The Acting Chair's Summing Up
Independent Evaluation Office—IMF Engagement with Small Developing States
Executive Board Meeting
May 6, 2022

Executive Directors welcomed the report of the Independent Evaluation Office (IEO) on IMF Engagement with Small Developing States (SDS) and appreciated its insights and recommendations. They welcomed the report's finding that the Fund has substantially stepped up its engagement with its SDS members over the past decade, and that SDS country officials generally considered Fund surveillance and capacity development (CD) activities of high quality and well-tailored to their needs. At the same time, Directors noted the evaluation's findings of several challenges facing Fund engagement with SDS, including the suitability of the Fund's lending architecture to SDS needs and capacities, limited institutional capacity in SDS, difficulties in staffing SDS assignments, and political economy considerations. Against this background, Directors broadly agreed that based on the evaluation's findings, additional actions should be considered to strengthen the value added and impact of IMF engagement with SDS, although a major overhaul was not needed. Many Directors broadly supported the IEO recommendations and looked forward to the Management Implementation Plan (MIP) to implement them. Many other Directors broadly agreed with the partial and qualified support provided by the Managing Director's statement as a broadly balanced approach to addressing the identified challenges, ensuring appropriate tailoring while considering evenhandedness and resource constraints.

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. 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, and steps to support more effective application of the SGN and other commitments in the MIP through mechanisms for enhanced internal coordination, engagement with the Board, and enhanced collaboration with partners, particularly the World Bank, while underscoring that such coordination mechanisms should remain cost-effective. Many Directors supported the proposal for a review of Fund engagement with SDS within five years. 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. A few of these Directors emphasized that these planned reviews should carve out analysis of SDS. Many Directors supported the development of an overarching framework for Fund engagement with SDS, although Directors agreed that a major overhaul on engagement with SDS was not needed, consistent with the findings in the evaluation. Many Directors emphasized the importance of tailored communication with SDS countries through active outreach. A number of Directors supported the formalization of IMF-World Bank collaboration on workstreams that are of critical relevance to SDS, with the Fund focusing on its areas of expertise and relying on external partners to complement and fill gaps.

Directors generally supported Recommendation 2 that 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, noting the increased challenges posed by the uncertain economic environment and SDS vulnerabilities to climate change and natural disasters. On surveillance, Directors agreed that actions should aim at better leveraging flexibility in core tools for the SDS context, deepening integration across Fund activities, better recognizing domestic constraints, and increasing support for implementation. The SGN refresh should strengthen guidance in this area. Many Directors emphasized that diagnostic tools were useful in SDS and ensuring their tailoring to suit SDS will increase their impact. Directors noted that surveillance and its related toolkits must remain consistent with the Fund's policy frameworks such as the Integrated Surveillance Framework, evenhandedness requirements, macro-criticality, and medium-term budget constraints. Directors also highlighted the need to collaborate with the World Bank in this context. Many Directors concurred with the Managing Director on the need for flexibility in prioritizing Fund engagement and resources through surveillance and CD, including FSAPs/FSSRs and CMAPs, to ensure consistency with the medium-term budget and recent Board-endorsed strategies, and to preserve the ability to address emerging or unexpected issues. Many Directors were open to exploring the use of cluster or regional approaches, in cases in which these may prove to be cost-effective. A number of Directors supported a broader rollout of Country Engagement Strategies for non-fragile SDS; many other Directors considered that these notes could be rolled out on an as-needed basis for this group of SDS. A few Directors saw merit in applying CMAPs to a broader range of SDS. A number of Directors emphasized the need for an appropriate selection of SIP topics to add value to policy discussions. Directors observed that many of the issues raised on CD are relevant to a much wider part of the membership and could be considered in the forthcoming IEO evaluation of CD.

Many Directors broadly supported Recommendation 3 for the Fund to consider how to use its lending framework in ways that better address the needs and vulnerabilities of SDS, while many others agreed with the Managing Director's partial and qualified support. Directors generally agreed that 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 recently approved MIP for the IEO Evaluation on Growth and Adjustment in Fund Programs, although a few Directors urged caution about setting explicit growth objectives. Directors also generally agreed that the newly approved Resilience and Sustainability Trust (RST) should address the needs of all eligible members, including SDS. Many Directors noted the need to consider how to leverage RST financing to address longstanding structural constraints and build resilience in SDS. A few Directors noted institutional constraints in SDS and saw room to alleviate the administrative burden of UCT-quality programs for these countries; a few others saw scope to use existing flexibilities. Directors supported first allowing RST operations to begin, and then reflecting on lessons learned during its initial review. A number of Directors emphasized that the planned 18-month interim review should commit to assessing whether the RST is providing and catalyzing meaningful support to SDS and propose adjustments, as necessary. Many Directors supported the recommendation to increase access limits under the large natural disaster window of the emergency financing instruments. Many other Directors, however, did not consider further raising access limits, a key safeguard to lending under the emergency financing instruments, to be the right approach, including as it could disincentivize the use of UCT-quality programs. Directors noted the need to build further awareness of the benefits of UCT-quality programs in SDS. Many Directors also called for the Fund to take advantage of the 16th General Review of Quotas to evaluate potential options to better align SDS access to Fund financing with their significant needs.

With regard to Recommendation 4 on adopting further HR management and budgetary commitments to increase continuity and impact of staff's engagement with SDS, Directors 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. While noting the evaluation's finding that the issue of staff turnover and handover of assignments is more severe for SDS, Directors generally observed that this is also a concern for other non-SDS members. Directors welcomed the MIP on the Board Endorsed Recommendations on Categorization of Open Actions, which aims to address many of these issues. Directors agreed that this MIP should be allowed to progress before considering SDS-specific measures in this area, with a number of Directors recommending consideration of SDS-specific initiatives following the planned two-year review envisaged in this MIP. A number of Directors suggested, however, that the promotion policy developed to incentivize staff working on fragile and conflict-affected states be extended to all SDS. A number of Directors also called for innovative and practical ways to increase the Fund's field presence. 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.

Overall, Directors noted that the recommendations and their detailed suggestions should be carefully weighed against their budgetary implications, including tradeoffs, and build synergies with ongoing workstreams. Many Directors saw scope for resource reallocation to accommodate the budgetary needs within the existing budget. Directors thanked the IEO for a comprehensive, thorough, and in-depth evaluation and detailed papers, even though a few Directors would have preferred a shorter and more concise main report, with greater focus on key lessons and main recommendations.

In line with established practice, management and staff will carefully consider today's discussion in formulating the MIP for Board-endorsed recommendations.