CAPACITY DEVELOPMENT[37]

CONTEXT

As described in Chapter 2, most SDS share relatively low levels of development and suffer serious constraints on their institutional capacity and human resources, especially in the Pacific region and in microstates. World Bank data[38] suggest that SDS institutional capacity is significantly lower than that of larger countries in a comparable income bracket and has shown only marginal improvements over the last decade. These constraints have long been recognized by the Fund and external experts as having serious negative effects on the economic performance of SDS, but the lack of institutional capacity and the small size of their administrations also affects SDS' capacity development absorption and implementation capacity, increases brain drain problems, and leaves institutions exposed to the risk of relying on a single key individual, hampering the retention of skills and the continuity in the relationship with the Fund.

Given their capacity constraints, SDS are avid consumers of capacity development support from the Fund and other development partners, making capacity development provision one of the most important dimensions of the Fund's work for this subset of the membership. Indeed, capacity development now represents about 40 percent of the Fund's spending on SDS, compared to about 30 percent for the whole membership (see Figure 3.1).

The provision of capacity development to SDS has a strong geographical and regional dimension. SDS are highly concentrated in the Pacific and Caribbean regions and most of them are islands, some in very remote locations. These characteristics make capacity development provision to SDS more difficult and costly than to other parts of the IMF membership and increase the advantages of regional delivery of capacity development and peer-to-peer learning. Beyond geography, the regional dimension of capacity development provision is strengthened by the many common characteristics and challenges SDS share and by the relevance of regional institutions, which are often capacity development recipients and play a role in knowledge retention and diffusion.

This regional dimension has led to a very prominent role of the IMF's Regional Capacity Development Centers (RCDCs) in the delivery of capacity development to SDS (Figure 6.1). Indeed, RCDCs were originally conceived to provide technical assistance to small island economies. The first one, the Pacific Financial Technical Assistance Center (PFTAC),[39] opened in Fiji in 1993 and provides capacity development support for 12 Pacific Islands.

[37] This chapter draws on de Las Casas and Balasubramanian (2022a).

[38] Country Policy and Institutional Assessments and Worldwide Governance Indicators.

[39] PFTAC currently serves 16 countries and territories (The Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, and Vanuatu), of which 12 are SDS members.

FIGURE 6.1. GEOGRAPHICAL DISTRIBUTION OF SDS

Source: IEO (Tableau).

The second one, the Caribbean Regional Technical Assistance Center (CARTAC),[40] established in Barbados in 1999, supports 12 SDS in the Caribbean. These and other RTACs, especially AFRITAC South located in Mauritius, have been responsible for a growing share of all capacity development assistance to SDS. Regional Training Centers based in Singapore, Mauritius, and Kuwait also contribute to the provision of capacity development to SDS.

AMOUNT, QUALITY, AND CONTENT

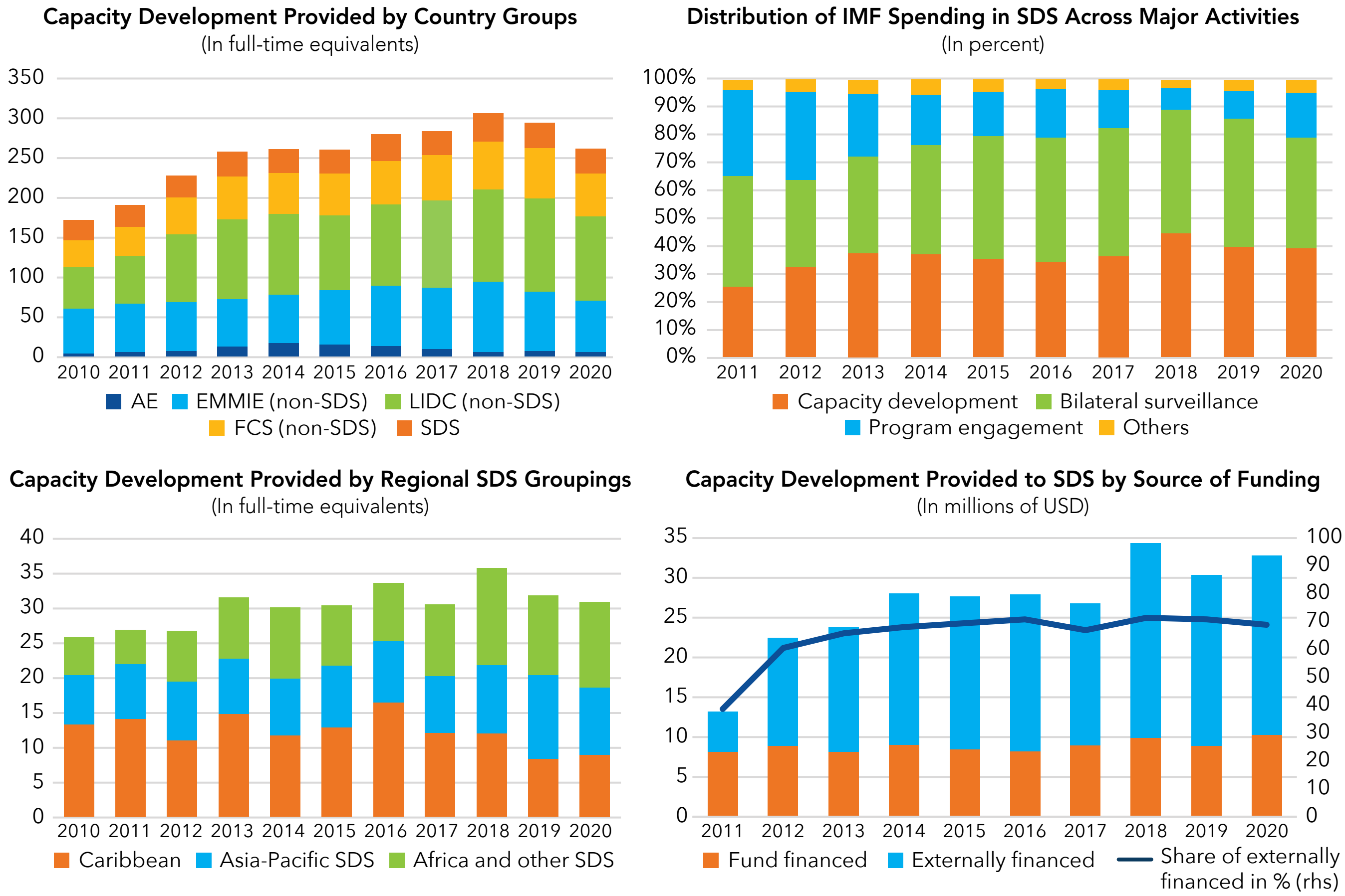
Both across the membership and in SDS, the resources devoted by the IMF to capacity development grew during the evaluation period, although there was a modest decrease in 2020, reflecting constraints on delivering capacity development during the pandemic (Figure 6.2). The bulk of the Fund-wide increase in capacity development went to low-income developing countries (LIDCs) and FCS, while the increase was less pronounced for SDS and larger economies in their income bracket (emerging market and middle-income economies). Indeed, while the Fund's spending on capacity development is a relatively high share of SDS country spending, it is considerably smaller in terms of dollars per country than for other members. During the evaluation period, the Fund spent on capacity development, on average, around $700,000 per year in each SDS, approximately half the expenditure in LIDCs, well below the amount devoted to each FCS ($1.16 million), and substantially less than the $850,000 devoted to emerging market and middle-income economies. Among SDS, the regional allocation[41] of capacity development shows that, starting from a lower level, Asian and especially African SDS received growing amounts of capacity development. The increase in capacity development delivery to SDS was entirely financed by the growth of external financing sources.

Given indivisibilities of capacity development project costs, small size does not necessarily translate into commensurately lower costs, but lower dollar spending necessarily translates into fewer capacity development projects per SDS than for LIDCs or other FCS. Nevertheless, officials consulted for case studies for this evaluation did not express

[40] CARTAC currently serves 23 countries and territories (Anguilla, Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Maarten, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos), of which 12 are SDS members.

[41] Countries are classified in three main groups for this analysis: Asia-Pacific SDS, Africa and other SDS, and Caribbean SDS.

FIGURE 6.2. CAPACITY DEVELOPMENT PROVISION AND FINANCING, 2010–2020



Sources: IMF (ACES-TIMS); IEO calculations.

that there was unfilled demand for capacity development among SDS given their internal constraints. Some staff members argued that ample availability of resources has led to the provision of too much capacity development to these members, exceeding their absorption capacity and generating very low impact.

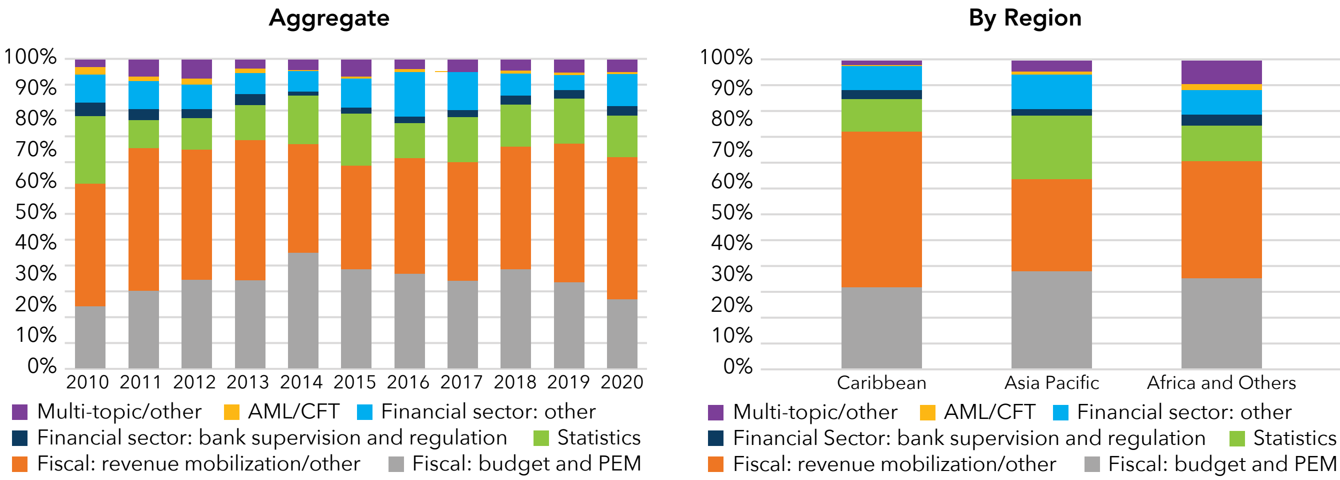
Generally, in case study interviews, recipients and providers considered capacity development of high quality and well-tailored to their priorities.[42] Satisfaction was generally highest with the support provided in the areas where the Fund has particular comparative advantage, e.g., public financial management, tax administration, debt restructuring, vulnerability assessments, monetary operations, bank oversight and resolution, and economic statistics (Figure 6.3). One concern, shared by several staff in ADs, was a tendency to recommend first-best solutions, when more "practical and humble" advice could have worked better and facilitated implementation. However, the large role played by the RCDC, staffed by experts very familiar with the region, helped to alleviate such risks (see discussion below).

Prioritization and allocation of the capacity development resources was generally quite well aligned with country interests. Steps taken to underpin ADs' responsibility for capacity development allocation and prioritization—including increased elaboration of Regional Strategy Notes

[42] The survey of authorities conducted for the evaluation also suggested that capacity development is perceived as providing more value added to SDS than surveillance and lending, and suggested a high level of satisfaction, especially regarding the expertise of the providers, the effectiveness of the capacity development, and its alignment with individual priorities (de Las Casas and Balasubramanian, 2022b).

FIGURE 6.3. THEMATIC DISTRIBUTION OF IMF CAPACITY DEVELOPMENT TO SDS, 2010–2020

(In FTEs, percentage)



Sources: IMF (TIMS); IEO calculations.

and Country Strategy Notes[43] and the broad consultation in the early preparation of capacity development missions—and the major part played by RCDCs helped in achieving this outcome.

However, authorities voiced concerns regarding the high dependence of capacity development for SDS on the availability of external funding, which could distort allocation of capacity development. They felt that middle-income, non-program SDS ranked very low on the list of Fund priorities and some requests could only be addressed thanks to the availability of earmarked external financing. Relatedly, while authorities did not express concerns regarding excessively supply-driven allocation of capacity development, some staff members mentioned that the dependence on donor financing introduced a supply-driven element. Rather than requesting support in the areas with most pressing needs, authorities would sometimes request the capacity development for which they knew funding was available.

DELIVERY MODALITIES AND RCDCs

One of the most salient features of the Fund´s capacity development provision to SDS was the widespread role played by RCDCs in serving SDS. This role was greatly appreciated by country officials. RCDCs not only were considered the "eyes and ears" of the Fund in SDS, palliating to some extent the scarcity of resident representatives lamented by SDS authorities, they often also enjoyed a better reputation than the Fund itself as understanding country conditions and being geared to meeting SDS needs, thus helping to generate a greater sense of ownership and augmenting value added. Moreover, RCDCs' contribution to the Fund's work in SDS is made at a relatively low cost to the Fund's own budgetary resources, as roughly 75 percent of their expenses are financed by RCDC donors.

The success of RCDCs is based on several dimensions. First and foremost, the capacity development they provide is considered better tailored, more pragmatic, and more responsive, due to their better understanding of the local and regional circumstances (including realism about absorption capacity), their proximity, and longer-term engagement of their experts. Secondly, RCDCs are to a large extent the custodians of the Fund's relationship with SDS; they provide continuity to the Fund's engagement by bridging the gaps between missions and alleviating the negative effect of the high turnover, and sometimes lack of experience of both HQ staff and officials. In doing so, they provide handholding and guidance, which is required for the successful implementation of capacity development in

[43] CSNs and RSNs provide medium-term context, objectives, and priorities for the delivery of capacity development. They articulate the thematic and geographical allocation of resources, as well as the identification of the most suitable delivery modalities. Their structure, content, and time-coverage is not standardized across departments.

most SDS. Day-to-day engagement, however, also poses concerns, including in some cases, the transformation of capacity building into capacity supplementation (which can prevent skills transfer), and the provision of excessive supply-driven capacity development, and making oversight and quality control from HQ more challenging.

RCDCs have also acted as effective coordination centers, not only of the regional provision of IMF capacity development, but also in organizing regional high-level conferences and working groups and, within the Fund, contributing to surveillance work and launching initiatives to exploit the wealth of knowledge, experience, skills, and opportunities available. The role of RCDCs as coordinators was highly appreciated by authorities and staff and extended beyond donors to development partners and regional institutions. Jointly with resident representatives and ADs, RCDCs have channeled countries' capacity development needs to other institutions when they were outside the Fund's areas of expertise and, in return, they have benefited from their relationships with regional institutions in terms of credibility and of cohesion of their work. Maintaining these efforts is important to address the occasional coordination issues occurring during the evaluation period, which were particularly detrimental to capacity development effectiveness in SDS, as they compounded their limited absorption capacity, including problems of overlap and oversupply of capacity development, poor sequencing, and sub-optimal distribution of responsibilities among providers.

Beyond RCDCs, SDS officials valued the provision of capacity development through several modalities, which allowed for better tailoring to country needs. HQ-delivered capacity development was generally perceived as providing valuable strategic guidance, while RCDCs were seen as providing advice more tailored to national conditions and support for implementation. Resident experts and longer-term provision were strongly preferred over one-off missions, as SDS required abundant implementation support. However, most officials recognized that adapting delivery modalities to each specific theme had yielded good results. IMF training courses—delivered regionally, at HQ, or online—were also appreciated, as they provided an opportunity to exchange views with colleagues abroad and to reach a high number of officials.

Remote delivery of capacity development, which intensified during the pandemic, was considered a distinct second best by SDS officials. While it can help relieve the physical remoteness problem and add flexibility, many SDS feared connectivity problems and a greater engagement gap. On the ground presence was clearly preferred and recognized, by authorities and staff, as a key factor, if not a sine qua non condition, for traction and effectiveness in SDS.

IMPLEMENTATION AND IMPACT

IMF capacity development is widely perceived in SDS as being useful, well delivered, and having a substantive impact. Perceptions vary, however, across levels of development, across regions, and across types of capacity development. More advanced SDS, especially in the Caribbean and Africa, are better able to benefit from the Fund's capacity development support. The areas of Fund-provided capacity development highlighted most often by authorities as achieving greater effectiveness and/or contributing to policy formulation, both in interviews and in the survey, include tax administration, public financial management, monetary operations, financial sector oversight, AML/CFT, and national accounts statistics.

Nevertheless, the case studies found numerous cases of insufficient or unsustained implementation, which diminished the impact of capacity development. The reasons for this lack of implementation were diverse. On the part of the authorities, implementation capacity constraints related to the characteristic limited institutional development of SDS were clearly the main issue. Such absorptive capacity constraints were compounded in some instances by weak political will and incentives, particularly when country ownership of the capacity development was limited. This problem was sometimes made worse by the authorities' ability to shop around alternative capacity development providers, given the variety of sources available to them in a crowded capacity development market. On the part of the Fund, the key challenge in SDS was providing the follow-up support for implementation of capacity development recommendations requested by country officials.

Beyond hindering capacity development in recipient countries, implementation and impact problems complicate capacity development allocation decisions at the Fund. Continued provision of capacity development when impact is limited raises concerns about the efficiency of use of scarce capacity development resources and increases the risk of excessive capacity supplementation. Against this, it must be recognized that the process of institution building is necessarily slow and subject to setbacks. In general, when allocating capacity development resources, the challenge is to find the right balance between countries' needs and their willingness to engage proactively (at the technical and political levels), taking into account countries' implementation track record.

One challenge in finding the right balance is that the Fund has only recently developed a fully functioning framework for systematically gathering information on capacity development and assessing its performance, including impact and effectiveness. Preliminary analyses of data from the results-based management (RBM)[44] system conducted by the IMF's Institute for Capacity Development (ICD) and the IEO suggest statistically significant differences in outcome scores, pointing to poorer results in SDS than non-SDS.[45] The average outcome implementation rating of projects (completed and ongoing) between 2013 and 2020 was 2.39 for SDS, lower than for AEs (2.65) and LIDCs (2.48), similar to the rating for EMMICs (2.39), and slightly higher that for FCS (2.34). However, the data is still too limited to support meaningful diagnosis and remedies. For SDS projects, only 10 objectives (9 percent of the total, 5 for completed projects and 5 for projects under implementation) and 127 outcomes (50 percent of the total, 30 for completed projects and 97 for projects under implementation) were rated. Nevertheless, there are high expectations regarding the potential contribution of RBM together with CDMAP as it matures and provides a more complete data source for analysis.

INTEGRATION WITH OTHER IMF ACTIVITIES

Effective integration, understood as the process of striving to make sure that the three main activities of the Fund—surveillance, program work, and capacity development—are mutually reinforcing and well-coordinated, is considered key for the traction and effectiveness of capacity development in SDS. Such integration is based on the interactions between capacity development experts and country teams, through the formal capacity development prioritization and planning process, informal consultations, and the participation of advisors in surveillance missions. These interactions are seen by staff as enriching and mutually beneficial, as they provide country teams with a level of specificity that is very difficult to achieve in the surveillance context, and capacity development experts benefit from the analysis of the overall situation and the challenges facing countries that country teams bring to the table.

Case study evidence suggested that such integration was most fully achieved in the context of a program, given the intensified engagement between the authorities and the Fund and the stronger incentives posed by clear short-term targets. In the absence of a program, evidence suggests that integration tended to increase over time and reached generally satisfactory levels by the end of the evaluation period, although it could still be improved.

The IMF's capacity development strategy has increasingly given country teams responsibility over the prioritization and planning of capacity development, in close coordination with capacity development providers. However, this responsibility has been fulfilled with varying degrees of success, depending on teams' workload and interests and on departmental policies and priorities. Country Strategy Notes (CSNs) and Regional Strategy Notes (RSNs) have proven pivotal documents to rationalize and plan capacity development provision in some cases, but their elaboration has been uneven across departments.[46]

Integration of capacity development with surveillance and program work is made more challenging by the lack of resident representatives (RRs) in SDS. Currently, only one of the 34 SDS member countries has its own RR.

[44] RBM was first introduced in the mid-2000s and required for all capacity development projects from 2017, but only effectively operationalized in 2021 with the implementation of the Capacity Development Management and Administration Program (CDMAP).

[45] For additional details, see Bassanetti (2021). Further analysis will be provided in the upcoming IEO evaluation of IMF capacity development work which is expected later in 2022.

[46] Since their conception in 2017, among the three departments containing most SDS, AFR has elaborated six RSNs and at least one CSN for each one of the SDS in the region. APD and WHD also have prepared six RSNs each, but there were no individual CSNs for the SDS in those departments. MCD and EUR have elaborated seven and five RSNs, respectively, but, while several CSNs were made for Djibouti, there was none for Montenegro.

In addition, 12 Pacific SDS are covered by the IMF's regional office in the Pacific Islands. Several authorities regretted the absence of a RR in their countries. Being part of the day-to-day business of ADs, physically on the ground with RCDCs, and in close contact with authorities, RRs are ideally placed to identify countries' needs. However, budgetary constraints have hampered greater access by SDS to individual RRs. The experience with regional resident representatives (RRRs), as opposed to the traditional country-specific assignments, has been positive but they have been spread thin across many countries.

In the absence of a RR, the RCDC leaders, appointed by the ADs, have sometimes played a useful role supporting integration. However, RCDC experts have occasionally seen themselves as autonomous, with little need to report to ADs, and have less knowledge of the Fund's culture and modus operandi. At the same time, there have been instances of integration being hampered by lack of coordination among the various interlocutors within a country's administration, leading to uncoordinated requests for capacity development at different levels.

Despite the symbiotic relationship between capacity development and surveillance, and the existence of room to polish and deepen it, it should be recognized that there are limits to integration. Under the Fund's organigram, surveillance and program work are the responsibility of ADs, as they have the required knowledge of Fund policies and operations across the board. RCDCs' employees are generally technical experts in their fields and, while they can provide valuable inputs for the surveillance process, they have no capacity to conduct surveillance or program operations. There are also limits derived from RCDCs' governance and their relationship with donors, as their financing is specifically intended for capacity development support and should not be diverted to surveillance activities.

OVERALL ASSESSMENT

Overall, IMF capacity development to SDS was highly valued and considered, both by authorities and Fund staff, as a fundamental contribution to building SDS' capacity. The capacity development delivered was regarded as of high quality, timely, adequate in amount, relevant, and well-tailored. However, it was not problem free.

The most entrenched issue was the limited implementation of capacity development advice, which resulted in weaker impact. While this is clearly an area of shared responsibility by the Fund and national authorities there are several steps the Fund could take, including: (i) strengthening ex ante consideration of recipients' absorptive capacity and ownership; (ii) reallocating resources away from new—and sometimes repeated—CD projects toward supporting the implementation of recommendations; (iii) rationalizing better and more forcefully the provision of IMF capacity development, taking into account not only needs, but also absorption capacity, incentives, and ownership; (iv) aligning the incentives of recipients, for example by increasing the degree to which capacity development provision is conditional on good-faith efforts to implement previous capacity development advice, and by using systematically RBM data as it becomes available to increase transparency on progress being made; and (v) deepening coordination with other capacity development providers, both at the national and regional levels, to minimize overlap, over-supply, and capacity development shopping, and to improve sequencing and quality.

As part of these efforts, the Fund should consider investing more of its own resources in RCDCs and regional resident representatives (with appropriate back-stopping) given that the value added of the resources devoted to capacity development provision in SDS is maximized when channeled through locally based staff in direct contact with country officials. This effect seems to be particularly strong in SDS, due to their high regional concentration and shared characteristics. Localized work by RCDCs and RRs is perceived by recipients as better tailored and implementable capacity development, but its benefits go beyond capacity development, strengthening other functions and improving the general relationship of the Fund with these members. At the same time, dedicating more resources to RCDCs and RRRs would allow them to expand their role in supporting surveillance (and program work when needed) and promote further useful knowledge exchanges within and across regions and among IMF departments.

Various steps could also be taken to maximize the value added of RCDCs. Clearer guidance and/or training to capacity development experts, explaining how best to engage with countries, clarifying duties (including delineation of capacity development provision vs. capacity supplementation), and explaining advisors' responsibilities vis-à-vis country teams, would go a long way in creating a more symbiotic relationship between capacity development and other functions, potentially expanding the contribution of experts to surveillance and program work. It would also be useful to develop a structure within the Fund to effectively manage the knowledge accumulated in RCDCs across regions. A simple coordination mechanism, with low budgetary requirements, would be the creation of a group with representatives from the existing SDS-related divisions, RCDCs, and ICD. Finally, consultations between country teams and RCDCs experts and the participation of the latter in surveillance missions could be more systematic. The experience during the pandemic has proven that more frequent contact can be effective through virtual means of communication.

Country teams and ADs' role in leading prioritization and planning of country capacity development work, with greater focus on end-results, should be strengthened, including by making more systematic use of CSNs and RSNs and building on the emerging results from RBM. This centralization of responsibility would help address concerns regarding absorption capacity assessment, dependence on donor financing and preferences, and supply-driven provision. Higher support and attention by ADs to this task would also help.