INTRODUCTION

The IMF defines 34 member countries as Small Developing States (SDS). They comprise a heterogeneous group but share many similar characteristics and vulnerabilities that pose particular challenges for development and macroeconomic stability, and therefore for the Fund’s engagement. Some of these characteristics are associated with their small population and economic size, their institutional and human resource capacity constraints, and social issues. Some are geographical in nature, like remoteness, insularity, and, crucially, their extreme vulnerability to natural disasters and climate change (ND&CC). In addition, SDS are relatively open, making them more susceptible to macroeconomic volatility, commodity price fluctuations, and disruptions in world markets, and their domestic financial systems are typically shallow, with often weak regulatory and supervisory institutions.

This evaluation considers how effectively the IMF has supported its SDS members given these countries’ distinctive vulnerabilities and needs. The evaluation focuses on the period from 2010 to 2020, during which the IMF’s framework for engaging with small states was substantially overhauled and the Fund also paid increasing attention more generally to issues such as climate change and disaster resilience that are particularly relevant to SDS. While most of the activity evaluated took place before the outbreak of the COVID-19 pandemic, due attention is paid to those aspects of the Fund’s initial response to this crisis, which was especially damaging for SDS economies. The evaluation also provides information on developments in 2021 and early 2022 relevant to SDS work, although it does not seek to evaluate the experience beyond the evaluation period.

The key objectives of the evaluation are to: (i) assess how well the IMF’s core operations—surveillance and policy advice, lending and non-financial program support, and capacity development activities—were adapted to the specific challenges facing SDS; and (ii) assess the evolving institutional framework and procedures for the IMF’s engagement with SDS, including its strategic approach, toolkit, and human resource management. It considers the value added from the modification to the Fund’s framework during the evaluation period and the extent to which long-standing concerns about IMF engagement with SDS—including about the traction of IMF advice, the suitability of the Fund’s analytical toolkit, the limited use of IMF financing, and the high turnover of staff teams working on SDS—have been addressed. The evaluation offers findings that could also be relevant in strengthening the Fund’s engagement with other members that face or will face similar challenges to those most acute now in SDS, including exposure to climate change and large natural disasters, as well as general lessons from SDS’ experience on mission team turnover and knowledge sharing.

1 Several evaluations by the IEO have touched on issues relevant for SDS, including IMF Collaboration with the World Bank on Macro-Structural Issues (IEO, 2020); Growth and Adjustment in IMF-Supported Programs (IEO, 2021); The IMF and Fragile States (IEO, 2018); and The IMF and Social Protection (IEO, 2017). About one-third of SDS have featured as country case studies in previous IEO evaluations.
The evaluation draws on multiple information sources, including (i) an extensive review of external literature and internal IMF documents (including policy papers, research papers, surveillance and program documents); (ii) interviews with country authorities and IMF Executive Directors, Fund staff, development partners, and other international organizations; and (iii) surveys of country authorities and IMF staff. The evaluation is based on a combination of detailed country case studies and a number of cross-cutting thematic studies (Box 1.1).

2 Unfortunately, the response rate for the survey of SDS country officials was quite low (de Las Casas and Balasubramanian, 2022b) and, therefore, the survey is only used as a secondary source of evidence.

The rest of the report is organized as follows. Chapter 2 reviews the characteristics of small states that make them unique and shape their engagement with the IMF, while Chapter 3 explains the institutional framework in which that engagement takes place. Chapters 4 through 6 assess the Fund’s performance on its three main activities in small states: surveillance, lending and program support, and capacity development. Chapter 7 evaluates the Fund’s human resource management for engaging with small states. Chapter 8 summarizes the evaluation’s main findings and offers recommendations.