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March 2, 2023

To: Members of the Evaluation Committee

From: Gilles Bauche, Committee Secretary

Subject: **Implementation Plan in Response to the Board-Endorsed Recommendations from the IEO Evaluation Report on IMF Engagement with Small Developing States**

Committee Action: Committee Members' **consideration** on a lapse of time basis

Deadline to Request a Committee Meeting, after which the paper will be circulated to the Executive Board:

**Thursday, March 9, 2023  
12:00 (noon)**

Additional Information:

The Management Implementation Plan was revised to incorporate feedback received from Executive Directors at the Evaluation Committee meeting on February 9, 2023, and in informal consultations with the IEO and EVC members. A redlined version is also attached for Executive Directors' convenience.

Questions:

Ms. Gonzalez, SPR (ext. 36163)  
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Additional Distribution:

Members of the Executive Board





February 28, 2023

## IMPLEMENTATION PLAN IN RESPONSE TO THE BOARD-ENDORSED RECOMMENDATIONS FROM THE IEO EVALUATION REPORT ON IMF ENGAGEMENT WITH SMALL DEVELOPING STATES

### EXECUTIVE SUMMARY

**This Management Implementation Plan (MIP) responds to the Board-endorsed recommendations made by the Independent Evaluation Office (IEO) on the *IMF Engagement with Small Developing States*.** The actions included in the MIP are broad in scope, touching on all modalities of the Fund's engagement with Small Developing States (SDS). They seek to be comprehensive, self-reinforcing, cost-effective, and designed to be adopted as a package. They include:

- **Actions to support a targeted and effective recalibration of engagement with SDS.** These are anchored by a focused refresh of the [2017 Staff Guidance Note of the Fund's Engagement with Small Developing States](#) (SDS-SGN), which should help usher staff's work with SDS members across modalities (surveillance, capacity development, and lending) to strengthen tailoring and traction. The update is not expected to result in a full overhaul of the existing guidance but, rather, reflect the evolving macro-critical priorities of SDS, and reference the most recent Fund's workstreams and guidance and provide country examples, while in line with applicable Fund's policies and frameworks. Complementary efforts will encompass, *inter alia*, actions to strengthen inter-departmental coordination and knowledge-sharing to further boost the quality and focus of SDS-related work; entrench periodic interactions with the Executive Board, as well as between the Fund and SDS authorities. Mechanisms to ensure strong monitoring and accountability on MIP progress will be put in place, while a Medium-Term Review on the Fund's engagement with SDS will help provide a medium-term view on the outcomes achieved by these sustained efforts.
- **Steps to enhance IMF's Surveillance and Capacity Development (CD) in SDS members.** These rest on providing improved guidance through SDS-SGN Update—including to facilitate the tailored use of the surveillance toolkit, and foster the integration of surveillance and CD in the context of Article IV Consultations. In addition, various commitments seek to ensure that key CD products—such as climate and financial sector diagnostics—appropriately serve SDS members.

- ***The MIP includes commitments to strengthen the Fund’s lending engagement with SDS, in line with the applicable policy frameworks.*** Building greater awareness of the benefits of Fund-supported programs in SDS, including via direct engagement and peer-learning will be critical. Actions also seek to foster greater tailoring—including by paying due attention to growth and resilience considerations in program design, in addition to adjustment, in line with Fund policies. Efforts will also be made to ensure that the Resilience and Sustainability Trust (RST) effectively attends to SDS among other members, both by providing guidance in the SDS-SGN, and by learning from implementation.
- ***Securing an effective, well-tailored and more continuous staff presence in SDS remains critical.*** Actions leverage efforts to support the continuity of staffing in country teams made by complementary MIPs already in train to avoid duplication. At the same time, new actions seek to further boost accountability and monitoring of indicators on engagement continuity, and of Area and Functional Departments’ various forms of support to SDS. Commitments also seek to secure a minimum standard on physical engagement of Area Department teams with SDS, at least in line with pre-pandemic practices, further strengthened by virtual missions. Finally, actions also seek to strengthen the on-the-ground macroeconomic technical support for SDS through innovative modalities.
- ***Implementation of the MIP will have significant resource implications.*** Some actions are already included as such in the Work Program; however, many new actions to be delivered in the near-term (such as the update of the SDS-SGN) would need to be folded into the budget by reallocating important resources from other areas. For new actions proposed to be delivered at later stages (such as the Medium-Term Review), their more protracted timeline would facilitate their eventual budget integration, while still requiring prioritization. Overall, implementation as designed will already present some non-negligible tradeoffs for staff and management. Going beyond the current proposals would require new permanent resources, requiring a discussion that goes well beyond the scope of the MIP and would need to be considered in a wider context vis-à-vis Fund-wide tradeoffs.

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## INTRODUCTION

**1. This paper presents a Management Implementation Plan (MIP) in response to the IEO evaluation on the [IMF Engagement with Small Developing States \(SDS\)](#).** The MIP proposes a comprehensive package of actions (see Annex I. Matrix of Proposed Actions), designed to be mutually self-reinforcing and cost-effective, to strengthen the value added and traction of the Fund’s surveillance, lending, and capacity development (CD) activities in SDS members, while recognizing that despite many common characteristics, there is considerable heterogeneity across small states, and hence their needs may vary.

**2. The Executive Board welcomed the IEO’s Evaluation on the *IMF Engagement with SDS*.**<sup>1</sup> Executive Directors (EDs) appreciated the evaluation’s insights and recommendations, welcoming the finding that the Fund substantially stepped up its engagement with SDS members over the past decade. Moreover, SDS authorities appreciated Fund surveillance and CD, which they considered to be of high quality and well-tailored to their needs. Directors also noted the findings of some challenges in the Fund’s engagement with SDS, including—inter alia—those posed by the limited institutional capacity in SDS, the need for greater continuity of engagement, and of ensuring that Fund lending is adequately tailored to SDS’s needs and capacities.

**3. Directors agreed that further efforts should seek to strengthen the value added and impact of IMF engagement with SDS through a targeted recalibration across modalities.** Directors stressed that a major overhaul of the engagement was not needed, and that actions to attend the IEO recommendations should be carefully weighed against budgetary tradeoffs, and build synergies with ongoing, complementary workstreams to aid cost-effectiveness. Many Directors also saw scope for resource reallocation to accommodate the budgetary needs within the existing budget. Staff’s proposals in this MIP seek to follow this overall guidance.

**4. The MIP leverages existing workstreams to help attend to the IEO’s recommendations.** A key action to anchor the recalibration of SDS engagement involves a comprehensive update of the main Guidance Note (SDS-SGN) for staff working on SDS, which was last published in 2017. A comprehensive update of the SDS-SGN will help build greater awareness for staff regarding the evolving macro-critical priorities for SDS members, and need for careful tailoring. It will also benefit from Fund’s workstreams and analytical work developed over the last five years which complement the needs by SDS well across engagement modalities. On surveillance, the SDS-SGN will reflect the insights from the [2021 Comprehensive Surveillance Review](#) and the companion [2022 Staff Guidance Note on Surveillance](#), as well as the innovative work on macro-critical challenges such as climate change and digitalization issues, among others. Similarly, MIP actions to improve the tailoring and effectiveness of lending for SDS will be supported by updating the SDS-SGN based on the [MIP on Growth and Adjustment in IMF-Supported Programs](#), the forthcoming Operational Guidance on the [Review of Program Design and Conditionality](#), future

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<sup>1</sup> See the Acting Chair’s [Summing Up](#) to the IEO Evaluation.

guidance on the [Resilience and Sustainability Trust \(RST\)](#), and in line with Fund’s policies more generally. Other elements of the MIP beyond the SDS-SGN also leverage existing workstreams. For instance, climate-related support on surveillance, CD and lending build from efforts anchored by the [Fund’s Climate Change Strategy](#) as well as the RST-related work. The MIP seeks to complement—rather than duplicate or overlap—actions in MIPs particularly relevant for the SDS membership—including, among others, the [Categorization of Open Actions in Management Implementation Plans](#), the [MIP in response to the Evaluation on Bank-Fund Collaboration on Macro-critical Issues](#), and the forthcoming MIPs on the IEO’s evaluations on [Capacity Development](#) and of the *IMF’s Response to the COVID-19 Pandemic*.

**5. Enhancing coordination on SDS-related issues, to boost the quality of engagement with SDS members, and strengthen monitoring and accountability are key premises of the MIP.** A reinforced inter-departmental working group (SDS-WG) is at the center of the coordination and monitoring efforts; the latter include annual progress reports to Management on MIP commitments, and periodic interactions with the Board. A Medium-Term Review on the Fund’s engagement with SDS will lend a longer-term view on the outcomes achieved by the sustained MIP implementation. The SDS-WG will lead on actions to foster knowledge-sharing, with the objective to enhance the quality and focus of analytical work on SDS, and will provide capacity-building for Fund staff working on SDS-related issues to help enhance traction. Efforts also seek to boost the quality of direct engagement with the membership, by entrenching opportunities to discuss high-level policy issues, and to invite SDS peer-learning and enhanced awareness of Fund’s lending toolkit.

**6. Boosting the quality and continuity of staff engagement with SDS will be critical.** These efforts are anchored by those ongoing in parallel workstreams—in particular, the commitments made under the [Categorization of Open Actions in MIPs](#), which include a package of concerted actions to reduce mission chief and staff turnover, with dedicated, explicit attention to developments in staffing in analytical country groupings, including SDS. The present MIP builds on such package by enhancing accountability through the annual reporting by the SDS-WG on staffing continuity. Efforts will also seek to secure steady support by Functional Departments to SDS across modalities, while providing accountability mechanisms. In addition, emphasis is placed on ensuring a minimum level of physical missions to SDS, as well as utilizing innovative approaches to enhance the on-the-ground macroeconomic technical support to SDS.

**7. Heightened attention has been placed to carefully sequence the proposed measures.** The package is self-reinforcing, and several measures build from each other. For instance, the SDS-SGN will lead to further capacity building efforts to staff; efforts across modalities—plus a proposed survey to assess traction and gather direct feedback from SDS authorities—will feed into the proposed Medium-Term Review; in the interim, the annual monitoring mechanisms will help both prevent gaps from emerging and/or promptly address any emerging issues.

**8. The commitments in the MIP entail additional costs that would need to be absorbed into existing budgets.** Total cost estimates of the MIP proposals in FY23–FY28 amount to about 22 full-time equivalents (FTEs). The MIP seeks to leverage existing resources in line with the resource

envelope outlined in the IMF’s Medium-term Budget, and new items to the work program (such as the SDS-SGN) will likely require some meaningful reallocations to be folded into the budget in the near term. The protracted timeline of some actions facilitates the inclusion of high-cost, high-value-added actions (such as the Medium-Term Review). Going beyond the current proposals would require new permanent resources; such proposals would go well beyond the scope of the MIP and would need to be considered in a wider context vis-à-vis Fund-wide tradeoffs.

**9. The rest of this paper is structured as follows.** The next section presents the reactions from the Executive Board and the proposed MIP actions. Subsequent sections discuss MIP monitoring mechanisms and costing. A detailed Matrix of Proposed Actions is presented in Annex I; Annex II summarizes the IEO recommendations.

## PROPOSED ACTIONS

**10. The IEO evaluation made four broad recommendations covering all areas of Fund engagement.** This section briefly presents Executive Directors’ reactions to such recommendations, and elaborates on the proposed actions to address the recommendations in line with Directors’ guidance. The proposed actions committed in the MIP are required to be “SMART” (Specific, Monitorable, Achievable, Realistic and Timebound). In particular, actions included in the Matrix of Commitments must be designed in a way in which their progress and eventual completion can be objectively monitored under the annual *Periodic Monitoring Reports on the Status of Management Implementation Plans (PMRs)*. Importantly, the spirit of the commitments in this MIP is to entrench best practices of support to SDS—as a result, many of the actions would be continued even after they reach their “monitoring” deadline, as indicated below.

***Recommendation 1 (R1). 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. The recalibration would build on the strengthened engagement achieved during the evaluation period and seek to enhance the coherence and continuity of SDS work, while still leaving room for flexibility at the area department and country level.***

**11. Executive Directors broadly supported R1 on pursuing a targeted recalibration of IMF engagement with SDS.** Completing a focused refresh of the SDS-SGN received broad support from Directors, who emphasized the importance of ensuring that such guidance helped improved traction across engagement modalities. Directors also reflected that tailored communication with SDS countries through active outreach would be critical, as would be to secure strong coordination on SDS work—both within the Fund and with other development partners. Many Directors supported conducting a Medium-Year Review to follow up on engagement with SDS and the commitments under this MIP. To ensure cost-effectiveness, many Directors supported instead the leveraging of planned reviews, while a few requested explicit carve-out of SDS in other reviews.

**12. The comprehensive SDS-SGN refresh proposed in this MIP anchors staff engagement with SDS to strengthen its effectiveness and traction, as recommended by the IEO’s R1.**

Like its 2017 predecessor, the 2023 SDS-SGN will cover all engagement modalities (surveillance, CD, and lending) and will be organized through a thematic framework based on the range of macro-critical priorities surrounding SDS (Box 1). A focused update of the SDS-SGN (R1.1) will provide an opportunity to reflect the evolution of these priorities, and showcase key emerging issues facing SDS to help orient staff’s engagement. The SDS-SGN will bring attention to the structural challenges and various capacity gaps faced by this group of members, stressing the need for tailoring and for utilizing the built-in flexibility of analytical toolkits when needed. Lessons and new guidance from the many Fund’s reviews of its surveillance, CD, and lending frameworks and toolkits will be reflected in the SDS-SGN. Relevant workstreams will be showcased—including macro-fiscal, debt, monetary and exchange rate policies, and financial sector issues, as well as climate change, digitalization, governance, and other relevant macro-structural work, such as that on diversification. The SDS-SGN will also provide country examples, guidance on collaboration with development partners (including the World Bank Group (WBG)) in line with existing frameworks and guidance, and discuss best practices to foster traction.

**13. Enhancing traction and the quality of engagement will require a multi-pronged approach to capacity building and knowledge-sharing.**

Staff working on SDS will benefit annually from the planned “SDS Week”—an effort to provide training on the SDS-SGN and disseminate knowledge exchange more generally (R1.7). Importantly, the SDS Week is also designed to help enhance incentives and attractiveness of working with SDS, by bringing in Management participation in its inaugural event, and showcasing Fund-wide efforts through the intranet. Similarly, analytical seminars (R1.8) will provide an opportunity to staff to periodically showcase their innovative work on SDS (Box 2) but also to other development partners and outside researchers who may bring important and new perspectives on SDS-related issues. The MIP also seeks to help entrench best practices of knowledge-sharing and high-level policy dialogue with SDS authorities themselves, by securing, at a minimum, one annual High-Level event by relevant Area Departments (ADs), at the time of the Spring or Annual Meetings (R1.2). Traction across engagement modalities and the authorities’ views of the multiple IMF workstreams at play will be tracked through a survey of SDS authorities by (R1.3) providing inputs for the Medium-Term Review.<sup>2</sup>

**14. In attending R1, the MIP also seeks to energize existing coordination mechanisms, and boost monitoring and accountability of the Fund’s work with SDS.**

Following a suggestion by the IEO, the long-standing Working Group on SDS was expanded in July 2022, now including all Fund departments, to form the Consultative Group on SDS (SDS-CG), which is already operational and has prepared this MIP. This group will transform into a formal Working Group (SDS-WG) shortly after the MIP is endorsed by the Executive Board, to help usher the implementation and monitoring of the MIP going forward (R1.4). The SDS-WG will report annually to Management on progress on

<sup>2</sup> The proposed “Medium-Term Review” would be completed by end-December 2028, allowing to observe approximately five years after approval of the MIP, and about four years after completion of the SDS-SGN.

MIP commitments (R1.5), and meet annually with the Executive Board through its Small States Working Group (SSWG) (R1.6). Finally, as recommended by the IEO, the MIP proposes to conduct a Medium-Term Review on the Fund’s engagement with SDS five years after the MIP is adopted, to strengthen accountability and help ensure the continuous improvement of these efforts (R1.9).

### Box 1. Updating the SDS Staff Guidance Note (SDS-SGN)

**The SDS-SGN Update provides a natural vehicle to make many of the IEO’s recommendations actionable**, while energizing internal coordination structures, and disseminate SDS knowledge to country teams and internally in the Fund.

**The current SDS-SGN aims to provide guidance on priorities for effective engagement with SDS, in line with applicable Fund’s policies, frameworks, and recent relevant guidance.** The 2017 SDS-SGN, itself an update of a 2014 version, identified five key thematic areas (around the **G.R.O.W.TH.** framework) as central to the policy dialogue with SDS: (1) **G**rowth and job creation; (2) **R**esilience to shocks; (3) **O**verall competitiveness; (4) **W**orkable fiscal and debt sustainability options, and (5) **T**hin financial sectors. The 2017 SDS-SGN already highlighted the unique economic characteristics and constraints facing SDS, and provided operational guidance on Fund engagement, including on how these SDS-specific elements might shape surveillance, financial support, program design, capacity building activities, and collaboration with other institutions and donors.

**The SDS-SGN Update proposed in this MIP will bring an opportunity to provide a focused refresh of the thematic areas as needed, based on evolving macro-critical priorities for the SDS members.** This would involve gauging the continued relevance of the GROWTH thematic approach, and complementing it with elements that may have become central to policy dialogue, such as climate change, digitalization, inclusion, governance, diversification, and others—as determined by the Fund’s approach in these issues.

**As in the current structure, the SDS-SGN will update guidance based on the three main areas of engagement:** surveillance, CD, and lending. In addition, the SGN will provide guidance on: (i) how to integrate climate CD tools into Fund engagement; (ii) the use of toolkits in the SDS context and how best to leverage flexibility embedded in them for countries with institutional and capacity constraints (a sub-recommendation in R2); (iii) best practices to improve traction (as guided by the 2021 Comprehensive Surveillance Review); and (iv) strengthening engagement and building trust with SDS members.

***Recommendation 2 (R2). Steps should be taken at the operational level to enhance the focus and traction of the IMF work in the areas of surveillance and CD.***

**15. Executive Directors generally supported R2, and agreed that actions should aim at better leveraging flexibility in core tools for the SDS context.** Directors emphasized diagnostic tools are useful in SDS and tailoring will increase their impact, while noting surveillance and related toolkits must remain consistent with Fund policy frameworks (e.g., the Integrated Surveillance Decision). Directors highlighted the need to further collaborate with the WBG in the context of surveillance. With respect to enhancing strategic engagement with SDS, many EDs considered that the IEO’s proposal to prepare Country Engagement Strategies (CES) for SDS should be rolled out on an “*as-needed*” basis for non-fragile SDS. Many Directors emphasized the need for flexibility in prioritizing Fund CD, and noted that cluster approaches may be explored when cost-effective.

Directors observed that since many of the issues related to CD-specific issues identified by the IEO evaluation where applicable to a wider part of the membership, these should be considered in the forthcoming *IEO Evaluation on CD*.

**16. The SDS-SGN update (R1.1) will cover issues of focus, traction, and strategic engagement, showcasing how IMF tools can be tailored to SDS issues.** Existing core surveillance tools—including the debt-sustainability frameworks, and the tools underpinning the External Sustainability Assessment (ESA)—feature ample flexibility to tailor to country-specific circumstances. The updated SDS-SGN will provide general guidance and selected country case-examples on how to apply such flexibility for SDS-specific circumstances.

**17. To enhance strategic engagement with SDS, guidance will be issued to feature a Country Engagement Box in Article IV staff reports once every three years for all SDS (R2.1).** This Box will have several benefits in lieu of full-fledged Country Engagement Strategies (CES): (i) the discussion of country engagement issues three years into the future aligns well with the Article IV’s medium-term perspective; (ii) the streamlined format and frequency would help ensure consistent and focused coverage while reducing the burden on staff resources and overall costs.<sup>3</sup>

**18. The MIP also seeks to foster well-tailored CD to help SDS face their often-acute challenges, particularly those that are climate-related.** SDS members require integrated work plans adequately aligned to their needs and absorptive capacities. Regional or cluster approaches to CD may not necessarily be cost-effective or may provide general advice not applicable to individual country circumstances.<sup>4</sup> Given the systematic and strategic integration of climate change-related aspects into the IMF’s core activities—and considering SDS’ different needs and capacity levels—a full diagnostic equally intensive on all fronts may not always be adequate or cost-effective. The earlier joint World Bank-IMF Climate Change Policy Assessments (CCPAS) and the Climate Macroeconomic Assessment Program Diagnostic (CMAPs) that have followed require large teams and extensive inputs for a comprehensive assessment, and may overburden SDS authorities. The experience of the CCPAs—which were conducted exclusively for SDS—concluded that focused, tailored, assistance may be more effective. For example, for certain SDS, developing public financial management to support climate actions is a priority while, for others, identifying adequate resilience-building policies and mapping financing needs to support such policies is more important. To discuss these tradeoffs, and lessons learnt from CCPAs and CMAPs (including the experience in Samoa’s pilot) and how SDS may benefit from the application of fiscal CD tools to

<sup>3</sup> SDS members on a 24-month AIV Consultation Cycle would present a Box at every other AIV Consultation cycle.

<sup>4</sup> A cluster approach may take, generally, two forms. The first one could cover a group of countries providing high-level (more general) advice for the cluster; this would tend to be of lower-cost than a country-by-country exercise, but the lack of granularity may significantly reduce value added for specific members. The second would utilize similar methodologies/models for countries similar enough to belong to a cluster; this approach would provide granular advice, while benefiting from synergies and insights from the cluster, and normally be produced under a single cover. This latter modality would have the highest value added, but its costs would not be significantly lower than the aggregation of one-on-one exercises, as it requires in-depth analysis on a country-by-country basis. In selected circumstances, cluster approaches may have high-value and lower costs—e.g., when a group of countries share institutional settings and the group-level advice is, by definition, specific—but this would not be the norm.

deal with the implications of climate change, the upcoming CMAP Review will feature relevant considerations and next steps for SDS (R.2.2). These steps to ensure well-targeted support to SDS will be accompanied by efforts to disseminate fiscal CD and surveillance tools linked to the Fund’s climate agenda, via a Fund-wide seminar (R.2.3).

**19. The MIP also seeks to ensure that technical support for the financial sector is accessible to SDS that need it.** In this context, the MIP includes a commitment to request further funds in Phase II of the Financial Sector Stability Reviews (FSSRs) Donor-Funding Round, to help expand the eligibility list to at least half of the 22 SDS not currently in the list (11 SDS) (R.2.4).

**20. Other measures related to CD will be discussed in the context of the IEO Evaluation of CD,** as they are relevant to the wider membership.

### Box 2. Innovation and Analytics in SDS

**SDS often face data and capacity constraints.** Compiling relevant statistics to underpin analysis and policy discussions may be challenging for SDS staff. As the 2017 SDS-SGN indicates, country teams working on small states may need to explore creative approaches to overcome data gaps. In addition to traditional CD workstreams—from headquarters and RTACs—that strengthen data availability and capacity in SDS, newer technologies and the availability of high-frequency indicators are providing staff with complementary real-time data to complement traditional IMF financial programming frameworks. In addition, Fund initiatives such as the Climate Innovation Challenge are promoting ways to combine new data, technology, and insights and indicators from other sciences to address climate change challenges and their related macroeconomic and financial implications, which are often particularly acute in SDS.

**Recent examples of innovation at work are:**

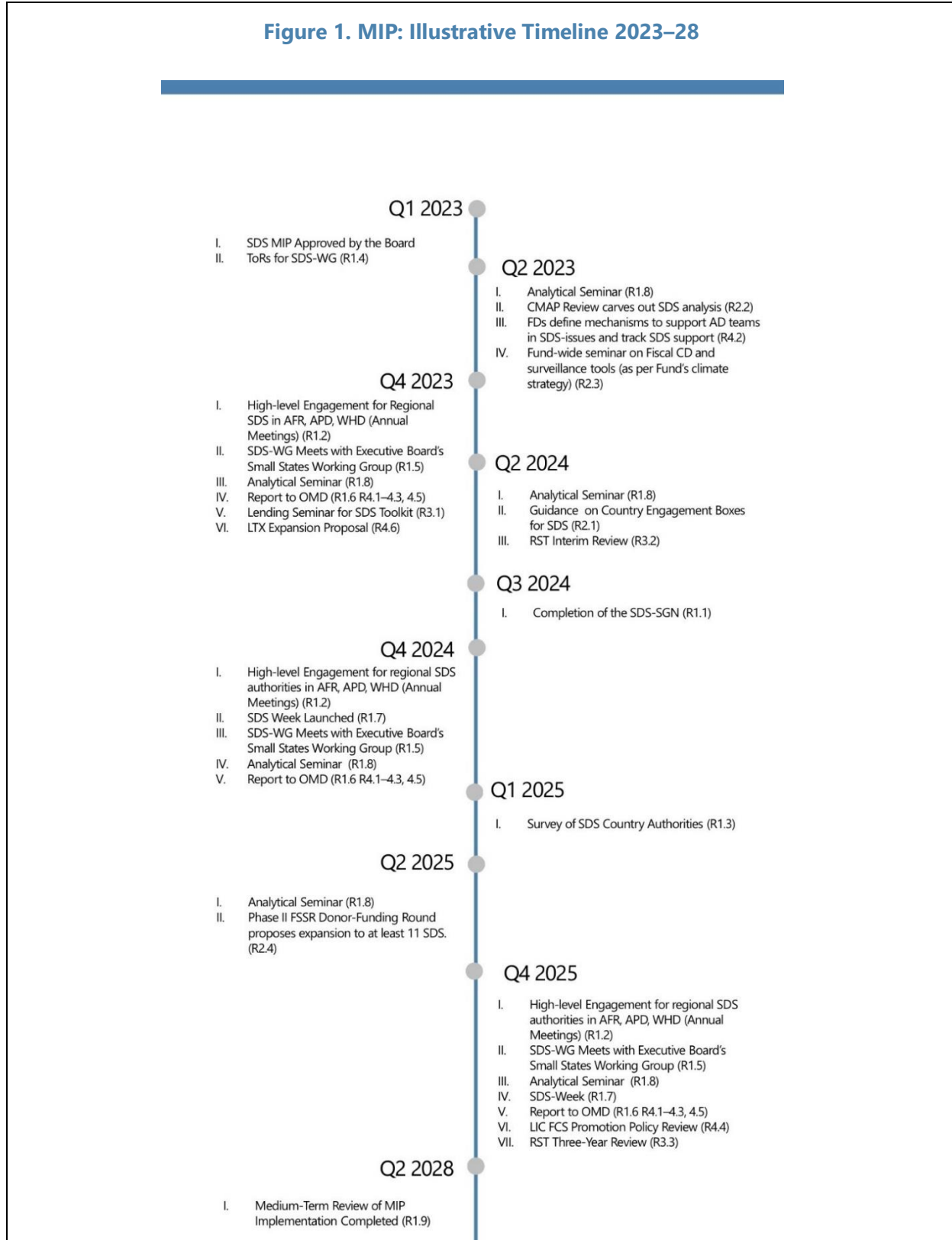
- **Nowcasting for Small States Using Big Data—A Desk User Guide to Support Surveillance:**<sup>1/</sup> A methodology that uses trade activity using high-frequency vessel traffic data to generate high-frequency indicators and compare with official data. Country teams working on small-island states, in particular, could benefit from it to support policy discussions.
- **PortWatch: Monitoring Disaster-Related Trade Disruptions from Space:**<sup>2/</sup> Winner of the Climate Innovation Challenge this project provides online platform that monitors trade disruptions and their regional and global spillover effects through port-to-port linkages using satellite-vessel data and big data analytics to produce insights that could support SDS staff analytics and dialogue with SDS country authorities in surveillance (economic monitoring), lending (spillover and risks), and scenario analysis for climate-related capacity development and multilateral-regional surveillance.
- **Monthly Tourism Trends in the Caribbean:**<sup>3/</sup> A portal for high frequency data on tourism to the Caribbean, Mexico and select countries in Central America. The portal presents various high-frequency tourism indicators updated monthly and available internally to Fund staff.

1/ Prepared by a team led by Daniel Rodriguez including Malika Pant, Xinyuan Yin (all STA), and Jacinta Bernadette Shirakawa (AFR, former STA member of Kiribati and Vanuatu APD teams) under the guidance of Patrizia Tumbarello, Serkan Arslanalp, and Lusine Lusinyan.

2/ Prepared by a team comprised of Serkan Arslanalp, Parisa Kamali, Robin Koepke, Alessandra Sossi, and Jasper Verschur.

3/ Prepared by a team comprised of Daniel Jenya, Beatriz Nunes, Minnie Park, and Grey Ramos, under the supervision of Dmitriy Kovtun (all WHD).

**Figure 1. MIP: Illustrative Timeline 2023–28**



**Recommendation 3 (R3). The IMF should consider how to use its lending framework in ways that better address the needs and vulnerabilities of SDS.**

**21. Many Directors broadly supported R3, but key nuances were considered.** Directors agreed there is room to explore how UCT-quality programs may be better tailored to SDS, including by increasing the focus on growth and resilience. While a few Directors noted institutional constraints in SDS, a few others considered that there is scope to use the existing flexibilities in the Fund’s lending policy frameworks to strengthen tailoring as needed. Directors also stressed the importance of raising awareness of the benefits of Upper-Credit Tranche (UCT)-quality Fund-supported programs among the SDS membership. Many Directors noted the need to leverage RST financing for SDS, given their climate-related vulnerabilities. IEO’s proposals on possible modifications to the Emergency Financing toolkit would need to be considered in separate, broader discussions—including in the context of the forthcoming IEO Evaluation of the *IMF Response to the COVID-19 Pandemic*—as any eventual changes would apply to all members beyond SDS.

**22. The MIP will reflect the Fund’s work to enhance consideration of growth and resilience in Fund-supported programs, in line with its policy frameworks.** Efforts to balance growth and resilience considerations into adjustment programs are likely to be well-suited to SDS needs. Work in this area includes, inter alia, the 2018 [Review of Program Design and Conditionality \(ROC\)](#), which distilled useful lessons after a full stock-taking of Fund lending operations following the Global Financial Crisis. An Operational Guidance Note based on the ROC is planned for early 2023, featuring insights applicable into crafting programs tailored to SDS’ unique characteristics. An enhanced focus on growth and adjustment is also expected from commitments under the ongoing [MIP on Growth and Adjustment in IMF-Supported Programs](#). The SDS-SGN Update will absorb this and other relevant guidance to staff working with SDS to help foster improved tailoring in Fund lending (R1.1).

**23. The MIP recognizes that financing by the RST may prove particularly helpful to SDS, given their high vulnerabilities and need to build resilience, including to climate-change shocks.** In this vein, the SDS-SGN will also lay out, based on broader RST-related policy frameworks and related guidance, the RST modalities, design, eligibility, and showcase initial experience in designing conditionality under the Resilience Sustainability Facility (RSF)—for instance, based on relevant climate-related diagnostics (R1.1.) To ensure the RST attends to SDS needs, among those of other eligible members, this MIP proposes that the envisaged 18-month interim review of the RST will reflect on the initial experiences on lending from the Trust including to SDS (R3.2), and that the formal three-year RST review will further delve deeper into more specific considerations of the needs and experiences with SDS (R3.3).

**24. MIP efforts will also be geared to raising awareness among SDS about the Fund’s lending toolkit, its benefits, and its embedded flexibility to tailor support to country-specific circumstances.** It is encouraging that the IEO evaluation shows that when SDS request Fund-supported programs, these tend to be completed at a more successful rate than for non-SDS; this

bodes well for SDS with ownership and political will to engage in a Fund-supported program. That said, SDS may require more attentive and effective communication on the features and benefits of UCT-quality programs, the purpose of each facility, the design flexibilities, and how these have been incorporated in lending to SDS. The updated SDS-SGN would showcase practical examples of these features in the Lending section, with country cases of recent successful programs, to better equip staff in dialogue with SDS when exploring suitable lending arrangements (R1.1). This MIP also proposes concrete outreach efforts to increase awareness of the Fund’s lending toolkit and high-level outreach to reduce the stigma associated with IMF programs in SDS (R3.1).

**25. Other issues raised by the IEO R3 would be addressed in parallel workstreams.** The possible need for modification of Emergency Financing instruments would be discussed in the context of the [IEO Evaluation of the IMF Response to COVID-19](#). Separately, the quota-related issues noted by the IEO evaluation would need to be raised in the broader context of the 16th General Review of Quotas.

**Recommendation 4 (R4). The IMF should adopt further HR management and budgetary commitments to increase continuity and impact of staff’s engagement with SDS.**

**26. Directors have generally emphasized the need to ensure continuous, high-quality engagement with SDS.** Directors agreed with the IEO on the need to take steps to improve incentives to work on SDS assignments, reduce turnover, avoid gaps in coverage, minimize disruptions from handovers, and strengthen the continuity of Fund engagement with SDS. Directors observed these issues are also a concern for non-SDS members and welcomed the earlier *MIP on the Board Endorsed Recommendations on Categorization of Open Actions*, which would help address many of these issues. Directors also agreed that the aforementioned *MIP on Open Actions* should be allowed to progress before considering SDS-specific measures in this area. That said, a number of EDs recommended consideration of SDS-specific initiatives following the planned two-year review envisaged in the *MIP on Open Actions*. A number of Directors suggested that the promotion policy developed to incentivize staff working on fragile and conflict-afflicted states (FCS) be extended to all SDS. Many Directors acknowledged the need for flexibility in decisions by departments, such as incentives and specific staffing solutions, given the diversity of challenges across regions. A number of Directors also called for innovative and practical ways to increase the Fund’s field presence.

**27. Substantial Fund-wide efforts are already ongoing to address concerns on excessive staff turnover, including in SDS country teams.** Significant steps included in the *MIP on Open Actions* are in full train, although—by their nature—actual results will take time to become observable. Notably, recruitment guidelines used by Heads of Departments and senior hiring managers in Area Departments (ADs) were revised in April 2022, to help limit intra-departmental hiring of candidates for mission chiefs who have not met the minimum tenure of two years in their current assignments. Starting in June 2022, ADs are reporting and explaining to HRD, twice a year, cases of intra-departmental moves with less than two years; these cases are compiled in a further

report to Management. Since June 2022, monitoring and accountability of mission chief turnover has also been enhanced, as the Accountability Framework discussions include respective turnover metrics, with explicit emphasis on SDS and FCS. In this context, an operational target for the *median* tenure for mission chiefs at 2.7 years has been established, with the expectation of reaching a three-year average tenure.

**28. This MIP on SDS Engagement seeks to build upon these actions to help ensure more continuous support by SDS teams.** First, action R4.1a enhances and earlier commitment in *MIP on the Board Endorsed Recommendations on Categorization of Open Actions* (R1.5), which envisages the report of an analysis on issues surrounding mission chief and country team turnover to the Board—the updated commitment in this MIP on SDS clarifies that this will explicitly discuss the experience for SDS members. In addition, this MIP includes further actions to monitor and report on engagement by ADs, reflecting metrics<sup>5</sup> on issues such as mission chief turnover and team rotation, as well as the frequency of engagement missions (physical and virtual) to SDS (R4.1b, R4.5). The SDS-SWG report to Management on this, and will also include a view of the support by Functional Departments (FDs) to SDS, through a range of modalities—for instance, direct CD efforts with members, participation in AD missions, technical support to AD teams, review, etc. (R4.3).<sup>6</sup> For example, the report would include indicators on the support through assigned economists by FDs to SDS, and also highlight how existing policies that FDs have in place to limit staff-turnover in SDS team staffing.<sup>7</sup> Importantly, this monitoring will be anchored by clearly identifying the mechanisms by which each FD supports SDS (R4.2). These mechanisms do not need to be new and may differ between FDs, given their different structures, and varying nature of their support to members and AD teams.

**29. The MIP has carefully considered steps to support incentives to work in SDS.** Efforts to provide support to staff and give Fund-wide visibility to the work in SDS, as well as securing Management involvement (e.g., R1.7–R1.8) have been designed also with this objective in mind. The MIP has also included the IEO’s proposal that the forthcoming Review of the LIC/FCS Promotion Policy to be completed by end-2025, should explicitly consider the implications for SDS (R4.4), including on recruitment, and make further recommendations on that basis.

**30. The MIP also seeks to strengthen the continuity of physical/on-the-ground engagement with SDS.** Interactions with IMF member countries, including SDS, have become much more fluid and continuous in recent years thanks to the use of technology for remote meetings and missions. This has strengthened communications with SDS authorities, and may help allay concerns about risks of insufficient contacts with SDS authorities. That said, the ability to rely on the virtual environment does vary by region and ease of connectivity, and also remains a function of the authorities’ broader needs. To secure continuous effective direct engagement with all SDS this MIP proposes the following:

- **First, it includes steps to secure a minimum floor to the frequency of direct engagement with SDS.** Area Department teams will ensure at least one physical mission to each SDS

<sup>5</sup> Metrics used will be consistent with those utilized by HRD in the context of the *MIP of Open Actions*, for full comparability.

<sup>6</sup> FDs already provide significant assistance to SDS from headquarters; FDs that are TA providers also do so through long-term experts (LTX) in the field via the RTACs (particularly CARTAC and PFTAC).

<sup>7</sup> For example, FAD fiscal economist assignments and SPR economists assigned to AD teams are requested to remain for two years.

member per year. This frequency is well in line with pre-pandemic experience (FY2015–19), particularly for surveillance-only members.<sup>8</sup> Mission frequency will be reported to Management through the annual report on MIP progress by the SDS-WG (R4.5). Specific circumstances that may prevent staff from traveling and/or limit the authorities' readiness or ability to receive a physical mission (e.g., the pandemic, natural disasters, social/political events, among others) would be justified to Management in the context of the report. AD teams would be encouraged to supplement these efforts with in-between virtual missions/engagements, or further physical missions when feasible.

- **Second, it envisages steps to help boost the on-the-ground macroeconomic support for SDS.** SDS as a group are already expected to benefit from the budget augmentation as the Climate Strategy and the FCS Strategy are rolled out. These entail greater support for the regional technical assistance centers (RTACs), including one additional climate and two macroeconomic long-term advisors (LTX) in the Pacific Technical Assistance Center (PFTAC). To further buttress the on-the-ground macroeconomic support for SDS, this MIP includes a commitment to submit a well-costed proposal to the Committee for Capacity Building, to expand macroeconomic LTX to SDS. Such LTX would work in close coordination with AD teams (R4.6); this will have resource implications as guidance, backstopping and engagement with additional LTX is not cost-neutral. Given very stringent budget constraints, the implementation of an eventually approved proposal would need to be accommodated within the externally-financed CD budget, including the additional backstopping costs, and will require proactive donor fundraising. As it is contingent on decisions made by stakeholders outside the IMF, implementation of the proposal is not a commitment in the MIP.<sup>9</sup>

## MIP MONITORING

**31. Monitoring.** To maintain close oversight of engagement with SDS, staff's SDS Working Group (SDS-WG) will report to Management annually on the progress with MIP Implementation via a memorandum. Annual reporting by the SDS-WG is, in itself, an MIP action that will be monitored in 2023–24—and it is expected to continue thereafter through the MIP implementation. To assess progress on enhanced engagement with SDS, staff will complete an IMF Board Paper reviewing progress in MIP implementation and engagement with SDS some five years following the finalization of the SDS-SGN. Though the actions included in the Matrix of Commitments are established to be completed by a specific period for the purposes of monitoring under the annual Periodic Monitoring Reports of MIPs, repeated actions (e.g., "annual" or "bi-annual") are intended to remain permanent efforts reflecting good practices of the IMF's engagement with SDS.

<sup>8</sup> Missions to countries with Fund-supported programs have had significantly higher frequencies, determined by the planned program review schedules.

<sup>9</sup> This initiative would be distinct from the macro-fiscal workstream that FAD supports through resident (LTX) advisors or PFM advisors on the ground, which is back-stopped directly by FAD. The proposal will seek to provide appropriate coverage to all SDS, to avoid significant gaps, and considering their needs—including those that may emerge from lending engagement with the Fund.

## COSTING

**32. The actions proposed in this MIP have important resource implications, yet would need to be absorbed into existing budget envelopes.** Cost estimates of the MIP in FY23–FY28 may exceed 22 FTEs, including managerial resources. Several of the proposed actions are already part of departments’ work programs (e.g., high-level events, RST reviews, CMAP review), and those are considered to bring zero additional cost to the MIP to avoid double-counting. Other items are assumed to be folded into the budget envelope, but doing so will entail important tradeoffs, which will require prioritization over time. This includes new commitments to the work program (such as the SDS-SGN) which may only be integrated into the budget through a significant reallocation of resources. The protracted timeline of some other commitments facilitates their inclusion at a later stage (as in the case Medium-Term Review). Going beyond the current proposals would require new permanent resources, requiring a discussion that goes well beyond the scope of the MIP and would need to be considered in a wider context vis-à-vis Fund-wide tradeoffs.

**33. R1 will require additional resources expected to be covered within the existing budgetary envelope.** Actions under R1 are currently estimated to require up to 15 FTEs with the bulk of the need coming from the SDS-SGN (4 FTEs) and the Medium-Term Review (over 5 FTEs). SPR will need to use additional staff resources to refresh the SDS-SGN (in addition to staff already working regularly on SDS issues); other departments’ support will also be required as the SDS-SGN touches upon all aspects of Fund engagement. Other actions including the “SDS Week”, the analytical seminar, and the setting up and running of internal coordination and reporting mechanisms, could reach 5 FTEs in FY23–FY28, given that they would be implemented periodically at least once (some twice) a year.

**34. R2 and R3 will be mostly folded into the budget by leveraging existing efforts.** Country Engagement Boxes, carve-outs in the CMAP Review, and the seminar on fiscal CD and surveillance tools could all be absorbed within existing budgets with no substantial additional resource implications. The cost of the Seminar to familiarize the membership with the Fund’s lending toolkit could be produced at low-cost only if done in virtual form; its cost could raise significantly if held physically unless an opportunity such as the Spring and/or Annual Meetings is leveraged. Given time differences across the membership, a virtual event may need to be offered in several sessions, though the same content would be imparted.

**35. R4 will also require significant additional resources.** Monitoring and reporting commitments of support provided by departments to SDS may require some additional resources, as would the preparation of the proposal to boost on-the-ground LTX support to RTACs. Additional costs beyond those envisaged within existing work plans will imply trade-offs. Securing a minimum of at least one physical mission to all SDS per year would, in principle, be in line with pre-pandemic practices—but could also require some additional resources, particularly given still tight travel budgets; as a result, a buffer has been included conservatively into the costing.

## Annex I. Matrix of Proposed Actions

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
<p><b>Recommendation 1.</b> 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. The recalibration would have two principal elements: (A) a refresh of the SDS Staff Guidance Note (SDS-SGN); and (B) steps to support more effective application of the SDS-SGN and other commitments in the implementation plan for this evaluation through mechanisms for internal coordination, engagement with the Board, and collaboration with partners.</p>	<p>Directors broadly supported Recommendation 1 on pursuing a targeted recalibration of the Fund’s overall approach for engagement with SDS to strengthen the value added and impact of its work.</p> <p>In particular, they supported a focused refresh of the SDS Staff Guidance Note (SGN) to take account of the current global context and evolving macro-critical priorities.</p> <p>A number of Directors support formalized IMF-WB collaboration on critical SDS workstreams with the IMF focusing on core areas, relying on external partners to complement/fill gaps</p>	<p><b>R1.1. Update the 2017 SDS-SGN and its accompanying Quick Reference Card for Reviewers, with a view to enhance engagement with SDS across modalities, in line with applicable Fund’s policies, frameworks, and relevant guidance.</b> The update will include:</p> <ul style="list-style-type: none"> <li>▪ <b>Surveillance:</b> guidance for focused and well-tailored surveillance for SDS based on the 2022 Surveillance Guidance Note (SGN), including on the assessment of macro-critical structural issues and on providing granular policy advice. (See also R2 section below).</li> <li>▪ <b>CD:</b> guidance to help ensure a strong integration of CD with surveillance and lending.</li> <li>▪ <b>Lending:</b> guidance, in line with applicable Fund policies, on tailoring Fund-supported programs, including by paying greater attention to growth and resilience objectives and reforms, in addition to adjustment needs, when appropriate, and including RSF implementation as applicable. (See also R3 section below).</li> <li>▪ <b>CMAPs/CCDRs (and other climate diagnostics):</b> guidance on how climate diagnostics (including the Fund’s CMAPs, the WB’s CCDRs and/or other available climate-related diagnostics) may be best</li> </ul>	<p><b>By:</b> end-September 2024 <b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from other area and functional departments)</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
		<p>integrated with surveillance and lending, including into RSFs, in collaboration with the WB and in line with established policies.</p> <ul style="list-style-type: none"> <li>▪ <b>Use of Toolkits:</b> guidance on how the flexibility embedded in the <b>MAC DSA, LIC DSF, and EBA-lite</b> tools can be leveraged for countries facing data and capacity constraints, including SDS, as appropriate.</li> <li>▪ <b>Coordination with partners:</b> the SDS-SGN will cross-reference existing frameworks and most recent guidance on coordination with partner institutions (e.g., the recently issued <a href="#">Guidance Note on Information Sharing between the IMF and World Bank Staff</a>, as well as the coordination frameworks for RSF arrangements), highlighting best practices and issues of relevance for SDS.</li> </ul> <p><b>Traction:</b> guidance will emphasize the importance of traction, including through the multi-dimensional concept of traction put forward by the <a href="#">2021 Comprehensive Surveillance Review</a>, and discuss good practices for teams to support traction with SDS members. Focus will include the importance of maintaining strong engagement continuity, and of building a trusted partner relation across engagement modalities.</p>	

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	<p>Many Directors emphasized the importance of tailored communication with SDS countries through active outreach.</p>	<p><b>To strengthen traction and engagement with SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R1.2</b> AFR, APD, and WHD to each hold an <u>annual High-Level Regional Engagement Event with SDS in their respective constituencies</u>, in person, hybrid or virtual form, either during Spring or Annual Meetings, consolidating recent practice.</li> <li>▪ <b>R1.3</b> Run one survey of SDS country authorities to assess traction across engagement modalities.</li> </ul>	<p><b>By:</b> end-Dec 2024 <b>Responsible:</b> AFR, APD and WHD</p> <p><b>By:</b> end-Mar 2025 <b>Responsible:</b> SDS-WG (Lead: SPR, with inputs/review by the rest of the SDS-WG)</p>
		<p><b>To strengthen internal coordination mechanisms to support staff work on SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R1.4</b> Convert the existing inter-departmental Consultative Group on SDS (SDS-CG) for the MIP into an enhanced staff working group (SDS-WG) by preparing the Terms of Reference (TORs) of the SDS-WG and submitting to Management. The enhanced SDS-WG will now add FDs (FAD, FIN, ICD, LEG, MCM, STA), to the earlier working group, conformed by ADs and SPR.</li> </ul>	<p><b>By:</b> end-February 2023 <b>Responsible:</b> SDS-CG (Lead: SPR with review/inputs from other area and functional departments)</p>
		<p><b>To strengthen accountability on engagement with SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R1.5</b> SDS-WG will report to Management on progress on MIP Implementation, via a memorandum to</li> </ul>	<p><b>By:</b> end-Dec 2024 <b>Responsible:</b> SDS-WG (Lead: SPR with</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
		<p>Management, annually in 2023 and 2024. (See also related commitment in R4.1).</p> <ul style="list-style-type: none"> <li>▪ <b>R1.6 SDS-WG to meet with the Board’s Small States Working Group (SSWG)</b> once a year, in each 2023 and 2024.</li> </ul>	<p>Inputs/Review from others)</p> <p><b>By:</b> end-Dec 2024 <b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from others)</p>
		<p><b>To strengthen dissemination of analytics and knowledge on SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R1.7 Launch an “SDS Week”</b> as an <u>internal</u> learning and capacity-building event for staff working with SDS, including: (1) an opening event with OMD presence to raise visibility of SDS-related issues; (2) an “onboarding” program for SDS staff, including a presentation of the SDS-SGN, and a tour of the SDS Knowledge Exchange (KE) site, (3) an intranet story showcasing the SDS Week.</li> <li>▪ <b>R1.8 Launch and run a new analytical seminar on SDS (internal audience)</b>, with sessions twice per year dedicated to SDS-relevant issues and research, presenting both IMF and external speakers.</li> </ul>	<p><b>By:</b> end-December 2024 <b>Responsible:</b> SDS-WG (Lead: SPR, with Inputs/Review from others in SDS/WG + COM support)</p> <p><b>By:</b> end-Dec 2024 <b>Responsible:</b> SDS-WG</p>
	<p>Many Directors supported the proposal for a review of Fund engagement with SDS within five years.</p> <p>Many other Directors agreed with the Managing Director’s view</p>	<p><b>R1.9 To assess the IMF engagement with SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Prepare a Medium-Term Review</b>, to be delivered through a Board paper, on the Fund’s engagement with SDS, including on the implementation of the</li> </ul>	<p><b>By:</b> end-Dec 2028 <b>Responsible:</b> SDS-WG (Lead: SPR with</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	<p>that leveraging the several planned and provisioned-for reviews in the areas of surveillance, lending, and capacity development would be most appropriate to better link SDS engagement to the overall Fund strategy and address potential resource trade-offs and avoid duplication.</p>	<p>commitments in the <i>MIP on the Fund and SDS</i>.</p>	<p>Inputs/Review from others)</p>
<p><b>Recommendation 2.</b> 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. Actions would aim at further adapting processes and tools for the SDS context, deepening integration across Fund activities, better recognizing domestic constraints, and increasing support for implementation.</p>	<p>Directors generally support Recommendation 2. Steps should be taken at the operational level to enhance the focus and traction of work on SDS.</p> <p>Directors agree that actions should aim at better leveraging flexibility in core tools for the SDS context (the SGN should include guidance on this). EDs emphasized diagnostic tools are useful in SDS and tailoring will increase their impact. [...] and note surveillance and related toolkits must remain consistent with Fund policy frameworks.</p> <p>Directors highlight the need to collaborate with the World Bank in this context.</p>	<p>See specific efforts under R1.1 above, on the context of the updated SDS-SGN, which will cover these surveillance and CD-related issues as suggested.</p>	
	<p>Many Directors consider Country Engagement Strategies (CES) could be rolled out “as-needed” for non-fragile SDS.</p>	<p><b>To enhance strategic engagement with SDS:</b></p> <p><b>R2.1 Publish guidance for Area Departments to include a concise “Country Engagement” Box for all SDS</b> in Article IV staff</p>	<p><b>By:</b> end-March 2024 <b>Responsible:</b> SDS-WG (SPR to lead, with</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
		reports once every 3 years, outlining policy priorities as well as key considerations under engagement modalities as applicable.	inputs/review of other departments).
	<p>Many EDs concur with the MD on the need to be flexible in prioritizing Fund surveillance and CD (incl. FSAP/FSSR, CMAPs).</p> <p>Many EDs are open to exploring cluster or regional approaches in cases where it is cost-effective.</p> <p>EDs observe that many of the CD issues raised are relevant to a much wider part of the membership and could be considered in the forthcoming IEO Evaluation of CD.</p>	<p><b>To ensure key CD products appropriately serve SDS members:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R2.2 The CMAP Review</b> will explicitly consider implications for supporting SDS’ climate agenda by presenting in a dedicated box for SDS: (i) the lessons learned from CCPAs and CMAP pilots, and (ii) the priorities for the application of CD tools for SDS going forward.</li> <li>▪ <b>R2.3 Hold a Fund-wide seminar on fiscal CD and surveillance tools</b> (as per the Fund’s Climate strategy) to disseminate engagement modalities with members, including recent experience with CD pilots.</li> <li>▪ <b>R2.4 During the Phase II FSSR Donor-Funding Round in FY24, propose an expansion of the eligibility list for SDS</b> to at least half of the 22 SDS not currently in the list.</li> </ul> <p>Other comprehensive measures related to CD, which are also relevant to the wider membership, will be discussed in the context of the <a href="#">IEO Evaluation of CD</a>.</p>	<p><b>By:</b> end-May 2023 <b>Responsible:</b> FAD/SPR</p> <p><b>By:</b> end-Jun 2023 <b>Responsible:</b> FAD/SPR</p> <p><b>By:</b> end-Apr 2025 <b>Responsible:</b> MCM</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
<p><b>Recommendation 3.</b> The IMF should consider how to use its lending framework in ways that better address the needs and vulnerabilities of SDS.</p>	<p>EDs generally agree there is room to explore how UCT-quality programs may be better tailored to SDS, including through greater focus on growth and resilience objectives in Fund programs, in line with the MIP for the IEO Evaluation on Growth and Adjustment in Fund Programs.</p> <p>EDs note the need to build further awareness of the benefits of UCT-quality programs in SDS.</p>	<p>See specific efforts to provide guidance in the SDS-SGN on general lending engagement issues (R1.1 above) and enhance awareness of the IMF’s overall engagement toolkit (see High-level Events in R1.2).</p> <p><b>To enhance the treatment of growth and resilience in IMF-supported programs with SDS:</b></p> <p><b>R3.1 Organize one external seminar (in person or virtual) to familiarize the SDS authorities with Fund lending,</b> including the UCT lending toolkit, the benefits of the UCT-quality programs and the RSF/RST. Seminar to include a peer-learning session with SDS exchanging on success cases.</p>	<p><b>By:</b> end-Dec 2023 <b>Responsible:</b> SDS-WG (SPR to lead, with inputs/review of other departments).</p>
	<p>EDs generally agree the RST should address the needs of all eligible members, including SDS [...] and support first allowing the RST operations to begin, then reflecting on lessons during its initial review.</p> <p>Many EDs noted the need to consider how to leverage RST financing to address structural constraints and build resilience in SDS.</p> <p>A number of EDs emphasized the planned 18-month interim review should commit to assessing whether the RST is providing and catalyzing meaningful</p>	<p>See also efforts in R1.1 above, in the context of the SDS-SGN update, which will help tailor the RSF requests for SDS based on relevant priorities as appropriate</p> <p><b>To help ensure that the RST effectively attends to SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R3.2 The 18-month <i>interim review</i> of the RST</b> will include any initial experiences on implementation of the Trust, including for SDS.</li> <li>▪ <b>R3.3 The <i>three-year review</i> of the RST</b> will delve deeper to further consider SDS experiences, including on various design aspects, interactions with the lending toolkit, and ability to</li> </ul>	<p><b>By:</b> End-June 2024 <b>Responsible:</b> SPR (with inputs/review of other departments)</p> <p><b>By:</b> End-December 2025. <b>Responsible:</b> SPR/FIN/LEG (with inputs/review of</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	<p>support to SDS and adjust as necessary.</p> <p>Many EDs support increasing access limits under the LND window of the EF instruments.</p> <p>Many other EDs, do not consider further raising access limits to be the right approach (given it is a key safeguard to lending under the EF instruments and it could disincentivize the use of UCT-quality programs).</p>	<p>catalyze additional financing.</p> <p>Issues relating to the Emergency Financing toolkit to be discussed in the context of the forthcoming IEO Evaluation on the <a href="#">IMF's Response to the COVID-19 pandemic</a>.</p>	<p>other departments)</p>
<p><b>Recommendation 4.</b> The IMF should adopt further HR management commitments to increase continuity and effectiveness of staff's engagement with SDS. Steps would aim at improving incentives to work on SDS assignments, reduce turnover, avoid gaps in coverage, minimize disruptions from handovers, and strengthen Fund presence on the ground.</p>	<p>EDs agreed with the need to take steps aimed at improving incentives to work on SDS assignments, reduce turnover, avoid gaps in coverage, minimize disruptions from handovers, and strengthen the continuity of Fund engagement with SDS.</p> <p>EDs generally observed that [these issues are] also a concern for other non-SDS members.</p> <p>EDs welcomed the <a href="#">MIP on the Board Endorsed Recommendations on Categorization of Open Actions</a>, which aims to address many of these issues. EDs agreed that this <a href="#">MIP on Open Actions</a> should be allowed to progress before considering SDS-specific measures in this area.</p>	<p>Various key supporting commitments are already included in the <a href="#">MIP on the Board-Endorsed Recommendations on the Categorization of Open Actions</a>.</p> <p><b>In addition, to reduce mission chief turnover and avoid gaps specifically in SDS mission chief assignments:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R4.1a</b> The analysis on issues surrounding mission chief and country team turnover, as proposed in the <a href="#">MIP on the Board-Endorsed Recommendations on the Categorization of Open Actions</a> (R1.5) will explicitly discuss the experience for SDS members.</li> <li>▪ <b>R4.1b</b> The SDS-WG annual report to Management (see R1.6) on progress on the MIP Implementation will update on engagement by Area Departments, including mission chief turnover, handover, team rotation,</li> </ul>	<p><b>By:</b> end-Dec 2023 <b>Responsible:</b> SDS-WG (Lead: HRD with Inputs/Review from others)</p> <p><b>By:</b> end-Dec 2024 <b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from others)</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
		and frequency of missions with SDS.	
		<p><b>To strengthen SDS teams:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R4.2 Functional Departments (FDs) to identify mechanisms to support AD teams on SDS-related issues, and report them to Management.</b> Such mechanisms may be specific to each Department, may leverage existing mechanisms and once decided, would be established via memoranda to OMD.</li> <li>▪ <b>R4.3. Monitor support to SDS by FDs.</b> This would include following up on metrics related to: (i) CD/TA provision in different modalities (including RTACs); (ii) physical and/or virtual participation in Area Department Missions; (ii) other possible support, including review of country papers. This would be reported as part of the Annual Memo to Management on MIP Implementation (see R1.6).</li> </ul>	<p><b>By:</b> end-June 2023 <b>Responsible:</b> FAD, FIN, LEG, MCM, SPR, STA, ICD</p> <p><b>By:</b> end-December 2023 <b>Responsible:</b> FAD, ICD, LEG, MCM, SPR, STA</p>
	A number of EDs suggest that the promotion policy developed to incentivize staff working on FCS be extended to all SDS.	<p><b>R4.4 The LIC/FCS promotion policy will be reviewed two years</b> after it is fully implemented. Implications for SDS will be explicitly considered.</p>	<p><b>By:</b> end-December 2025 <b>Responsible:</b> HRD</p>
	Many EDs acknowledged the need for flexibility in decisions by departments, such as incentives and specific staffing solutions, given the diversity of	<p><b>To strengthen the continuity of engagement with SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R4.5 Area Department teams to hold at least one physical mission per year to SDS</b> (including staff visits), in line with pre-</li> </ul>	<p><b>By:</b> end-December 2024 <b>Responsible:</b> ADs</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	challenges across regions.	<p>pandemic practices. Circumstances making this unfeasible in specific cases would be explained/justified in the context of the Annual Monitoring Report by the SDS-WG to Management.</p> <ul style="list-style-type: none"> <li>▪ <b>R4.6</b> Submit for consideration of the Committee for Capacity Building a well-costed proposal for Management to <b>expand the number of long-term macroeconomic experts (LTX) in RTACs</b>, dedicated to support SDS members in close coordination with Area Department teams.<sup>10</sup></li> </ul>	<p><b>By:</b> end-December 2023 <b>Responsible:</b> AFR, APD, WHD, ICD</p>

<sup>10</sup> With the exclusion of METAC, which only serves one SDS, Djibouti.

## Annex II. IEO Recommendations and Granular IEO Suggestions

***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.***

- **Update the SDS Staff Guidance Note (SDS-SGN) including** : (i) guidance on integrating surveillance, lending, and CD work in SDS work, including by making use of the Climate Macroeconomic Assessment Program (CMAP) and the RST; (ii) application of Article IV (AIV) surveillance requirements and diagnostic tools for SDS; (iii) consideration of how to bring Fund-wide skills and expertise to address SDS challenges, including approaches for to further involve functional departments (FD) in SDS work; (iv) advise on how best to coordinate with partner institutions; and (v) advice on how to foster strong and continuous relations with SDS.
- **Establish Coordination Mechanisms, which could include:** (i) tasking the staff-level interdepartmental SDS working group (SDS-WG) with a mandate to oversee SDS work at the Fund, update the SDS-SGN refresh and oversee this evaluation’s MIP implementation; (ii) requiring the SDS-WG to continue reporting regularly to management and the Board working group,, as well as external partners, on SDS; (iii) tasking the SDS-WG to monitor the implementation of an SDS-focused research workstream on cross-cutting issues and continue to oversee knowledge-sharing; (iv) committing the SDS-WG to conduct a staff review of IMF engagement with SDS within five years, taking account of experience with implementation of the refreshed SDS-SGN and other steps taken under the MIP to strengthen Fund engagement with SDS.

***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, policy advice, and CD.***

- **Provide selective attention to current/emerging SDS issues that are macro critical, i.e.,** including those viewed macro-critical by authorities.
- **Apply diagnostic tools consistent with SDS circumstances,** including by: (i) further streamlining the application of data-demanding diagnostic tools including debt sustainability analysis (DSAs) and the EBA-lite, by better leveraging built-in flexibility, in recognition of their circumstances and constraints, and (ii) increasing access to CMAPs, FSAPs, and FSSRs, for instance by exploring cluster or regional approaches.
- **Preparing tailored strategy engagement notes** for non-FCS SDS, possibly on a pilot basis.
- **Place greater attention to SDS’ institutional capacity constraints and political economy circumstances in providing CD support,** by (i) applying ex-ante assessments of institutional capacity and ownership to CD deployment; (ii) linking allocation and provision of CD including to implementation and ownership; (iii) as it evolves, using Resource Budget Management (RBM) to increase transparency on CD progress; (iv) increasing hybrid CD presence; and (v) deepening CD coordination with external partners.

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

- **Increase the focus of growth and resilience outcomes in UCT-quality programs with SDS**, drawing from external expertise and building on commitments included in the MIP on growth and adjustment in Fund-supported programs (IEO 2022)
- **Implementing the RST taking into account SDS needs and constraints.** This would entail (i) exploiting the use of CMAPs, and (ii) ensuring that the requirement to pair the RST with a UCT-quality program does not deter SDS use and lowering the administrative burden of UCT-quality programs by, for example, providing ground support.
- **Raising access limits under for Emergency Financing (EF) instruments** for dealing with large natural disasters (LNDs) for countries with robust macroeconomic frameworks and governance standards.

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

- **Commitment to reduce SDS MC turnover** and avoid gaps in assignments.
- **Stronger incentives** to work in SDS.
- **Limiting use of co-desk assignments** except when both positions are in the same division.
- **Encouraging greater use of functional department staff.**
- **Limiting the use of other departmental staff** to fill mission teams.
- **Increased use of research assistants (RAs)** and research officers (ROs) to gather data.
- **Consider adding SDS experience to the promotion-eligible requirement list in the new career framework for fungible macroeconomists**, depending on experience over the next two years in strengthening incentives to work on SDS.
- **Expand the number of macroeconomists in regional offices** and RCDCs.



February 28, 2023

## IMPLEMENTATION PLAN IN RESPONSE TO THE BOARD-ENDORSED RECOMMENDATIONS FROM THE IEO EVALUATION REPORT ON IMF ENGAGEMENT WITH SMALL DEVELOPING STATES

### EXECUTIVE SUMMARY

**This Management Implementation Plan (MIP) responds to the Board-endorsed recommendations made by the Independent Evaluation Office (IEO) on the *IMF Engagement with Small Developing States*.** The actions included in the MIP are broad in scope, touching on all modalities of the Fund's engagement with Small Developing States (SDS). They seek to be comprehensive, self-reinforcing, cost-effective, and designed to be adopted as a package. They include:

- ***Actions to support a targeted and effective recalibration of engagement with SDS.*** These are anchored by a focused refresh of the [2017 Staff Guidance Note of the Fund's Engagement with Small Developing States](#) (SDS-SGN), which should help usher staff's work with SDS members across modalities (surveillance, capacity development, and lending) to strengthen tailoring and traction. The update is not expected to result in a full overhaul of the existing guidance but, rather, reflect the evolving macro-critical priorities of SDS, and reference the most recent Fund's workstreams and guidance and provide country examples, while in line with applicable Fund's policies and frameworks. Complementary efforts will encompass, *inter alia*, actions to strengthen inter-departmental coordination and knowledge-sharing to further boost the quality and focus of SDS-related work; entrench periodic interactions with the Executive Board, as well as between the Fund and SDS authorities. Mechanisms to ensure strong monitoring and accountability on MIP progress will be put in place, while a Medium-Term Review on the Fund's engagement with SDS will help provide a medium-term view on the outcomes achieved by these sustained efforts.
- ***Steps to enhance IMF's Surveillance and Capacity Development (CD) in SDS members.*** These rest on providing improved guidance through SDS-SGN Update—including to facilitate the tailored use of the surveillance toolkit, and foster the integration of surveillance and CD in the context of Article IV Consultations. In addition, various commitments seek to ensure that key CD products—such as climate and financial sector diagnostics—appropriately serve SDS members.

- ***The MIP includes commitments to strengthen the Fund’s lending engagement with SDS, in line with the applicable policy frameworks.*** Building greater awareness of the benefits of Fund-supported programs in SDS, including via direct engagement and peer-learning will be critical. Actions also seek to foster greater tailoring—including by paying due attention to growth and resilience considerations in program design, in addition to adjustment, in line with Fund policies. Efforts will also be made to ensure that the Resilience and Sustainability Trust (RST) effectively attends to SDS among other members, both by providing guidance in the SDS-SGN, and by learning from implementation.
- ***Securing an effective, well-tailored and more continuous staff presence in SDS remains critical.*** Actions leverage efforts to support the continuity of staffing in country teams made by complementary MIPs already in train to avoid duplication. At the same time, new actions seek to further boost accountability and monitoring of indicators on engagement continuity, and of Area and Functional Departments’ various forms of support to SDS. Commitments also seek to secure a minimum standard on physical engagement of Area Department teams with SDS, at least in line with pre-pandemic practices, further strengthened by virtual missions. Finally, actions also seek to strengthen the on-the-ground macroeconomic technical support for SDS through innovative modalities.
- ***Implementation of the MIP will have significant resource implications.*** Some actions are already included as such in the Work Program; however, many new actions to be delivered in the near-term (such as the update of the SDS-SGN) would need to be folded into the budget by reallocating important resources from other areas. For new actions proposed to be delivered at later stages (such as the Medium-Term Review), their more protracted timeline would facilitate their eventual budget integration, while still requiring prioritization. Overall, implementation as designed will already present some non-negligible tradeoffs for staff and management. Going beyond the current proposals would require new permanent resources, requiring a discussion that goes well beyond the scope of the MIP and would need to be considered in a wider context vis-à-vis Fund-wide tradeoffs.

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## INTRODUCTION

**1. This paper presents a Management Implementation Plan (MIP) in response to the IEO evaluation on the [IMF Engagement with Small Developing States \(SDS\)](#).** The MIP proposes a comprehensive package of actions (see Annex I. Matrix of Proposed Actions), designed to be mutually self-reinforcing and cost-effective, to strengthen the value added and traction of the Fund’s surveillance, lending, and capacity development (CD) activities in SDS members, while recognizing that despite many common characteristics, there is considerable heterogeneity across small states, and hence their needs may vary.

**2. The Executive Board welcomed the IEO’s Evaluation on the *IMF Engagement with SDS*.**<sup>1</sup> Executive Directors (EDs) appreciated the evaluation’s insights and recommendations, welcoming the finding that the Fund substantially stepped up its engagement with SDS members over the past decade. Moreover, SDS authorities appreciated Fund surveillance and CD, which they considered to be of high quality and well-tailored to their needs. Directors also noted the findings of some challenges in the Fund’s engagement with SDS, including—inter alia—those posed by the limited institutional capacity in SDS, the need for greater continuity of engagement, and of ensuring that Fund lending is adequately tailored to SDS’s needs and capacities.

**3. Directors agreed that further efforts should seek to strengthen the value added and impact of IMF engagement with SDS through a targeted recalibration across modalities.** Directors stressed that a major overhaul of the engagement was not needed, and that actions to attend the IEO recommendations should be carefully weighed against budgetary tradeoffs, and build synergies with ongoing, complementary workstreams to aid cost-effectiveness. Many Directors also saw scope for resource reallocation to accommodate the budgetary needs within the existing budget. Staff’s proposals in this MIP seek to follow this overall guidance.

**4. The MIP leverages existing workstreams to help attend to the IEO’s recommendations.** A key action to anchor the recalibration of SDS engagement involves a comprehensive update of the main Guidance Note (SDS-SGN) for staff working on SDS, which was last published in 2017. A comprehensive update of the SDS-SGN will help build greater awareness for staff regarding the evolving macro-critical priorities for SDS members, and need for careful tailoring. It will also benefit from Fund’s workstreams and analytical work developed over the last five years which complement the needs by SDS well across engagement modalities. On surveillance, the SDS-SGN will reflect the insights from the [2021 Comprehensive Surveillance Review](#) and the companion [2022 Staff Guidance Note on Surveillance](#), as well as the innovative work on macro-critical challenges such as climate change and digitalization issues, among others. Similarly, MIP actions to improve the tailoring and effectiveness of lending for SDS will be supported by updating the SDS-SGN based on the [MIP on Growth and Adjustment in IMF-Supported Programs](#), the forthcoming Operational Guidance on the [Review of Program Design and Conditionality](#), future

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<sup>1</sup> See the Acting Chair’s [Summing Up](#) to the IEO Evaluation.

guidance on the [Resilience and Sustainability Trust \(RST\)](#), and in line with Fund’s policies more generally. Other elements of the MIP beyond the SDS-SGN also leverage existing workstreams. For instance, climate-related support on surveillance, CD and lending build from efforts anchored by the [Fund’s Climate Change Strategy](#) as well as the RST-related work. The MIP seeks to complement—rather than duplicate or overlap—actions in MIPs particularly relevant for the SDS membership—including, among others, the [Categorization of Open Actions in Management Implementation Plans](#), the [MIP in response to the Evaluation on Bank-Fund Collaboration on Macro-critical Issues](#), and the forthcoming MIPs on the IEO’s evaluations on [Capacity Development](#) and of the *IMF’s Response to the COVID-19 Pandemic*.

**5. Enhancing coordination on SDS-related issues, to boost the quality of engagement with SDS members, and strengthen monitoring and accountability are key premises of the MIP.** A reinforced inter-departmental working group (SDS-WG) is at the center of the coordination and monitoring efforts; the latter include annual progress reports to Management on MIP commitments, and periodic interactions with the Board. A Medium-Term Review on the Fund’s engagement with SDS will lend a longer-term view on the outcomes achieved by the sustained MIP implementation. The SDS-WG will lead on actions to foster knowledge-sharing, with the objective to enhance the quality and focus of analytical work on SDS, and will provide capacity-building for Fund staff working on SDS-related issues to help enhance traction. Efforts also seek to boost the quality of direct engagement with the membership, by entrenching opportunities to discuss high-level policy issues, and to invite SDS peer-learning and enhanced awareness of Fund’s lending toolkit.

**6. Boosting the quality and continuity of staff engagement with SDS will be critical.** These efforts are anchored by those ongoing in parallel workstreams—in particular, the commitments made under the [Categorization of Open Actions in MIPs](#), which include a package of concerted actions to reduce mission chief and staff turnover, with dedicated, explicit attention to developments in staffing in analytical country groupings, including SDS. The present MIP builds on such package by enhancing accountability through the annual reporting by the SDS-WG on staffing continuity. Efforts will also seek to secure steady support by Functional Departments to SDS across modalities, while providing accountability mechanisms. In addition, emphasis is placed on ensuring a minimum level of physical missions to SDS, as well as utilizing innovative approaches to enhance the on-the-ground macroeconomic technical support to SDS.

**7. Heightened attention has been placed to carefully sequence the proposed measures.** The package is self-reinforcing, and several measures build from each other. For instance, the SDS-SGN will lead to further capacity building efforts to staff; efforts across modalities—plus a proposed survey to assess traction and gather direct feedback from SDS authorities—will feed into the proposed Medium-Term Review; in the interim, the annual monitoring mechanisms will help both prevent gaps from emerging and/or promptly address any emerging issues.

**8. The commitments in the MIP entail additional costs that would need to be absorbed into existing budgets.** Total cost estimates of the MIP proposals in FY23–FY28 amount to about 22 full-time equivalents (FTEs). The MIP seeks to leverage existing resources in line with the resource

envelope outlined in the IMF’s Medium-term Budget, and new items to the work program (such as the SDS-SGN) will likely require some meaningful reallocations to be folded into the budget in the near term. The protracted timeline of some actions facilitates the inclusion of high-cost, high-value-added actions (such as the Medium-Term Review). Going beyond the current proposals would require new permanent resources; such proposals would go well beyond the scope of the MIP and would need to be considered in a wider context vis-à-vis Fund-wide tradeoffs.

**9. The rest of this paper is structured as follows.** The next section presents the reactions from the Executive Board and the proposed MIP actions. Subsequent sections discuss MIP monitoring mechanisms and costing. A detailed Matrix of Proposed Actions is presented in Annex I; Annex II summarizes the IEO recommendations.

## PROPOSED ACTIONS

**10. The IEO evaluation made four broad recommendations covering all areas of Fund engagement.** This section briefly presents Executive Directors’ reactions to such recommendations, and elaborates on the proposed actions to address the recommendations in line with Directors’ guidance. The proposed actions committed in the MIP are required to be “SMART” (Specific, Monitorable, Achievable, Realistic and Timebound). In particular, actions included in the Matrix of Commitments must be designed in a way in which their progress and eventual completion can be objectively monitored under the annual *Periodic Monitoring Reports on the Status of Management Implementation Plans (PMRs)*. Importantly, the spirit of the commitments in this MIP is to entrench best practices of support to SDS—as a result, many of the actions would be continued even after they reach their “monitoring” deadline, as indicated below.

***Recommendation 1 (R1). 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. The recalibration would build on the strengthened engagement achieved during the evaluation period and seek to enhance the coherence and continuity of SDS work, while still leaving room for flexibility at the area department and country level.***

**11. Executive Directors broadly supported R1 on pursuing a targeted recalibration of IMF engagement with SDS.** Completing a focused refresh of the SDS-SGN received broad support from Directors, who emphasized the importance of ensuring that such guidance helped improved traction across engagement modalities. Directors also reflected that tailored communication with SDS countries through active outreach would be critical, as would be to secure strong coordination on SDS work—both within the Fund and with other development partners. Many Directors supported conducting a Medium-Year Review to follow up on engagement with SDS and the commitments under this MIP. To ensure cost-effectiveness, many Directors supported instead the leveraging of planned reviews, while a few requested explicit carve-out of SDS in other reviews.

**12. The comprehensive SDS-SGN refresh proposed in this MIP anchors staff engagement with SDS to strengthen its effectiveness and traction, as recommended by the IEO’s R1.**

Like its 2017 predecessor, the 2023 SDS-SGN will cover all engagement modalities (surveillance, CD, and lending) and will be organized through a thematic framework based on the range of macro-critical priorities surrounding SDS (Box 1). A focused update of the SDS-SGN (R1.1) will provide an opportunity to reflect the evolution of these priorities, and showcase key emerging issues facing SDS to help orient staff’s engagement. The SDS-SGN will bring attention to the structural challenges and various capacity gaps faced by this group of members, stressing the need for tailoring and for utilizing the built-in flexibility of analytical toolkits when needed. Lessons and new guidance from the many Fund’s reviews of its surveillance, CD, and lending frameworks and toolkits will be reflected in the SDS-SGN. Relevant workstreams will be showcased—including macro-fiscal, debt, monetary and exchange rate policies, and financial sector issues, as well as climate change, digitalization, governance, and other relevant macro-structural work, such as that on diversification. The SDS-SGN will also provide country examples, guidance on collaboration with development partners (including the World Bank Group (WBG)) in line with existing frameworks and guidance, and discuss best practices to foster traction.

**13. Enhancing traction and the quality of engagement will require a multi-pronged approach to capacity building and knowledge-sharing.**

Staff working on SDS will benefit annually from the planned “SDS Week”—an effort to provide training on the SDS-SGN and disseminate knowledge exchange more generally (R1.7). Importantly, the SDS Week is also designed to help enhance incentives and attractiveness of working with SDS, by bringing in Management participation in its inaugural event, and showcasing Fund-wide efforts through the intranet. Similarly, analytical seminars (R1.8) will provide an opportunity to staff to periodically showcase their innovative work on SDS (Box 2) but also to other development partners and outside researchers who may bring important and new perspectives on SDS-related issues. The MIP also seeks to help entrench best practices of knowledge-sharing and high-level policy dialogue with SDS authorities themselves, by securing, at a minimum, one annual High-Level event by relevant Area Departments (ADs), at the time of the Spring or Annual Meetings (R1.2). Traction across engagement modalities and the authorities’ views of the multiple IMF workstreams at play will be tracked through a survey of SDS authorities by (R1.3) providing inputs for the Medium-Term Review.<sup>2</sup>

**14. In attending R1, the MIP also seeks to energize existing coordination mechanisms, and boost monitoring and accountability of the Fund’s work with SDS.**

Following a suggestion by the IEO, the long-standing Working Group on SDS was expanded in July 2022, now including all Fund departments, to form the Consultative Group on SDS (SDS-CG), which is already operational and has prepared this MIP. This group will transform into a formal Working Group (SDS-WG) shortly after the MIP is endorsed by the Executive Board, to help usher the implementation and monitoring of the MIP going forward (R1.4). The SDS-WG will report annually to Management on progress on

<sup>2</sup> The proposed “Medium-Term Review” would be completed by end-December 2028, allowing to observe approximately five years after approval of the MIP, and about four years after completion of the SDS-SGN.

MIP commitments (R1.5), and meet annually with the Executive Board through its Small States Working Group (SSWG) (R1.6). Finally, as recommended by the IEO, the MIP proposes to conduct a Medium-Term Review on the Fund’s engagement with SDS five years after the MIP is adopted, to strengthen accountability and help ensure the continuous improvement of these efforts (R1.9).

### Box 1. Updating the SDS Staff Guidance Note (SDS-SGN)

**The SDS-SGN Update provides a natural vehicle to make many of the IEO’s recommendations actionable**, while energizing internal coordination structures, and disseminate SDS knowledge to country teams and internally in the Fund.

**The current SDS-SGN aims to provide guidance on priorities for effective engagement with SDS, in line with applicable Fund’s policies, frameworks, and recent relevant guidance.** The 2017 SDS-SGN, itself an update of a 2014 version, identified five key thematic areas (around the **G.R.O.W.TH.** framework) as central to the policy dialogue with SDS: (1) **G**rowth and job creation; (2) **R**esilience to shocks; (3) **O**verall competitiveness; (4) **W**orkable fiscal and debt sustainability options, and (5) **T**hin financial sectors. The 2017 SDS-SGN already highlighted the unique economic characteristics and constraints facing SDS, and provided operational guidance on Fund engagement, including on how these SDS-specific elements might shape surveillance, financial support, program design, capacity building activities, and collaboration with other institutions and donors.

**The SDS-SGN Update proposed in this MIP will bring an opportunity to provide a focused refresh of the thematic areas as needed, based on evolving macro-critical priorities for the SDS members.** This would involve gauging the continued relevance of the GROWTH thematic approach, and complementing it with elements that may have become central to policy dialogue, such as climate change, digitalization, inclusion, governance, diversification, and others—as determined by the Fund’s approach in these issues.

**As in the current structure, the SDS-SGN will update guidance based on the three main areas of engagement:** surveillance, CD, and lending. In addition, the SGN will provide guidance on: (i) how to integrate climate CD tools into Fund engagement; (ii) the use of toolkits in the SDS context and how best to leverage flexibility embedded in them for countries with institutional and capacity constraints (a sub-recommendation in R2); (iii) best practices to improve traction (as guided by the 2021 Comprehensive Surveillance Review); and (iv) strengthening engagement and building trust with SDS members.

***Recommendation 2 (R2). Steps should be taken at the operational level to enhance the focus and traction of the IMF work in the areas of surveillance and CD.***

**15. Executive Directors generally supported R2, and agreed that actions should aim at better leveraging flexibility in core tools for the SDS context.** Directors emphasized diagnostic tools are useful in SDS and tailoring will increase their impact, while noting surveillance and related toolkits must remain consistent with Fund policy frameworks (e.g., the Integrated Surveillance Decision). Directors highlighted the need to further collaborate with the WBG in the context of surveillance. With respect to enhancing strategic engagement with SDS, many EDs considered that the IEO’s proposal to prepare Country Engagement Strategies (CES) for SDS should be rolled out on an “*as-needed*” basis for non-fragile SDS. Many Directors emphasized the need for flexibility in prioritizing Fund CD, and noted that cluster approaches may be explored when cost-effective.

Directors observed that since many of the issues related to CD-specific issues identified by the IEO evaluation where applicable to a wider part of the membership, these should be considered in the forthcoming *IEO Evaluation on CD*.

**16. The SDS-SGN update (R1.1) will cover issues of focus, traction, and strategic engagement, showcasing how IMF tools can be tailored to SDS issues.** Existing core surveillance tools—including the debt-sustainability frameworks, and the tools underpinning the External Sustainability Assessment (ESA)—feature ample flexibility to tailor to country-specific circumstances. The updated SDS-SGN will provide general guidance and selected country case-examples on how to apply such flexibility for SDS-specific circumstances.

**17. To enhance strategic engagement with SDS, guidance will be issued to feature a Country Engagement Box in Article IV staff reports once every three years for all SDS (R2.1).** This Box will have several benefits in lieu of full-fledged Country Engagement Strategies (CES): (i) the discussion of country engagement issues three years into the future aligns well with the Article IV’s medium-term perspective; (ii) the streamlined format and frequency would help ensure consistent and focused coverage while reducing the burden on staff resources and overall costs.<sup>3</sup>

**18. The MIP also seeks to foster well-tailored CD to help SDS face their often-acute challenges, particularly those that are climate-related.** SDS members require integrated work plans adequately aligned to their needs and absorptive capacities. Regional or cluster approaches to CD may not necessarily be cost-effective or may provide general advice not applicable to individual country circumstances.<sup>4</sup> Given the systematic and strategic integration of climate change-related aspects into the IMF’s core activities—and considering SDS’ different needs and capacity levels—a full diagnostic equally intensive on all fronts may not always be adequate or cost-effective. The earlier joint World Bank-IMF Climate Change Policy Assessments (CCPAS) and the Climate Macroeconomic Assessment Program Diagnostic (CMAPs) that have followed require large teams and extensive inputs for a comprehensive assessment, and may overburden SDS authorities. The experience of the CCPAs—which were conducted exclusively for SDS—concluded that focused, tailored, assistance may be more effective. For example, for certain SDS, developing public financial management to support climate actions is a priority while, for others, identifying adequate resilience-building policies and mapping financing needs to support such policies is more important. To discuss these tradeoffs, and lessons learnt from CCPAs and CMAPs (including the experience in Samoa’s pilot) and how SDS may benefit from the application of fiscal CD tools to deal with the implications of climate change, the upcoming CMAP Review will feature relevant

<sup>3</sup> [SDS members on a 24-month AIV Consultation Cycle would present a Box at every other AIV Consultation cycle.](#)

<sup>4</sup> A cluster approach may take, generally, two forms. The first one could cover a group of countries providing high-level (more general) advice for the cluster; this would tend to be of lower-cost than a country-by-country exercise, but the lack of granularity may significantly reduce value added for specific members. The second would utilize similar methodologies/models for countries similar enough to belong to a cluster; this approach would provide granular advice, while benefiting from synergies and insights from the cluster, and normally be produced under a single cover. This later modality would have the highest value added, but its costs would not be significantly lower than the aggregation of one-on-one exercises, as it requires in depth-analysis on a country-by-country basis. In selected circumstances, cluster approaches may have high-value and lower costs—e.g., when a group of countries share institutional settings and the group-level advice is, by definition, specific—but this would not be the norm.

considerations and next steps for SDS (R.2.2). These steps to ensure well-targeted support to SDS will be accompanied by efforts to disseminate fiscal CD and surveillance tools linked to the Fund’s climate agenda, via a Fund-wide seminar (R.2.3).

**19. The MIP also seeks to ensure that technical support for the financial sector is accessible to SDS that need it.** In this context, the MIP includes a commitment to request further funds in Phase II of the Financial Sector Stability Reviews (FSSRs) Donor-Funding Round, to help expand the eligibility list to at least half of the 22 SDS not currently in the list (11 SDS) (R.2.4).

**20. Other measures related to CD will be discussed in the context of the IEO Evaluation of CD,** as they are relevant to the wider membership.

### Box 2. Innovation and Analytics in SDS

**SDS often face data and capacity constraints.** Compiling relevant statistics to underpin analysis and policy discussions may be challenging for SDS staff. As the 2017 SDS-SGN indicates, country teams working on small states may need to explore creative approaches to overcome data gaps. In addition to traditional CD workstreams—from headquarters and RTACs—that strengthen data availability and capacity in SDS, newer technologies and the availability of high-frequency indicators are providing staff with complementary real-time data to complement traditional IMF financial programming frameworks. In addition, Fund initiatives such as the Climate Innovation Challenge are promoting ways to combine new data, technology, and insights and indicators from other sciences to address climate change challenges and their related macroeconomic and financial implications, which are often particularly acute in SDS.

**Recent examples of innovation at work are:**

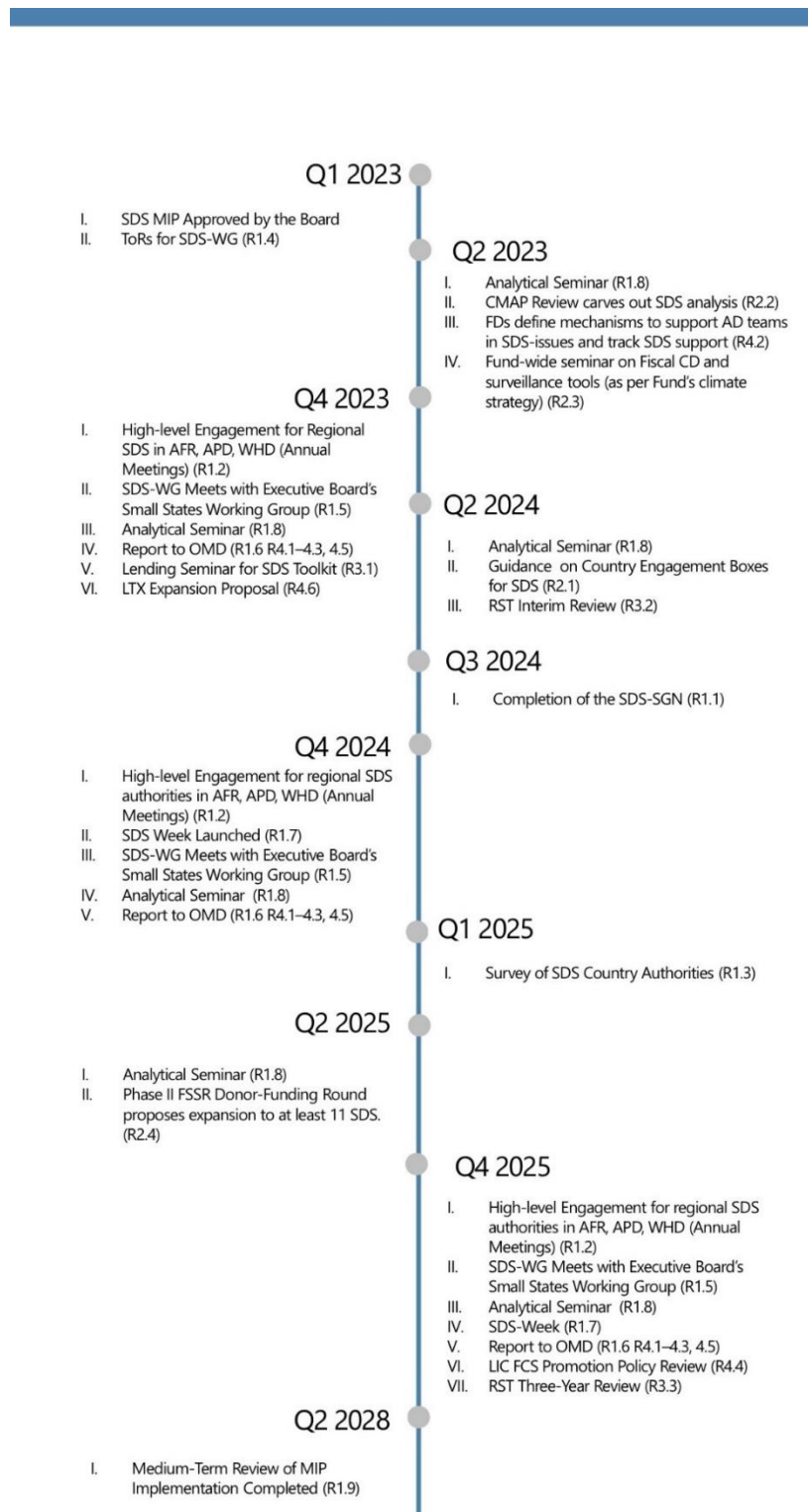
- **Nowcasting for Small States Using Big Data—A Desk User Guide to Support Surveillance:**<sup>1/</sup> A methodology that uses trade activity using high-frequency vessel traffic data to generate high-frequency indicators and compare with official data. Country teams working on small-island states, in particular, could benefit from it to support policy discussions.
- **PortWatch: Monitoring Disaster-Related Trade Disruptions from Space:**<sup>2/</sup> Winner of the Climate Innovation Challenge this project provides online platform that monitors trade disruptions and their regional and global spillover effects through port-to-port linkages using satellite-vessel data and big data analytics to produce insights that could support SDS staff analytics and dialogue with SDS country authorities in surveillance (economic monitoring), lending (spillover and risks), and scenario analysis for climate-related capacity development and multilateral-regional surveillance.
- **Monthly Tourism Trends in the Caribbean:**<sup>3/</sup> A portal for high frequency data on tourism to the Caribbean, Mexico and select countries in Central America. The portal presents various high-frequency tourism indicators updated monthly and available internally to Fund staff.

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**Figure 1. MIP: Illustrative Timeline 2023–28**



**Recommendation 3 (R3). The IMF should consider how to use its lending framework in ways that better address the needs and vulnerabilities of SDS.**

**21. Many Directors broadly supported R3, but key nuances were considered.** Directors agreed there is room to explore how UCT-quality programs may be better tailored to SDS, including by increasing the focus on growth and resilience. While a few Directors noted institutional constraints in SDS, a few others considered that there is scope to use the existing flexibilities in the Fund’s lending policy frameworks to strengthen tailoring as needed. Directors also stressed the importance of raising awareness of the benefits of Upper-Credit Tranche (UCT)-quality Fund-supported programs among the SDS membership. Many Directors noted the need to leverage RST financing for SDS, given their climate-related vulnerabilities. IEO’s proposals on possible modifications to the Emergency Financing toolkit would need to be considered in separate, broader discussions—including in the context of the forthcoming IEO Evaluation of the *IMF Response to the COVID-19 Pandemic*—as any eventual changes would apply to all members beyond SDS.

**22. The MIP will reflect the Fund’s work to enhance consideration of growth and resilience in Fund-supported programs, in line with its policy frameworks.** Efforts to balance growth and resilience considerations into adjustment programs are likely to be well-suited to SDS needs. Work in this area includes, inter alia, the 2018 [Review of Program Design and Conditionality \(ROC\)](#), which distilled useful lessons after a full stock-taking of Fund lending operations following the Global Financial Crisis. An Operational Guidance Note based on the ROC is planned for early 2023, featuring insights applicable into crafting programs tailored to SDS’ unique characteristics. An enhanced focus on growth and adjustment is also expected from commitments under the ongoing [MIP on Growth and Adjustment in IMF-Supported Programs](#). The SDS-SGN Update will absorb this and other relevant guidance to staff working with SDS to help foster improved tailoring in Fund lending (R1.1).

**23. The MIP recognizes that financing by the RST may prove particularly helpful to SDS, given their high vulnerabilities and need to build resilience, including to climate-change shocks.** In this vein, the SDS-SGN will also lay out, based on broader RST-related policy frameworks and related guidance, the RST modalities, design, eligibility, and showcase initial experience in designing conditionality under the Resilience Sustainability Facility (RSF)—for instance, based on relevant climate-related diagnostics (R1.1.) To ensure the RST attends to SDS needs, among those of other eligible members, this MIP proposes that the envisaged 18-month interim review of the RST will reflect on the initial experiences on lending from the Trust including to SDS (R3.2), and that the formal three-year RST review will further delve deeper into more specific considerations of the needs and experiences with SDS (R3.3).

**24. MIP efforts will also be geared to raising awareness among SDS about the Fund’s lending toolkit, its benefits, and its embedded flexibility to tailor support to country-specific circumstances.** It is encouraging that the IEO evaluation shows that when SDS request Fund-supported programs, these tend to be completed at a more successful rate than for non-SDS; this

bodes well for SDS with ownership and political will to engage in a Fund-supported program. That said, SDS may require more attentive and effective communication on the features and benefits of UCT-quality programs, the purpose of each facility, the design flexibilities, and how these have been incorporated in lending to SDS. The updated SDS-SGN would showcase practical examples of these features in the Lending section, with country cases of recent successful programs, to better equip staff in dialogue with SDS when exploring suitable lending arrangements (R1.1). This MIP also proposes concrete outreach efforts to increase awareness of the Fund’s lending toolkit and high-level outreach to reduce the stigma associated with IMF programs in SDS (R3.1).

**25. Other issues raised by the IEO R3 would be addressed in parallel workstreams.** The possible need for modification of Emergency Financing instruments would be discussed in the context of the [IEO Evaluation of the IMF Response to COVID-19](#). Separately, the quota-related issues noted by the IEO evaluation would need to be raised in the broader context of the 16th General Review of Quotas.

***Recommendation 4 (R4). The IMF should adopt further HR management and budgetary commitments to increase continuity and impact of staff’s engagement with SDS.***

**26. Directors have generally emphasized the need to ensure continuous, high-quality engagement with SDS.** Directors agreed with the IEO on the need to take steps to improve incentives to work on SDS assignments, reduce turnover, avoid gaps in coverage, minimize disruptions from handovers, and strengthen the continuity of Fund engagement with SDS. Directors observed these issues are also a concern for non-SDS members and welcomed the earlier *MIP on the Board Endorsed Recommendations on Categorization of Open Actions*, which would help address many of these issues. Directors also agreed that the aforementioned *MIP on Open Actions* should be allowed to progress before considering SDS-specific measures in this area. That said, a number of EDs recommended consideration of SDS-specific initiatives following the planned two-year review envisaged in the *MIP on Open Actions*. A number of Directors suggested that the promotion policy developed to incentivize staff working on fragile and conflict-afflicted states (FCS) be extended to all SDS. Many Directors acknowledged the need for flexibility in decisions by departments, such as incentives and specific staffing solutions, given the diversity of challenges across regions. A number of Directors also called for innovative and practical ways to increase the Fund’s field presence.

**27. Substantial Fund-wide efforts are already ongoing to address concerns on excessive staff turnover, including in SDS country teams.** Significant steps included in the *MIP on Open Actions* are in full train, although—by their nature—actual results will take time to become observable. Notably, recruitment guidelines used by Heads of Departments and senior hiring managers in Area Departments (ADs) were revised in April 2022, to help limit intra-departmental hiring of candidates for mission chiefs who have not met the minimum tenure of two years in their current assignments. Starting in June 2022, ADs are reporting and explaining to HRD, twice a year, cases of intra-departmental moves with less than two years; these cases are compiled in a further report to Management. Since June 2022, monitoring and accountability of mission chief turnover

has also been enhanced, as the Accountability Framework discussions include respective turnover metrics, with explicit emphasis on SDS and FCS. In this context, an operational target for the *median* tenure for mission chiefs at 2.7 years has been established, with the expectation of reaching a three-year average tenure.

**28. This MIP on SDS Engagement seeks to build upon these actions to help ensure more continuous support by SDS teams.** First, action R4.1a enhances and earlier commitment in MIP on the Board Endorsed Recommendations on Categorization of Open Actions (R1.5), which envisages the report of an analysis on issues surrounding mission chief and country team turnover to the Board—the updated commitment in this MIP on SDS clarifies that this will explicitly discuss the experience for SDS members. In addition, this MIP includes further Aactions to monitor and report on engagement by ADs, reflecting-will reflect metrics<sup>5</sup> on issues such as mission chief turnover and team rotation, as well as the frequency of engagement missions (physical and virtual) to SDS (R4.1b, R4.5). The SDS-SWG report to Management on this, and will also include a view of the support by Functional Departments (FDs) to SDS, through a range of modalities—for instance, direct CD efforts with members, participation in AD missions, technical support to AD teams, review, etc. (R4.3).<sup>6</sup> For example, the report would include indicators on the support through assigned economists by FDs to SDS, and also highlight how existing policies that FDs have in place to limit staff-turnover in SDS team staffing.<sup>7</sup> Importantly, this monitoring will be anchored by clearly identifying the mechanisms by which each FD supports SDS (R4.2). These mechanisms do not need to be new and may differ between FDs, given their different structures, and varying nature of their support to members and AD teams.

**29. The MIP has carefully considered steps to support incentives to work in SDS.** Efforts to provide support to staff and give Fund-wide visibility to the work in SDS, as well as securing Management involvement (e.g., R1.7–R1.8) have been designed also with this objective in mind. The MIP has also included the IEO’s proposal that the forthcoming Review of the LIC/FCS Promotion Policy to be completed by end-2025, should explicitly consider the implications for SDS (R4.4), including on recruitment, and make further recommendations on that basis.

**30. The MIP also seeks to strengthen the continuity of physical/on-the-ground engagement with SDS.** Interactions with IMF member countries, including SDS, have become much more fluid and continuous in recent years thanks to the use of technology for remote meetings and missions. This has strengthened communications with SDS authorities, and may help allay concerns about risks of insufficient contacts with SDS authorities. That said, the ability to rely on the virtual environment does vary by region and ease of connectivity, and also remains a function of the authorities’ broader needs. To secure continuous effective direct engagement with all SDS this MIP proposes the following:

- **First, it includes steps to secure a minimum floor to the frequency of direct engagement with SDS.** Area Department teams will ensure at least one physical mission to each SDS

<sup>5</sup> Metrics used will be consistent with those utilized by HRD in the context of the *MIP of Open Actions*, for full comparability.

<sup>6</sup> FDs already provide significant assistance to SDS from headquarters; FDs that are TA providers also do so through long-term experts (LTX) in the field via the RTACs (particularly CARTAC and PFTAC).

<sup>7</sup> For example, FAD fiscal economist assignments and SPR economists assigned to AD teams are requested to remain for two years.

member per year. This frequency is well in line with pre-pandemic experience (FY2015–19), particularly for surveillance-only members.<sup>8</sup> Mission frequency will be reported to Management through the annual report on MIP progress by the SDS-WG (R4.5). Specific circumstances that may prevent staff from traveling and/or limit the authorities' readiness or ability to receive a physical mission (e.g., the pandemic, natural disasters, social/political events, among others) would be justified to Management in the context of the report. AD teams would be encouraged to supplement these efforts with in-between virtual missions/engagements, or further physical missions when feasible.

- **Second, it envisages steps to help boost the on-the-ground macroeconomic support for SDS.** SDS as a group are already expected to benefit from the budget augmentation as the Climate Strategy and the FCS Strategy are rolled out. These entail greater support for the regional technical assistance centers (RTACs), including one additional climate and two macroeconomic long-term advisors (LTX) in the Pacific Technical Assistance Center (PFTAC). To further buttress the on-the-ground macroeconomic support for SDS, this MIP includes a commitment to ~~submit a well-costed~~ ~~formulate a costed~~ proposal ~~—to be submitted~~ to the Committee for Capacity Building, ~~—to expand macroeconomic LTX to SDS.~~ Such LTX would ~~be backstopped and~~ work in close coordination with AD teams (R4.6); this ~~will~~ ~~may~~ have resource implications as guidance, ~~backstopping~~ and engagement with ~~additional~~ LTX is not cost-neutral. Given very stringent budget constraints, the implementation of an eventually approved proposal would ~~be donor-funded and any backstop cost implications would need to be absorbed by departments need to be accommodated within the externally-financed CD budget, including the additional backstopping costs, and will require proactive donor fundraising.~~ As it is contingent on decisions made by stakeholders outside the IMF, ~~implementation it- of the proposal~~ is not, ~~in itself~~ a commitment in the MIP.<sup>9</sup>

## MIP MONITORING

**31. Monitoring.** To maintain close oversight of engagement with SDS, staff's SDS Working Group (SDS-WG) will report to Management annually on the progress with MIP Implementation via a memorandum. Annual reporting by the SDS-WG is, in itself, an MIP action that will be monitored in 2023–24—and it is expected to continue thereafter through the MIP implementation. To assess progress on enhanced engagement with SDS, staff will complete an IMF Board Paper reviewing progress in MIP implementation and engagement with SDS some five years following the finalization of the SDS-SGN. Though the actions included in the Matrix of Commitments are established to be completed by a specific period for the purposes of monitoring under the annual Periodic Monitoring Reports of MIPs, repeated actions (e.g., “annual” or “bi-annual”) are intended to remain permanent efforts reflecting good practices of the IMF's engagement with SDS.

<sup>8</sup> Missions to countries with Fund-supported programs have had significantly higher frequencies, determined by the planned program review schedules.

<sup>9</sup> This initiative would be distinct from the macro-fiscal workstream that FAD supports through resident (LTX) advisors or PFM advisors on the ground, which is back-stopped directly by FAD. The proposal will seek to provide appropriate coverage to all SDS, to avoid significant gaps, and considering their needs—including those that may emerge from lending engagement with the Fund.

## COSTING

**32. The actions proposed in this MIP have important resource implications, yet would need to be absorbed into existing budget envelopes.** Cost estimates of the MIP in FY23–FY28 may exceed 22 FTEs, including managerial resources. Several of the proposed actions are already part of departments’ work programs (e.g., high-level events, RST reviews, CMAP review), and those are considered to bring zero additional cost to the MIP to avoid double-counting. Other items are assumed to be folded into the budget envelope, but doing so will entail important tradeoffs, which will require prioritization over time. This includes new commitments to the work program (such as the SDS-SGN) which may only be integrated into the budget through a significant reallocation of resources. The protracted timeline of some other commitments facilitates their inclusion at a later stage (as in the case Medium-Term Review). Going beyond the current proposals would require new permanent resources, requiring a discussion that goes well beyond the scope of the MIP and would need to be considered in a wider context vis-à-vis Fund-wide tradeoffs.

**33. R1 will require additional resources expected to be covered within the existing budgetary envelope.** Actions under R1 are currently estimated to require up to 15 FTEs with the bulk of the need coming from the SDS-SGN (4 FTEs) and the Medium-Term Review (over 5 FTEs). SPR will need to use additional staff resources to refresh the SDS-SGN (in addition to staff already working regularly on SDS issues); other departments’ support will also be required as the SDS-SGN touches upon all aspects of Fund engagement. Other actions including the “SDS Week”, the analytical seminar, and the setting up and running of internal coordination and reporting mechanisms, could reach 5 FTEs in FY23–FY28, given that they would be implemented periodically at least once (some twice) a year.

**34. R2 and R3 will be mostly folded into the budget by leveraging existing efforts.** Country Engagement Boxes, carve-outs in the CMAP Review, and the seminar on fiscal CD and surveillance tools could all be absorbed within existing budgets with no substantial additional resource implications. The cost of the Seminar to familiarize the membership with the Fund’s lending toolkit could be produced at low-cost only if done in virtual form; its cost could raise significantly if held physically unless an opportunity such as the Spring and/or Annual Meetings is leveraged. Given time differences across the membership, a virtual event may need to be offered in several sessions, though the same content would be imparted.

**35. R4 will also require significant additional resources.** Monitoring and reporting commitments of support provided by departments to SDS may require some additional resources, as would the preparation of the proposal to boost on-the-ground LTX support to RTACs. Additional costs beyond those envisaged within existing work plans will imply trade-offs. Securing a minimum of at least one physical mission to all SDS per year would, in principle, be in line with pre-pandemic practices—but could also require some additional resources, particularly given still tight travel budgets; as a result, a buffer has been included conservatively into the costing.

## Annex I. Matrix of Proposed Actions

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
<p><b>Recommendation 1.</b> 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. The recalibration would have two principal elements: (A) a refresh of the SDS Staff Guidance Note (SDS-SGN); and (B) steps to support more effective application of the SDS-SGN and other commitments in the implementation plan for this evaluation through mechanisms for internal coordination, engagement with the Board, and collaboration with partners.</p>	<p>Directors broadly supported Recommendation 1 on pursuing a targeted recalibration of the Fund’s overall approach for engagement with SDS to strengthen the value added and impact of its work.</p> <p>In particular, they supported a focused refresh of the SDS Staff Guidance Note (SGN) to take account of the current global context and evolving macro-critical priorities.</p> <p>A number of Directors support formalized IMF-WB collaboration on critical SDS workstreams with the IMF focusing on core areas, relying on external partners to complement/fill gaps</p>	<p><b>R1.1. Update the 2017 SDS-SGN and its accompanying Quick Reference Card for Reviewers, with a view to enhance engagement with SDS across modalities, in line with applicable Fund’s policies, frameworks, and relevant guidance.</b> The update will include:</p> <ul style="list-style-type: none"> <li>▪ <b>Surveillance:</b> guidance for focused and well-tailored surveillance for SDS based on the 2022 Surveillance Guidance Note (SGN), including on the assessment of macro-critical structural issues and on providing granular policy advice. (See also R2 section below).</li> <li>▪ <b>CD:</b> guidance to help ensure a strong integration of CD with surveillance and lending.</li> <li>▪ <b>Lending:</b> guidance, in line with applicable Fund policies, on tailoring Fund-supported programs, including by paying greater attention to growth and resilience objectives and reforms, in addition to adjustment needs, when appropriate, and including RSF implementation as applicable. (See also R3 section below).</li> <li>▪ <b>CMAPs/CCDRs (and other climate diagnostics):</b> guidance on how climate diagnostics (including the Fund’s CMAPs, the WB’s CCDRs and/or other available climate-related diagnostics) may be best</li> </ul>	<p><b>By:</b> end-September 2024 <b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from other area and functional departments)</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
		<p>integrated with surveillance and lending, including into RSFs, in collaboration with the WB and in line with established policies.</p> <ul style="list-style-type: none"> <li>▪ <b>Use of Toolkits:</b> guidance on how the flexibility embedded in the <b>MAC DSA, LIC DSF, and EBA-lite</b> tools can be leveraged for countries facing data and capacity constraints, including SDS, as appropriate.</li> <li>▪ <b>Coordination with partners:</b> the SDS-SGN will cross-reference existing frameworks and most recent guidance on coordination with partner institutions (e.g., the recently issued <a href="#">Guidance Note on Information Sharing between the IMF and World Bank Staff</a>, as well as the coordination frameworks for RSF arrangements), highlighting best practices and issues of relevance for SDS.</li> </ul> <p><b>Traction:</b> guidance will emphasize the importance of traction, including through the multi-dimensional concept of traction put forward by the <a href="#">2021 Comprehensive Surveillance Review</a>, and discuss good practices for teams to support traction with SDS members. Focus will include the importance of maintaining strong engagement continuity, and of building a trusted partner relation across engagement modalities.</p>	

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	<p>Many Directors emphasized the importance of tailored communication with SDS countries through active outreach.</p>	<p><b>To strengthen traction and engagement with SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R1.2</b> AFR, APD, and WHD to each hold an <u>annual High-Level Regional Engagement Event with SDS in their respective constituencies</u>, in person, hybrid or virtual form, either during Spring or Annual Meetings, consolidating recent practice.</li> <li>▪ <b>R1.3</b> Run one survey of SDS country authorities to assess traction across engagement modalities.</li> </ul>	<p><b>By:</b> end-Dec 2024 <b>Responsible:</b> AFR, APD and WHD</p> <p><b>By:</b> end-Mar 2025 <b>Responsible:</b> SDS-WG (Lead: SPR, with inputs/review by the rest of the SDS-WG)</p>
		<p><b>To strengthen internal coordination mechanisms to support staff work on SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R1.4</b> Convert the existing inter-departmental Consultative Group on SDS (SDS-CG) for the MIP into an enhanced staff working group (SDS-WG) by preparing the Terms of Reference (TORs) of the SDS-WG and submitting to Management. The enhanced SDS-WG will now add FDs (FAD, FIN, ICD, LEG, MCM, STA), to the earlier working group, conformed by ADs and SPR.</li> </ul>	<p><b>By:</b> end-February 2023 <b>Responsible:</b> SDS-CG (Lead: SPR with review/inputs from other area and functional departments)</p>
		<p><b>To strengthen accountability on engagement with SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R1.5</b> SDS-WG will report to Management on</li> </ul>	<p><b>By:</b> end-Dec 2024</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
		<p><b>progress on MIP Implementation</b>, via a memorandum to Management, annually in 2023 and 2024. (See also related commitment in R4.1).</p> <ul style="list-style-type: none"> <li>▪ <b>R1.6 SDS-WG to meet with the Board’s Small States Working Group (SSWG)</b> once a year, in each 2023 and 2024.</li> </ul>	<p><b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from others)</p> <p><b>By:</b> end-Dec 2024</p> <p><b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from others)</p>
		<p><b>To strengthen dissemination of analytics and knowledge on SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R1.7 Launch an “SDS Week”</b> as an <u>internal</u> learning and capacity-building event for staff working with SDS, including: (1) an opening event with OMD presence to raise visibility of SDS-related issues; (2) an “onboarding” program for SDS staff, including a presentation of the SDS-SGN, and a tour of the SDS Knowledge Exchange (KE) site, (3) an intranet story showcasing the SDS Week.</li> <li>▪ <b>R1.8 Launch and run a new analytical seminar on SDS (internal audience)</b>, with sessions twice per year dedicated to SDS-relevant issues and research, presenting both IMF and external speakers.</li> </ul>	<p><b>By:</b> end-December 2024</p> <p><b>Responsible:</b> SDS-WG (Lead: SPR, with Inputs/Review from others in SDS/WG + COM support)</p> <p><b>By:</b> end-Dec 2024</p> <p><b>Responsible:</b> SDS-WG</p>
	<p>Many Directors supported the proposal for a review of Fund engagement with SDS within five years.</p>	<p><b>R1.9 To assess the IMF engagement with SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Prepare a Medium-Term Review</b>, to be delivered through a Board paper, on</li> </ul>	<p><b>By:</b> end-Dec 2028</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	<p>Many other Directors agreed with the Managing Director’s view that leveraging the several planned and provisioned-for reviews in the areas of surveillance, lending, and capacity development would be most appropriate to better link SDS engagement to the overall Fund strategy and address potential resource trade-offs and avoid duplication.</p>	<p>the Fund’s engagement with SDS, including on the implementation of the commitments in the <i>MIP on the Fund and SDS</i>.</p>	<p><b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from others)</p>
<p><b>Recommendation 2.</b> 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. Actions would aim at further adapting processes and tools for the SDS context, deepening integration across Fund activities, better recognizing domestic constraints, and increasing support for implementation.</p>	<p>Directors generally support Recommendation 2. Steps should be taken at the operational level to enhance the focus and traction of work on SDS.</p> <p>Directors agree that actions should aim at better leveraging flexibility in core tools for the SDS context (the SGN should include guidance on this). EDs emphasized diagnostic tools are useful in SDS and tailoring will increase their impact. [...] and note surveillance and related toolkits must remain consistent with Fund policy frameworks.</p> <p>Directors highlight the need to collaborate with the World Bank in this context.</p>	<p>See specific efforts under R1.1 above, on the context of the updated SDS-SGN, which will cover these surveillance and CD-related issues as suggested.</p>	
	<p>Many Directors consider Country Engagement Strategies (CES) could be</p>	<p><b>To enhance strategic engagement with SDS:</b></p> <p><b>R2.1 Publish guidance for Area Departments to</b></p>	<p><b>By:</b> end-March 2024</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	<p>rolled out “as-needed” for non-fragile SDS.</p>	<p><b>include a concise “Country Engagement” Box for all SDS</b> in Article IV staff reports once every 3 years, outlining policy priorities as well as key considerations under engagement modalities as applicable.</p>	<p><b>Responsible:</b> SDS-WG (SPR to lead, with inputs/review of other departments).</p>
	<p>Many EDs concur with the MD on the need to be flexible in prioritizing Fund surveillance and CD (incl. FSAP/FSSR, CMAPs).</p> <p>Many EDs are open to exploring cluster or regional approaches in cases where it is cost-effective.</p> <p>EDs observe that many of the CD issues raised are relevant to a much wider part of the membership and could be considered in the forthcoming IEO Evaluation of CD.</p>	<p><b>To ensure key CD products appropriately serve SDS members:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R2.2 The CMAP Review</b> will explicitly consider implications for supporting SDS’ climate agenda by presenting in a dedicated box for SDS: (i) the lessons learned from CCPAs and CMAP pilots, and (ii) the priorities for the application of CD tools for SDS going forward.</li> <li>▪ <b>R2.3 Hold a Fund-wide seminar on fiscal CD and surveillance tools</b> (as per the Fund’s Climate strategy) to disseminate engagement modalities with members, including recent experience with CD pilots.</li> <li>▪ <b>R2.4 During the Phase II FSSR Donor-Funding Round in FY24, propose an expansion of the eligibility list for SDS</b> to at least half of the 22 SDS not currently in the list.</li> </ul> <p>Other comprehensive measures related to CD, which are also relevant to the wider membership, will be discussed in the context of the <a href="#">IEO Evaluation of CD</a>.</p>	<p><b>By:</b> end-May 2023 <b>Responsible:</b> FAD/SPR</p> <p><b>By:</b> end-Jun 2023 <b>Responsible:</b> FAD/SPR</p> <p><b>By:</b> end-Apr 2025 <b>Responsible:</b> MCM</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
<p><b>Recommendation 3.</b> The IMF should consider how to use its lending framework in ways that better address the needs and vulnerabilities of SDS.</p>	<p>EDs generally agree there is room to explore how UCT-quality programs may be better tailored to SDS, including through greater focus on growth and resilience objectives in Fund programs, in line with the MIP for the IEO Evaluation on Growth and Adjustment in Fund Programs.</p> <p>EDs note the need to build further awareness of the benefits of UCT-quality programs in SDS.</p>	<p>See specific efforts to provide guidance in the SDS-SGN on general lending engagement issues (R1.1 above) and enhance awareness of the IMF’s overall engagement toolkit (see High-level Events in R1.2).</p> <p><b>To enhance the treatment of growth and resilience in IMF-supported programs with SDS:</b></p> <p><b>R3.1 Organize one external seminar (in person or virtual) to familiarize the SDS authorities with Fund lending,</b> including the UCT lending toolkit, the benefits of the UCT-quality programs and the RSF/RST. Seminar to include a peer-learning session with SDS exchanging on success cases.</p>	<p><b>By:</b> end-Dec 2023 <b>Responsible:</b> SDS-WG (SPR to lead, with inputs/review of other departments).</p>
	<p>EDs generally agree the RST should address the needs of all eligible members, including SDS [...] and support first allowing the RST operations to begin, then reflecting on lessons during its initial review.</p> <p>Many EDs noted the need to consider how to leverage RST financing to address structural constraints and build resilience in SDS.</p> <p>A number of EDs emphasized the planned 18-month interim review should commit to assessing whether the RST is providing and catalyzing meaningful</p>	<p>See also efforts in R1.1 above, in the context of the SDS-SGN update, which will help tailor the RSF requests for SDS based on relevant priorities as appropriate</p> <p><b>To help ensure that the RST effectively attends to SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R3.2 The 18-month <i>interim review</i> of the RST</b> will include any initial experiences on implementation of the Trust, including for SDS.</li> <li>▪ <b>R3.3 The <i>three-year review</i> of the RST</b> will delve deeper to further consider SDS experiences, including on various design aspects, interactions with the lending toolkit, and ability to</li> </ul>	<p><b>By:</b> End-June 2024 <b>Responsible:</b> SPR (with inputs/review of other departments)</p> <p><b>By:</b> End-December 2025. <b>Responsible:</b> SPR/FIN/LEG (with inputs/review of</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	<p>support to SDS and adjust as necessary.</p> <p>Many EDs support increasing access limits under the LND window of the EF instruments.</p> <p>Many other EDs, do not consider further raising access limits to be the right approach (given it is a key safeguard to lending under the EF instruments and it could disincentivize the use of UCT-quality programs).</p>	<p>catalyze additional financing.</p> <p>Issues relating to the Emergency Financing toolkit to be discussed in the context of the forthcoming IEO Evaluation on the <a href="#">IMF's Response to the COVID-19 pandemic</a>.</p>	<p>other departments)</p>
<p><b>Recommendation 4.</b> The IMF should adopt further HR management commitments to increase continuity and effectiveness of staff's engagement with SDS. Steps would aim at improving incentives to work on SDS assignments, reduce turnover, avoid gaps in coverage, minimize disruptions from handovers, and strengthen Fund presence on the ground.</p>	<p>EDs agreed with the need to take steps aimed at improving incentives to work on SDS assignments, reduce turnover, avoid gaps in coverage, minimize disruptions from handovers, and strengthen the continuity of Fund engagement with SDS.</p> <p>EDs generally observed that [these issues are] also a concern for other non-SDS members.</p> <p>EDs welcomed <a href="#">the MIP on the Board Endorsed Recommendations on Categorization of Open Actions</a>, which aims to address many of these issues. EDs agreed that this <a href="#">MIP on Open Actions</a> should be allowed to progress before considering SDS-specific measures in this area.</p>	<p>Various key supporting commitments are already included in the <a href="#">MIP on the Board-Endorsed Recommendations on the Categorization of Open Actions</a>.</p> <p><b>In addition, to reduce mission chief turnover and avoid gaps specifically in SDS mission chief assignments:</b></p> <p><b>*—R4.1 The SDS-WG annual report to Management</b> (see R1.6) on progress on the MIP Implementation will update on engagement by Area Departments, including mission chief turnover, handover, team rotation, and frequency of missions with SDS. <b>R4.1a</b> The analysis on issues surrounding mission chief and country team turnover, as proposed in the <a href="#">MIP on the Board-Endorsed Recommendations on the Categorization of Open Actions</a> (R1.5) will explicitly discuss the experience for SDS members.</p>	<p><b>By:</b> end-Dec 2024 <b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from others)</p> <p><b>By:</b> end-Dec 2023 <b>Responsible:</b> SDS-WG (Lead: HRD with Inputs/Review from others)</p> <p><b>By:</b> end-Dec 2024</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
		<ul style="list-style-type: none"> <li>▪ <b>R4.1b The SDS-WG annual report to Management</b> (see R1.6) on progress on the MIP Implementation will update on engagement by Area Departments, including mission chief turnover, handover, team rotation, and frequency of missions with SDS.</li> </ul>	<p><b>Responsible:</b> SDS-WG (Lead: SPR with Inputs/Review from others)</p>
		<p><b>To strengthen SDS teams:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R4.2 Functional Departments (FDs) to identify mechanisms to support AD teams on SDS-related issues, and report them to Management.</b> Such mechanisms may be specific to each Department, may leverage existing mechanisms and once decided, would be established via memoranda to OMD.</li> <li>▪ <b>R4.3. Monitor support to SDS by FDs.</b> This would include following up on metrics related to: (i) CD/TA provision in different modalities (including RTACs); (ii) physical and/or virtual participation in Area Department Missions; (ii) other possible support, including review of country papers. This would be reported as part of the Annual Memo to Management on MIP Implementation (see R1.6).</li> </ul>	<p><b>By:</b> end-June 2023 <b>Responsible:</b> FAD, FIN, LEG, MCM, SPR, STA, ICD</p> <p><b>By:</b> end-December 2023 <b>Responsible:</b> FAD, ICD, LEG, MCM, SPR, STA</p>
	<p>A number of EDs suggest that the promotion policy developed to incentivize</p>	<p><b>R4.4 The LIC/FCS promotion policy will be reviewed two years</b> after it is fully implemented.</p>	<p><b>By:</b> end-December 2025 <b>Responsible:</b> HRD</p>

IEO Recommendations	Board Response: Summing Up Guidance	Proposed Actions	Accountability and Timeline
	staff working on FCS be extended to all SDS.	Implications for SDS will be explicitly considered.	
	Many EDs acknowledged the need for flexibility in decisions by departments, such as incentives and specific staffing solutions, given the diversity of challenges across regions.	<p><b>To strengthen the continuity of engagement with SDS:</b></p> <ul style="list-style-type: none"> <li>▪ <b>R4.5</b> Area Department teams to <b>hold at least one physical mission per year to SDS</b> (including staff visits), in line with pre-pandemic practices. Circumstances making this unfeasible in specific cases would be explained/justified in the context of the Annual Monitoring Report by the SDS-WG to Management.</li> <li>▪ <b>R4.6</b> <u>Submit for consideration of the Committee for Capacity Building a</u> <del>Formulate a</del> well-costed proposal for Management to <b>expand the number of long-term macroeconomic experts (LTX) in RTACs, dedicated to SDS, to be submitted to the Committee for Capacity Building, to dedicated to support SDS members in close coordination with Area Department teams.<sup>10</sup></b></li> </ul>	<p><b>By:</b> end-December 2024 <b>Responsible:</b> ADs</p> <p><b>By:</b> end-December 2023 <b>Responsible:</b> AFR, APD, WHD, ICD</p>

<sup>10</sup> With the exclusion of METAC, which only serves one SDS, Djibouti.

## Annex II. IEO Recommendations and Granular IEO Suggestions

***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.***

- **Update the SDS Staff Guidance Note (SDS-SGN) including :** (i) guidance on integrating surveillance, lending, and CD work in SDS work, including by making use of the Climate Macroeconomic Assessment Program (CMAP) and the RST; (ii) application of Article IV (AIV) surveillance requirements and diagnostic tools for SDS; (iii) consideration of how to bring Fund-wide skills and expertise to address SDS challenges, including approaches for to further involve functional departments (FD) in SDS work; (iv) advise on how best to coordinate with partner institutions; and (v) advice on how to foster strong and continuous relations with SDS.
- **Establish Coordination Mechanisms, which could include:** (i) tasking the staff-level interdepartmental SDS working group (SDS-WG) with a mandate to oversee SDS work at the Fund, update the SDS-SGN refresh and oversee this evaluation’s MIP implementation; (ii) requiring the SDS-WG to continue reporting regularly to management and the Board working group,, as well as external partners, on SDS; (iii) tasking the SDS-WG to monitor the implementation of an SDS-focused research workstream on cross-cutting issues and continue to oversee knowledge-sharing; (iv) committing the SDS-WG to conduct a staff review of IMF engagement with SDS within five years, taking account of experience with implementation of the refreshed SDS-SGN and other steps taken under the MIP to strengthen Fund engagement with SDS.

***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, policy advice, and CD.***

- **Provide selective attention to current/emerging SDS issues that are macro critical, i.e.,** including those viewed macro-critical by authorities.
- **Apply diagnostic tools consistent with SDS circumstances,** including by: (i) further streamlining the application of data-demanding diagnostic tools including debt sustainability analysis (DSAs) and the EBA-lite, by better leveraging built-in flexibility, in recognition of their circumstances and constraints, and (ii) increasing access to CMAPs, FSAPs, and FSSRs, for instance by exploring cluster or regional approaches.
- **Preparing tailored strategy engagement notes** for non-FCS SDS, possibly on a pilot basis.
- **Place greater attention to SDS’ institutional capacity constraints and political economy circumstances in providing CD support,** by (i) applying ex-ante assessments of institutional capacity and ownership to CD deployment; (ii) linking allocation and provision of CD including to implementation and ownership; (iii) as it evolves, using Resource Budget Management (RBM) to increase transparency on CD progress; (iv) increasing hybrid CD presence; and (v) deepening CD coordination with external partners.

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

- **Increase the focus of growth and resilience outcomes in UCT-quality programs with SDS**, drawing from external expertise and building on commitments included in the MIP on growth and adjustment in Fund-supported programs (IEO 2022)
- **Implementing the RST taking into account SDS needs and constraints.** This would entail (i) exploiting the use of CMAPs, and (ii) ensuring that the requirement to pair the RST with a UCT-quality program does not deter SDS use and lowering the administrative burden of UCT-quality programs by, for example, providing ground support.
- **Raising access limits under for Emergency Financing (EF) instruments** for dealing with large natural disasters (LNDs) for countries with robust macroeconomic frameworks and governance standards.

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

- **Commitment to reduce SDS MC turnover** and avoid gaps in assignments.
- **Stronger incentives** to work in SDS.
- **Limiting use of co-desk assignments** except when both positions are in the same division.
- **Encouraging greater use of functional department staff.**
- **Limiting the use of other departmental staff** to fill mission teams.
- **Increased use of research assistants (RAs)** and research officers (ROs) to gather data.
- **Consider adding SDS experience to the promotion-eligible requirement list in the new career framework for fungible macroeconomists**, depending on experience over the next two years in strengthening incentives to work on SDS.
- **Expand the number of macroeconomists in regional offices** and RCDCs.