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

1. We thank the Managing Director for the detailed statement on the IEO Report on the Small Developing States (SDS). Though SDS comprise a heterogeneous group, their small economic and population size are the core reasons for their heightened macroeconomic vulnerability. We welcome the IEO Report for its in-depth analytical work on various critical issues, a comprehensive set of findings, and recommendations for improvement. We recognize the need for calibrated and targeted approach in adopting the recommendations.
2. We take note of Recommendation 1 for recalibrating the overall approach for engagement with SDS and welcome the staff commitment to strengthen key elements of engagement which include an update of the Staff Guidance Note and collaboration with external partners like the World Bank. *While we appreciate that evaluation of SDS constitutes a part of various other reviews, could the staff explain under what circumstances a specific review of SDS can be considered?*
3. SDS are prone to higher macroeconomic vulnerabilities due to various country-specific factors. Recognizing the resource constraints, we believe that Recommendation 2 on the need to have a strong and tailored approach towards the macroeconomic vulnerabilities is prudent. The experience during the COVID-19 pandemic and the effectiveness of the Fund's response provides important lessons in this respect. Further, we take note of the IEO comment that the overall quality of surveillance and policy advice was considered high by the authorities but the traction

in terms of implementation was limited and uneven. *Could the staff provide an analysis of the type of policy issues which encounter weak traction among the authorities for implementation, the underlying reasons, and the steps that are required to improve outcome?*

4. Capacity development efforts should address the existing deficiencies and help to strengthen in-house technical capacity. Considering the high value attributed to the Fund's CD to SDS, we urge the effective utilization of Regional Capacity Development Centers (RCDC). We welcome Recommendation 3 which focuses on growth and resilience outcomes in the context of the UCT-quality programs. The scope of financing under RST should be to include key vulnerabilities affecting the long-term stability and requires to be based on the diagnosis of country-specific factors.

5. In the context of Recommendation 4 for improving the Fund's human resource management in SDS, we agree with the need for adequacy and continuity of staff. As similar problems are encountered by other members also and given the current challenges faced in HR management, the future HR policy review should comprehensively address these challenges. *In the meanwhile, could the staff suggest possible measures that can be taken under the existing HR policy framework to provide some level of relief?*