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**Statement by Mr. Palotai, Mr. Just, and Mr. Samuda on IEO Evaluation of IMF  
Engagement in Small Developing States  
(Preliminary)  
Executive Board Meeting  
May 6, 2022**

We thank the Independent Evaluation Office (IEO) for their in-depth report which sets the right tone with regard to balancing the broader institutional constraints and the need for some targeted recalibration of the Fund's work on SDS. We also thank the Managing Director (MD) for her useful buff statement.

**We positively note the value added of IMF surveillance and Capacity Development (CD),** in SDS and welcome the progress that has been made in strengthening the IMF's engagement with SDS as the authorities generally consider the Fund's work as of high quality and well-tailored to their specific needs.

We also note the perennial difficulties in staffing SDS assignments, questions concerning the Fund's lending architecture for SDS, and limited institutional capacity in SDS to implement Fund advice and concerns about Fund conditionality

We share the MD's caution that **some of the proposals seem to be inconsistent with the just-approved Medium-Term Strategy and budget or will be addressed via other work streams.** We would like to offer the following comments on the specific recommendations.

**Recommendation 1. The Fund should pursue a targeted recalibration of its overall approach for engagement with SDS to strengthen the value added and impact of its work.**

**We agree to a large extent with this recommendation,** highlighting the need to improve mechanisms for internal coordination and engagement with the Board as well as more collaboration with partners. A refresh of the Staff Guidance Note (SGN) and steps to support a more effective application of the SGN are welcome. The Board can certainly be a medium in better coordination and gaining a more detailed assessment of the needs with the authorities on the ground. Most important for the effective use of the Fund's resources is close collaboration with Development Partners active in SDS, especially bilateral agencies

and development banks which will help avoid duplication of work and keep the focus on the Fund's core mandate and comparative advantage of expertise.

**Recommendation 2. Steps should be taken at the operational level to enhance the focus and traction of the IMF work on SDS in the areas of surveillance and CD.**

*We support the goal to further adapt processes and tools towards the specific needs of SDS while also deepening integration across Fund activities. We take note of the assessment that policy advice sometimes lacks actionability and specificity, however, there is little the Fund can do if those are areas beyond its core expertise.* Many SDS face various capacity constraints which staff has to factor into its policy advice, TA and recommendations. We agree with adapting diagnostic tools in a manner more suitable to SDS, where appropriate and reasonable and without undermining their overall signaling function or quality. We are not convinced by the proposal to increase the availability of FSAPs especially in jurisdictions with capacity constraints. While we regret the World Bank's decision to discontinue its participation in Bank-Fund Climate Change, we would see climate as an obvious area where we could make significant progress on Bank-Fund collaboration and would appreciate staff's comments whether the Bank's CCDR could deliver also for the Fund. *We support the recommendation to accomplish the outlined goals in a cost-effective manner, exploring regional or cluster approaches, if appropriate.*

**Recommendation 3. The IMF should consider how to use its lending framework in ways that better address the needs and vulnerabilities of SDS.**

*We partially support this recommendation and its suggestions but are somewhat disappointed with the overall thrust of the arguments.* The Fund's financing instruments are fit for purpose to help countries with balance of payments adjustments. While we agree that resilience should be enhanced with a UCT-program, we remain very cautious about an explicit growth objective. We cannot go along with the proposal to increase EF access limits. The Fund's financing role should be limited, and its main purpose is to catalyze bilateral grants and transfers, The RST is yet to be rolled out; we see some scope for the RST to help SDS address climate change challenges but wonder whether the uptake especially among SDS will be strong as a Fund program will be required,

We take note of the factors behind the reluctance of SDS to use UCT programs.

We support streamlining the high administrative burden and see great scope for helping authorities to better understand the Fund's frameworks. However, we think that for many of the factors identified the Fund should leverage better the expertise and financing instruments of Development Partners, many of which have the tools and financing frameworks to probably better address the specific needs of SDS. The Fund should continue to provide top-notch economic expertise in line with its core mandate to complement the assistance to SDS.

**Recommendation 4. The IMF should adopt further HR management and budgetary commitments to increase continuity and impact of staff's engagement with SDS.**

The recommendation's goal is to improve incentives to work on SDS assignments, reduce turnover, avoid gaps in coverage, minimize disruptions from handovers, and strengthen Fund presence on the ground.

***We support the recommendation's suggestions, most of which can be implemented with the resources already available.*** We appreciate the reports of a more rewarding and impactful staff experience while working in SDS. Nevertheless, we are concerned about the serious capacity constraints and workloads staff are dealing with in SDS, the apparently poor institutional incentives for staff to work on SDS assignments and the observed lower performance ratings and promotion rates for economists working on SDS. The Fund's surveillance mandate was also hampered by low frequency of engagement and high turnover of mission chiefs. In this vein, we are particularly concerned to learn that two-thirds of mission chiefs led only a single mission to their designated SDS, before moving to a new assignment.

We are cautious about seeking savings from reduced travel which may be counterproductive to the objective of increasing traction with SDS authorities.