt relief, officials expressed frustration at the slow pace of the process even after completing a first SMP. While recognizing that preconditions needed to be met, they would appreciate a more concrete timetable for when they could receive the needed support to clear arrears and gain access to new financing. Staff interviewees stressed that debt relief was a benchmark-based process for which no detailed timeline could be drawn up. The staff had informed the authorities and development partners that the process would involve: (i) establishing a satisfactory track record of cooperation with the IMF on policies and payments; (ii) reconciling external debt and confirming that debt sustainability indicators were above the relevant HIPC initiative thresholds;[8] (iii) normalizing relations with creditors, including mobilizing donor agreements and resources to finance debt relief; and (iv) preparing a poverty reduction strategy.

[8] The external debt database is not yet complete. In coordination with IMF staff, the Somali Ministry of Finance is reaching out to select creditors to fill in gaps in bilateral debt data as soon as possible.

References

Clarke, Walter, and Jeffrey Herbst (eds.), 1997, *Learning from Somalia: The Lessons of Armed Humanitarian Intervention* (Boulder, CO: Westview)

Cooke, Jennifer G., and Richard Downie, 2015, "Rethinking Engagement in Fragile States," Center for Strategic and International Studies (Washington).

Economist Intelligence Unit, various reports on Somalia.

International Monetary Fund (IMF), 2017, "IMF's Somalia Trust Fund for Capacity Development in Macroeconomic Policies and Statistics, End-Year Report," January (Washington).

Lewis, I. M., 2003, *A Modern History of the Somali*, fourth edition (Athens, Ohio: Ohio University Press).

Lyons, Terrence, and Ahmed I. Samatar, 1995, "Somalia, State Collapse, Multilateral Intervention, and Strategies for Political Reconstruction," Brookings Occasional Papers (Washington, Brookings Institution)

World Bank, "Interim Strategy Note for Somalia, FY2014–FY2016."