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KEY FINDINGS AND RECOMMENDATIONS

This chapter briefly recaps the evaluation's findings relevant to the Fund's main activities in SDS, as well as HR issues. It then makes some recommendations for how to further strengthen the IMF's contribution to its small state members.

FINDINGS

Overall, the IMF deserves considerable credit for having substantially stepped up its engagement with its SDS members over the decade covered by this evaluation. This is a group of countries that, while very small from the perspective of the global economy, represents 18 percent of the membership and faces persistent economic, environmental, and other forms of vulnerability that pose a special challenge for the IMF. Indeed, some of these vulnerabilities are growing, particularly those related to natural disasters and climate change (ND&CC), while continuing fallout from the COVID-19 pandemic has further compromised SDS economic prospects.

The Fund's increased contribution to SDS reflects a number of factors. First has been the considerable efforts to develop specific guidance for Fund work on SDS, identifying key areas where the IMF can support the special needs of small states. This work built on a growing body of research on SDS economic challenges, first outside the Fund and later inside. Second has been the Fund's increased attention to climate change issues more broadly, which in some respects was spearheaded by work on small states. Third has been the rising resources devoted to capacity development work and the strong role of regional centers, which have particular relevance for SDS. And fourth has been commitment by Executive Board members to champion the cause of SDS work at the Fund and the commitment by management and staff to support these members despite continuing resource constraints.

All this said, the Fund's work on small states has also faced a number of challenges that have adversely affected the overall value added and traction of the Fund's contribution to these members. First among these is difficulties in staffing SDS assignments, which has led to high turnover rates that have complicated efforts to assure the high quality of SDS engagement. Second is that the Fund's lending facilities do not seem particularly well suited for the needs and capacities of small states, offering few resources relative to financing needs and implying quite high transaction costs, which has contributed to the comparatively low take-up of Fund resources, particularly through Upper Credit Tranche (UCT) programs. Third is the relatively limited institutional capacity in SDS themselves to implement IMF policy and capacity development advice, as well as continuing political economy concerns about Fund conditionality that have deterred program engagement. Fourth is the challenge of intermittent interdepartmental coordination of IMF SDS work, particularly since success of initiatives to strengthen Fund engagement with SDS has sometimes been dependent on key individuals.

Surveillance

IMF surveillance is greatly appreciated in SDS and generally considered by country officials as of high quality and well-tailored to SDS specific needs. Surveillance work over the evaluation period drew on substantial analytical work conducted in the IMF, which, in turn, benefited from a body of external literature on small states that started growing in the late 1990s. Work on issues of central importance to small states—including for example on debt sustainability, climate change policies, and correspondent banking—was particularly appreciated by country authorities and benefited from application of surveillance tools like the Debt Sustainability Assessment (DSA) and Climate Change Policy Assessment (CCPA). SDS surveillance can be particularly important to these members because in many of them the Fund is the principal source of authoritative external macroeconomic analysis and advice and can help fill capacity gaps.

Despite the positive overall assessment of surveillance, the evaluation found several reasons for concern. Low frequency of surveillance engagement (especially in the Pacific region), the high turnover of mission chiefs and country team members, and insufficient attention to assignment handovers negatively affected surveillance by limiting continuity of policy discussions, hampering staff's understanding of country specificities, and eroding the visibility and reputation of the Fund. Small teams were challenged to meet a large number of standard Fund Article IV (AIV) surveillance practices and apply complex diagnostic tools in view of data and other constraints faced in small states work. While CCPAs and Financial Sector Assessment Programs (FSAPs) were appreciated when available, only a few countries were able to benefit from the in-depth treatment they offered. More generally, Fund advice sometimes lacked actionability and specificity, particularly in areas beyond the Fund's core expertise but still considered macro-relevant by the authorities, such as growth-related sectoral policies, but also in areas more central to the Fund's work given the limited participation of functional department experts.

Reflecting these constraints, the traction of IMF surveillance was mixed. More advanced SDS tended to benefit to a greater extent, while more capacity-constrained SDS sometimes struggled to absorb and follow through with the Fund's advice on addressing underlying problems beyond day-to-day challenges.

In light of this experience, there would seem to be scope to further adapt surveillance approaches and tools to the SDS context, while still satisfying Fund-wide surveillance requirements. This process could be guided by a refresh of the SDS staff guidance note (SGN). In particular, the SGN could place more emphasis on flexibility and attention to emerging issues that are macro-critical but not where the Fund itself has deep expertise. Reforms to the DSA methodology have significantly enhanced the DSA's relevance for SDS, but further attention could be given to how it can be best applied in the SDS context, including to emphasize the incorporation of infrastructure and climate resilience investment and to consider how best to apply the framework in microstates with particularly limited data and institutional capacity. Cost-effective ways should be found to apply climate change diagnostic tools (now known as the Climate Macroeconomic Assessment Program, CMAP) to a broader range of SDS given their particular relevance for these countries. It is also worth considering how to increase access to financial assessment and diagnostic tools like the FSAP and Financial Sector Stability Review (FSSR) and provide greater focus on macro-critical financial development challenges. Finally, the EBA-lite has proven of little value in SDS, given its complexity and data requirements among other reasons, suggesting the need for a less mechanical and time-consuming approach for assessing external balances in SDS.

Given resource constraints, achieving such an ambitious agenda for SDS surveillance will require willingness to innovate and commitment to working with partners. In particular, greater attention could be paid to developing regional and thematic approaches to SDS surveillance andrelated research. For example, in cases where policy challenges are common among SDS members, some FSSRs and CMAPs could be prepared in a regional or cluster rather than country framework, which would take advantage of cross-country synergies as well as gaining economies of scale. Also, there could be greater efforts to draw cross-regional lessons from work on common SDS issues being done in individual area departments (ADs), particularly macro-critical issues where the Fund has limited expertise.

Greater attention could also be given to working more closely with partner institutions totake better advantage of inter-agency synergies. This includes work on issues that can be macro-critical for SDS but where other international or regional organizations have much deeper expertise, such as diversification and sectoral issues. Effective ways need to be found for collaborating effectively with the World Bank on climate change issues notwithstanding decisions taken last year to stop working jointly on climate-related assessments.

Lending

Despite incremental evolution during the evaluation period, mainly repeated increases in access limits for emergency financing, the overall IMF financing architecture has not been especially well suited to the particular needs of SDS, and use of Fund resources by SDS has been substantially less (on a relative basis) than that by other emerging market and developing countries (EMDEs).

In particular, SDS made sparse use of Fund UCT programs under the GRA and PRGT, requesting them substantially less often than non-SDS. Some of the reasons for this reluctance are deep rooted and may be hard to remedy, including some authorities' aversion to Fund conditionality, particularly when alternative sources of official financing were available. Other factors fall more clearly within the Fund's reach: low access levels relative to financing need; the high administrative burden of negotiating and monitoring UCT programs; the short time frame for Fund arrangements compared to the time needed to address SDS' deeply rooted structural weaknesses; and limited understanding of the Fund's program framework, including for non-financial instruments.

In practice, where SDS did make recourse to UCT programs, the completion rate was considerably higher than for other groups of members, suggesting adequate support for implementation in the program context. The principal objectives of these programs were to achieve fiscal adjustment and address debt-sustainability problems, but GRA programs in particular also brought some growth benefits—PRGT programs, less so. No SDS requested a UCT program to address recovery from, or resilience building for, ND&CC. The recent initiative to design a Resilience and Sustainability Trust (RST) using rechanneled SDR resources could potentially provide a very valuable new instrument for SDS financing on attractive terms and longer duration for the reforms and investment needed to build disaster resilience, but it will be important that this new instrument be implemented in a way that facilitates use in the circumstances faced by SDS.

SDS have been more inclined to use rapidly disbursed IMF emergency financing (EF), with no ex post conditionality, to meet disaster needs, to help deal both with large climate- and weather-related shocks and with the COVID-19 pandemic. The Fund's capacity to provide larger disbursements in the aftermath of a disaster has increased, but access is still quite limited relative to post-disaster financing needs, and repayment terms and conditions are often less attractive than financing available from elsewhere. Partly as a result, only a limited subset of SDS have made recourse to EF after a natural disaster. Use of UCT programs could offer higher access but, in practice, countries chose not to use such programs with ex post conditionality as a source of financial support in the wake of a natural disaster. Indeed, some countries experiencing large natural disasters chose not to request IMF financing at all, although they still counted on positive IMF assessments to support access to financing from other sources.

SDS made much wider use of EF in response to the COVID-19 pandemic. While about a half of all SDS did not request EF, SDS drew on EF more than at any previous time and the loans were disbursed very quickly. This support was much appreciated by recipient SDS, although the amounts available were still quite limited compared to the scale of financing needs, even after the temporary increase in access limits. In fact, because SDS tended to face larger COVID-19-related shocks relative to the size of their economies, the share of financing needs met by the Fund were smaller and the need for SDS to deplete their international reserve cushions correspondingly greater. Two SDS with serious debt sustainability problems were not judged as eligible to draw.

This generally positive recent experience suggests that the Fund's responses to the pandemic—including the temporary increases in access limits and streamlined procedures—may hold lessons for how the Fund's EF architecture could be adapted to better serve SDS needs (and those of other members facing very large shocks too).

In particular, consideration could be given to allowing for some additional flexibility to offer higher access than the normal 80 percent of quota for large natural disasters to the 130 percent provided on a temporary basis during the COVID-19 pandemic. This additional amount could be made available specifically for countries with sound macro-economic policy and governance frameworks that provide robust safeguards for use of Fund resources. Similarly, cumulative access limits could also be increased to address challenges that may be faced by members with solid policy frameworks hit by repeated natural disasters or health-related shocks within a short period. Such adaptation to the EF lending instruments would provide some more room for the Fund to support countries that have high-quality policies but are faced by sudden very large financing needs from a natural disaster without compromising the principle that availability of emergency financing should not deter members that need adjustment measures and structural reforms to address their balance of payments problems from seeking a UCT program.

Capacity Development

The increasing concentration of IMF attention to SDS on capacity development work seems well suited to these countries' particular needs. SDS generally appreciated the quality, quantity, content, and tailoring of the capacity development support received from the Fund, which by and large responded to the institutional constraints faced by these countries. A concern is that the build-up of capacity development support has depended on external financing, which could constrain the allocation of capacity development and poses a risk that provision of such financing could come under strain.

The key role played by Regional Capacity Development Centers (RCDCs), which SDS pioneered at the Fund, has been a driver of success. RCDCs were closer by and more knowledgeable about local circumstances, they supplied the longer-term support these members needed, and they provided a degree of continuity in the Fund-member engagement that is much more difficult to achieve from HQ. RCDCs were not only effective in supporting capacity development work but they also contributed to other IMF functions—palliating the scarcity of RRs in SDS and improving the institution´s reputation—and served as useful coordination centers.

Nevertheless, implementation challenges still reduced capacity development traction and impact. A key obstacle to effective implementation was the limited absorptive capacity in many SDS, compounded in some cases by lack of ownership on the part of officials. As for the Fund, some concerns were raised by SDS officials regarding insufficient recognition of capacity constraints and the tendency to focus advice on first-best solutions, even when humbler advice would have been more practical. As results-based management (RBM) and the Capacity Development Management and Administrative Program (CDMAP) mature and provide a fuller set of data, they could provide useful insights on what works well for SDS to improve capacity development allocation, design, delivery, and implementation. Care will also be needed to ensure sustained funding for RCDC work on small states, which may require an increased contribution from IMF internal budgetary resources.

Human Resources

The Fund has spent considerable staff resources engaging with SDS, a commitment that remained broadly stable over the evaluation period. In the absence of specific HR or budgetary guidelines and rules applying to SDS, ADs with SDS members developed their own individual approaches to mission chief selection, mission size, and staffing, seeking to balance the commitment to provide adequate support for SDS with broader departmental staffing needs and resource constraints.

In practice, striking the right balance has been difficult, as work on small states has been adversely affected by high turnover and short tenure. Staff working on SDS assignments felt personally rewarded by working in small country settings where their efforts made a tangible difference. And their expertise, efforts, and commitment were generally well appreciated by country officials. At the same time, however, institutional incentives for staff to work on SDS positions were poor, with lower performance ratings and promotion rates for SDS economists at levels A13–A14 than their non-SDS counterparts, contributing to low application rates to SDS vacancies and more rapid turnover. This problem seems likely to be exacerbated by the special incentives to staff to work on LIC and FCS assignments in the new career framework for fungible macroeconomists. Use of co-desk assignments with other larger countries outside the division diluted staff attention to their work on specific SDS. The use of staff from non-area and non-functional departments to fill out small country teams compounded problems with continuity of engagement.

Departments have had less difficulty in recruiting A15s as mission chiefs for SDS assignments because such positions provide a useful stepping-stone to career progression—but the result has again been limited tenures and high turnover as staff look for promotion opportunities elsewhere. Two-thirds of mission chiefs led only a single mission before moving on to a new assignment, while more than a half of all SDS mission chiefs served less than two years. Moreover, significant gaps in mission chief assignments occurred in two-thirds of SDS.

Small team size and the limited skill sets of teams have also been a constraint. Teams typically do not include functional department economists, except in program situations, implying more limited capacity to provide granular advice. And teams seldom benefit from support from a dedicated resident representative who can help ensure adequate continuity ofengagement and appreciation for local conditions.

Addressing these issues within the Fund's institutional structure and limited resources is not a straightforward task as ADs seek to meet multiple staffing challenges. Steps on the HR front that could help include requiring greater commitment to ensure that mission chiefs spend a minimum of two years on an SDS assignment before moving on; greater commitment to avoid gaps in mission chief assignments and abrupt changes at critical moments; more sustained attention to improving handover procedures; increased recognition of top-notch and innovative SDS work in performance ratings and promotion decisions; and reduced use of co-desk assignments where the SDS assignment is seen as a second fiddle to another larger country assignment in a different division. In addition, a reviewed SGN could offer more practical guidance to staff on an array of policy, institutional, analytical, and management issues relevant to engagement with SDS, building on successful past initiatives—for example, APD's toolkit for mission chiefs.

Further consideration could also be given to the mix between HQ- and field-based staff. The successful experience with RCDCs would seem to suggest that increased budgetary resources for staffing regional resident representative (RRR) offices to support surveillance and program work would be fruitful, recognizing the high cost of individual country resident representatives in SDS. At the same time, experience during the COVID-19 pandemic has shown that greater use of virtual communications could help support continuity in the relationship between HQ-based staff with country officials and to bring in specialist expertise when needed. However, the pandemic experience also suggests that such virtual communications are not a full substitute for in-person connections.

As a complement to strengthening HR management and enhancing on-the-ground presence, it will also be important to pay greater attention to raising the profile and prestige of SDS work at the Fund to increase the incentives for staff to work on these assignments, particularly given recent steps to encourage work on LICs and FCS. In this respect, management and senior staff could play crucial roles to champion work on small states as making an important contribution to the Fund's mandate.

Implications for Enterprise Risk

Given their small role in the global economy, any shortcomings in the effectiveness of Fund engagement on SDS work do not raise substantial risks for the stability of the global economy or financial systems. However, given SDS' heavy reliance on the Fund for reliable external policy advice and capacity development support in macro-critical institution building, such shortcomings do certainly have consequences for the SDS themselves. There are also consequences for SDS from the limited fit of IMF financial instruments to SDS circumstances, although these are offset for many SDS by availability of alternative sources of external financing.

Recognizing the effective steps taken to strengthen IMF engagement over the evaluation period, such risks are assessed as moderate at the current time for most SDS (although somewhat higher for the more remote and geographically isolated SDS). However, such risks could rise over the years ahead in light of SDS vulnerability to climate change–related shocks, which seem likely to become even more challenging over time, and the uncertainty regarding the future course of the COVID-19 pandemic, especially for tourist-dependent SDS.

Moreover, the IMF is itself exposed to reputational risk if it is perceived as not paying adequate attention to the economic and financial needs of a substantial section of its membership. Such risks were probably low to moderate before the pandemic, mitigated by the Fund's significant efforts to address SDS concerns over the past decade. During the initial phase of the pandemic, the Fund's reputation benefited from the widespread use of IMF emergency financing, although there were concerns that access was small relative to the scale of the shock, particularly for SDS. However, reputation risks could well increase in the years ahead as SDS face increasing challenges and financial needs from climate change and continuing uncertainty from the COVID-19 pandemic.

RECOMMENDATIONS

Recognizing the substantial progress that has been made over the past decade in strengthening the IMF's engagement with SDS and the need to respect broader institutional constraints, the evaluation does not believe that a major overhaul of the Fund's SDS engagement is called for. Nevertheless, there is scope for some targeted recalibration of the Fund's work on SDS that would help to raise the value added and impact of this engagement while imposing limited additional budgetary costs.

Towards this end, the evaluation offers four broad recommendations together with specific suggestions in each category, which are intended to be mutually reinforcing. The four recommendations cover a focused refresh of the IMF's overall approach to SDS work; specific operational steps to strengthen the traction of surveillance and capacity development work; suggestions on how to make better use of the Fund's lending framework to serve SDS needs and constraints; and further HR and budgetary commitments to support continuity and impact of IMF engagement with SDS. Implementing these recommendations could also bring benefits for the Fund's work more generally through institutional learning on issues such as ND&CC, where SDS initiatives have often spearheaded the Fund's attention.

Recognizing the Fund-wide budgetary constraints and the competing demand for resources, these recommendations are primarily intended to maximize efficiency and impact inthe use of budgetary and HR resources currently applied to SDS work. They do not envisage a substantial, permanent increase in the budgetary envelope for this work. However, there would be some initial need for resources to update guidance and some longer-term need for additional resources in specific areas, including the recommended increase in the Fund's field presence in SDS, although there could also be some efficiency savings.

In putting forward these recommendations, it should be recognized that many of the concerns raised in this evaluation about the engagement with SDS are relevant to the Fund's work more generally, have been raised in other IEO evaluations, and have prompted past and ongoing efforts, including in management implementation plans (MIPs) for some recent IEO evaluations. Such issues include the need for greater granularity and country awareness for advice; deeper and more effective collaboration with partners; longer staff tenures in country assignments; and greater field presence. However, these issues seem to be particularly problematic in the context of SDS, given their relatively limited institutional capacity and the fact that they face a somewhat distinct set of issues, often requiring expertise beyond what is readily available in the Fund. Thus, actions already included in some recent MIPs will be relevant and helpful. Some additional commitments may be warranted to reinforce such actions for the SDS context, but should build on rather than duplicate existing MIPs, helping to mitigate the overall cost implications of the recommendations.

It is also worth stressing that while the concrete recommendations aim to be SMART (Specific, Measurable, Achievable, Relevant, and Time-bound) and involve mechanisms to strengthen coordination, to be truly effective there will also need to be a change in the institutional culture toward SDS to fully recognize the importance of such work for the institution. For this purpose, visible support and championing of SDS work by management and senior departmental staff will be essential.

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.

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. The recalibration would have two principal elements: a refresh of the SGN and steps to support more effective application of the SGN and other commitments in the implementation plan for this evaluation through mechanisms for internal coordination, engagement with the Board, and collaboration with partners.

Aspects of the refresh for the SGN could include:

- Further attention to how best to integrate surveillance, lending, and capacity development work on SDS across the Fund and in individual countries. This would include guidance on how to make the most effective use of the new CMAP tool and of the RST financing to address climate vulnerabilities, taking account of the particular needs and institutional constraints of SDS. It would also provide guidance on use of tailored engagement strategies to promote synergies across all aspects of Fund engagement with SDS.
- Further attention to how best to apply the standard set of AIV surveillance requirements and diagnostic tools in the SDS context, recognizing SDS' limited data and institutional capacity, while respecting the Fund's legal framework.
- Consideration of how to bring Fund-wide skills and expertise to address SDS challenges. Cost-effective approaches to achieving greater involvement of functional departments in SDS work could be helpful in making more granular the Fund's advice on specific issues where deep expertise is particularly relevant.
- Additional emphasis on how best to coordinate work with partner institutions to maximize synergies and optimize the use of scarce resources. Priorities for coordination would include policy advice on macro-critical issues where other institutions have relevant expertise, maximizing the catalytic effect of IMF engagement, particularly financing for climate and resilience building.
- Advice on how best to foster strong and continuous relations with SDS members, including through new hybrid interactions and greater regional engagement.

Coordination mechanisms to support continuity, accountability, and momentum of SDS work could include:

- Tasking the staff-level interdepartmental SDS working group with a mandate to champion SDS work by the Fund, to provide advice on the design and application of the refreshed SGN, and to oversee the implementation of the MIP for this evaluation. The working group could be expanded to include capacity development departments as well as ADs and SPR, to take advantage of cross-departmental synergies.
- The working group would continue to report to management and engage regularly with the Board SDS working group and with external partners working on SDS issues, including the Small States Forum, inter alia, to report on progress being made under the implementation plan.
- The working group could contribute to and monitor the implementation of an SDS-focused research workstream on cross-cutting issues, as well as continuing to oversee efforts to develop and manage channels for internal knowledge sharing—including analytical work, best practices, data, and policy experience—across departments and regions.
- A commitment to a staff review of IMF engagement with SDS within five years, taking account of experience with implementation of the refreshed 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 and capacity development.

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.

Particular steps could include:

- Providing selective attention to current and emerging policy issues that may be macro-critical in the SDS context, including those highlighted by country officials (i.e., employment, growth, diversification, crime, climate change, resilience building, and financial sector development), and making it more operationally useful. Achieving this goal is likely to require closer collaboration with partners like the World Bank with deeper experience and expertise in such issues.

- Preparing tailored engagement strategy notes to foster greater integration and impact of surveillance, capacity development, and lending activities in specific SDS. To be cost effective, consideration could be given to doing this on a pilot basis or at the regional level for those SDS not covered by the new requirement for FCS.

- Increasing efforts to apply diagnostic tools in a manner suitable to SDS circumstances. It would clearly be useful to apply the CMAP to a broader range of SDS, given its particular relevance for these countries. It is also worth considering how to increase access to valuable financial assessment and diagnostic tools like the FSAP and FSSR, with particular attention to coverage of financial depth, inclusion, and resilience issues particularly relevant to SDS. To accomplish this in a cost-effective manner, it is worth exploring regional or cluster approaches for this work, combining multiple SDS. Application of data-demanding diagnostic tools including debt sustainability assessment and the EBA-lite could be further streamlined when applied to SDS, by better leveraging built-in flexibility, in recognition of their circumstances and constraints.

- Placing greater attention to SDS' institutional capacity constraints and political economy circumstances in providing capacity development support. Actions could include strengthening ex ante consideration of recipients' absorptive capacity and ownership; reallocating resources away from the design of new—and sometimes repeated—recommendations and toward more continuous implementation support (virtually as well as on the ground); more closely linking the allocation and provision of capacity development not only to countries' needs, but also to their implementation efforts and ownership, taking advantage of RBM data (as it becomes more systematically available) to increase transparency on progress being made; consideration of how hybrid capacity development delivery could be best applied; and deepening coordination of capacity development with partners, both at the national and regional levels, to minimize overlap, oversupply, and capacity development shopping, and to improve sequencing and quality.[56]

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

In particular, three suggestions could be considered, consistent with the principle of uniformity of treatment, that would aim at better meeting SDS' needs for Fund financing, including for resilience building and post-disaster financial support.

- Greater attention should be paid to growth and resilience outcomes in UCT-quality programs with SDS, including by drawing on expertise in partner institutions where needed to ensure appropriate coverage of important structural issues where the

[56] These issues will be explored further in a more general context in the upcoming IEO evaluation of IMF capacity development work, but they are all particularly relevant for SDS.

Fund itself does not have deep expertise. Such attention would not only make UCT arrangements more useful to achieving SDS goals but also reduce stigma concerns and support ownership. Actions would build on commitments included in the recent MIP for the evaluation of growth and adjustment in Fund-supported programs (IEO, 2022).

- Implementation of the newly designed RST should take account of SDS' particular needs and institutional constraints. In principle, the new RST could help (i) significantly scale up resources to support SDS in managing their vulnerabilities and in building resilience to respond to SDS' climate- and natural disaster–related challenges; (ii) better align IMF lending with the longer-term requirements of resilience building; and (iii) exploit diagnostics provided by CMAP. It will be important to ensure that in practice the requirement to pair RST use with a UCT-quality program provides the necessary reassurance that such resources will be well used in a sound macroeconomic framework to safeguard use of Fund resources without deterring use of this new source of financing by imposing a heavy administrative burden on a borrowing country with limited institutional resources for example, by providing on-the-ground implementation support.

- Access limits under the Fund's EF instruments for dealing with large natural disasters could be increased further, above the current cap of 80 percent of quota for a large natural disaster, to 130 percent as provided temporarily during the COVID-19 pandemic, for countries with robust macroeconomic frameworks, and governance standards needed to safeguard Fund resources. Such a change would recognize evidence from the evaluation that SDS in particular often face more frequent and larger shocks relative to their economic size and thus face larger financing needs relative to current access limits, but it could be designed in a way not to deter use of UCT programs for countries needing policy adjustment and reforms to address their balance of payments problems.

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

Such 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.

- ADs need to make a greater commitment to reducing SDS mission chief turnover and avoiding gaps in mission chief assignments. Use of SDS assignments as an opportunity to gain mission chief experience for promotion should be constrained to staff willing to make an adequate commitment to SDS work, and not used as a one-off stretch assignment. Steps in the recently approved MIP for the Categorization of Open Actions exercise (IMF, 2021d) aimed at raising average tenure and improving handover procedures on a Fund-wide basis, are relevant here, but an additional commitment could be added to ensure that SDS do not continue to be at the lower end of the range for turnover metrics given the particular value of continuity in the SDS context.

- Incentives for staff working on SDS country teams should be strengthened by increasing recognition of staff performing well in such assignments; limiting use of co-desk assignments except where both desks are in the same division; encouraging greater use of functional department staff, including through more flexible virtual communications; and limiting use of stopgap measures, including participation of other departmental staff to fill mission teams.

- The attractiveness of SDS assignments could also be improved by increased use of research assistants for data gathering and processing, which are very time-consuming in SDS. This step would help alleviate data problems and provide desk economists with additional time to focus on SDS' policy issues.

- Depending on experience over the next two years in strengthening incentives to work on SDS, consideration may need to be given to adding some SDS still having trouble with recruitment to the list of countries that qualify as providing relevant operational experience for promotion eligibility in the new career framework for fungible macroeconomists.
- Given the demonstrated value of field staff for SDS work, some additional budgetary resources should be provided to expand the footprint of the IMF in SDS. A cost-effective option could be expanding the number of macroeconomist staff in existing or newly created regional offices and RCDCs, since separate country resident representative (RR) offices are costly. This would contribute to strengthening surveillance and capacity development functions (and their integration), support program work where relevant, facilitate the provision of follow-up support, increase the Fund's understanding of local circumstances, and contribute to deepening countries' familiarity with the Fund and trust building, reducing the stigma problem.

Budgetary Implications

As mentioned above, in making these recommendations the evaluation team has generally sought to build on initiatives to strengthen IMF engagement with SDS during the evaluation period, by proposing some further targeted actions to maximize efficiency and value added in the use of resources currently applied for SDS work rather than increasing the budgetary envelope. Moreover, some recommendations deliberately build on existing commitments already included in MIPs for other evaluations.

That said, inevitably there would be some initial "set-up costs" in implementing the recommendations, for example to update the SGN. In addition, some longer-term increases in budgetary resources would seem to be justified in specific areas, such as the costs of strengthening field presence, including by building up the role of RRR offices and by providing for somewhat more use of valuable but resource-intensive diagnostic tools like CMAP and FSAP/FSSRs. On the other hand, there could also be some offsetting savings in travel costs from increased use of virtual engagement as well as in-the-field staff, from increased use of regional and cluster approaches to surveillance work, and from greater reliance on partnerships in areas that are macro-critical but where the Fund does not have deep expertise.