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

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February 28, 2023

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### EXECUTIVE SUMMARY

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

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

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

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

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

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

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## CONTENTS

Abbreviations and Acronyms	5
<b>SECTION I: INTRODUCTION</b>	<b>6</b>
<b>SECTION II: FCS CLASSIFICATION</b>	<b>7</b>
A. Revised Fund Methodology, Criteria, and Thresholds	7
B. Uses of the FCS List	8
C. FCS List Publication	10
<b>SECTION III: ROLLING OUT COUNTRY ENGAGEMENT STRATEGIES IN FCS</b>	<b>10</b>
A. CES Preparation Process, Outputs, and Confidentiality	11
B. Communication with Country Authorities	13
C. Additional Considerations on CES, Staff Reports, and Policy Notes	14
D. Integration of the CES into Core Functions	15
<b>SECTION IV: PRIORITIES FOR IMF CORE FUNCTIONS</b>	<b>16</b>
A. Surveillance	16
B. Capacity Development	20
C. Lending, Program Design, and Conditionality	26
<b>SECTION V: CONSIDERATIONS FOR TAILORING FUND ENGAGEMENT TO SPECIFIC FCS SITUATIONS</b>	<b>37</b>
A. Building Accountable Institutions to Exit Fragility	37
B. Rising Fragility and/or Conflict Risks: Focus on Prevention	39
C. Active Conflict: Remaining Engaged	41

D. Dealing with Recognition Issues in the Context of Irregular Changes in Government	43
E. Post-Conflict Reconstruction: Recovery, Economic Stability, and Growth	46
F. External Shocks and Spillovers: Strengthening Resilience	48

## **SECTION VI: LEVERAGING PARTNERS IN FCS** 49

A. Seeking Opportunities for Partnerships	50
B. Expanding the Range of Partners	51
C. Strengthening Reciprocity with Partners	55

## **SECTION VII: FCS STAFF DEVELOPMENT** 56

A. Enhanced Role of Country Teams	56
B. Staff Learning	58

### **BOXES**

1. Issues To Be Covered in the CES	11
2. Assessing Risks and Uncertainties in FCS Article IV Consultations	18
3. Measuring Social Unrest	20
4. Leveraging RCDCs to Tailor Capacity Development to FCS Contexts	23
5. Tailoring CD Design and Implementation in South Sudan	24
6. Haiti: Adaptation of CD to Limited Absorptive Capacity and Changing Circumstances	26
7. The Operation of Floating Tranches	32

### **FIGURES**

1. Preparation of Country Engagement Strategies (CES)	11
2. Using the CES to Inform Surveillance	16
3. CD Prioritization for FCS—New Elements	21
4. Expanding the Range of Partners in FCS	52

### **TABLES**

1. IMF Methodology for FCS Classification	7
2. Linking the CES with Core IMF Functions	15
3. Building Fiscal and Monetary Institutions in FCS—A Two-Step Approach	39
4. Entry-Points for Enhanced Partnerships in Fund-Supported Programs in FCS	56

### **ANNEXES**

I. Expanded CES: Key Issues to Be Covered	62
II. Addressing Governance and Corruption Challenges in FCS	66
III. Additional Considerations for Program Design and Conditionality in FCS	70
IV. Examples of Fund Support to FCS and Neighboring Countries Affected by Fragility and Conflict Spillovers	74
References	59