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# BACKGROUND PAPER

BP/22-02/07

# The IMF and Capacity Development—Prioritization and Allocation

Christopher Towe

Address. 700 19th Street, N.W., Washington, D.C. 20431, U.S.A. Telephone. +1 202 623 8623 Fax. +1 202 623 9990 Email. ieo@imf.org Website. ieo.imf.org

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The IMF and Capacity Development—Prioritization and Allocation

Prepared by Christopher Towe*

July 27, 2022



* Consultant, Independent Evaluation Office, IMF.

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## ABBREVIATIONS

| | |
|---|---|
| ACES | Analytic Costing and Estimation System |
| AD | Area Department |
| AFR | African Department (IMF) |
| AFRITAC | African Regional Technical Assistance Center |
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| APD | Asia and Pacific Department (IMF) |
| ATI | Addis Tax Initiative |
| CAPTAC-DR | Central America, Panama, and Dominican Republic Regional Technical Assistance Center |
| CCB | Committee on Capacity Building (IMF) |
| CD | Capacity Development |
| CDD | Capacity Development Department |
| CDMAP | Capacity Development Management and Administration Program |
| CD-PORT | Capacity Development Portal |
| CEF | Common Evaluation Framework |
| COFTAM | Committee for the Coordination of Financial Sector Technical Assistance to Myanmar |
| CSN | Country Strategy Note |
| CSR | Comprehensive Surveillance Review |
| DfID | Department for International Development (UK) |
| ED | Executive Director |
| EUR | European Department (IMF) |
| FAD | Fiscal Affairs Department (IMF) |
| FSSF | Financial Sector Stability Fund |
| GPA | Global Policy Agenda |
| HQ | Headquarters |
| ICD | Institute for Capacity Development (IMF) |
| ICM | International Capital Markets Department (IMF) |
| LEG | Legal Department (IMF) |
| LIC | Low-Income Country |
| LTX | Long-Term Expert |
| MCC | Millennium Challenge Corporation (US) |
| MCD | Middle East and Central Asia Department (IMF) |
| MCM | Monetary and Capital Markets Department (IMF) |
| METAC | Middle East Regional Technical Assistance Center |
| MFD | Monetary and Financial Systems Department (IMF) |
| MNRW | Managing Natural Resource Wealth Trust Fund |
| MTB | Medium-Term Budget |
| MTRS | Medium-Term Revenue Strategy |
| MTW | Medium-Term Workplan |

| | |
|---|---|
| OTM | Office of Technical Assistance Management (IMF) |
| RAP | Resource Allocation Plan |
| RBM | Results-Based Management |
| RCDC | Regional Capacity Development Center |
| RMTF | Revenue Mobilization Trust Fund |
| RSN | Regional Strategy Note |
| RTAC | Regional Technical Assistance Center |
| SECO | State Secretariat for Economic Affairs (Switzerland) |
| STA | Statistics Department (IMF) |
| STX | Short-Term Expert |
| TA | Technical Assistance |
| TADAT | Tax Administration Diagnostic Assessment Tool |
| TIMS | Travel Information Management System |
| TTF | Topical Trust Fund |
| UN | United Nations |
| WB | World Bank |
| WHD | Western Hemisphere Department (IMF) |

## EXECUTIVE SUMMARY

This paper examines the recent growth in IMF capacity development (CD) and the processes that the Fund has established to ensure that these resources are prioritized and allocated in a way that aligns with the Fund's broader strategic objectives.

The effectiveness of these processes have been strengthened in multiple dimensions, including by the preparation of periodic CD strategies, which are regularly presented to the Board and monitored as part the Fund's annual budget process; a bolstering of internal governance and other mechanisms for CD allocation, including improvements in information and management systems; and significant steps to help ensure that CD allocations align with country demand as well as with the needs identified in the Fund's surveillance and lending programs. And while the pandemic has significantly affected the ability of the Fund to deliver its CD prioritization in person, the Fund quickly pivoted to virtual modes of delivery and tailored the topical focus to help address pandemic-related policy challenges.

However, the paper identifies opportunities for further strengthening prioritization and allocation of CD. Governance processes of CD prioritization and allocation would benefit from ensuring that the Fund's CD priorities are defined with clearer reference to how CD is expected to support the achievement of the Fund's broader strategic goals, including with regard to the objectives the Fund's lending and surveillance activities. CD prioritization and allocation should also be more clearly grounded on regular assessments of the trade-offs between different CD topics and delivery modalities, as well by ensuring effective follow-up to the broad range of internal and external evaluations of Fund CD that already take place.

There also seems further scope to improve integration of CD with IMF surveillance and lending operations. This could involve establishing best practice approaches for CD planning, encouraging a greater emphasis on programmatic planning of internally funded CD, and enhancing the content and role of area department country strategy notes.

Although coordination with other CD providers is a strategic priority for the Fund, responsibility for coordinating CD priorities and allocation with other providers remains idiosyncratic and there would be merit in defining more clearly where this responsibility lies, and in ensuring that this function is funded.

Finally, CD prioritization and allocation could take better account of country priorities and country track record, as well as country commitment, by improving the effectiveness of countries' involvement in the Fund's regional CD centers; obtaining clearer statements of country commitment ahead of launching a medium-term CD program; and greater involvement of country officials in the subsequent monitoring of results.

# I. INTRODUCTION

1. Capacity development (CD) has long been viewed as one of the core mandates of the IMF, one that stems from, and is defined by, its Articles of Agreement. These state that "If requested, the Fund may decide to perform …technical services that are consistent with the purposes of the Fund" (Article V.2(b)). Importantly, this implies that that the prioritization and allocation by the Fund of its CD must reflect that acceptance by members of these services is voluntary—i.e., capacity development is "demand-driven"—but also that CD should serve the underlying strategic objectives of the institution. Moreover, especially since the IMF does not generally charge for its CD, budget resources allocated to CD need to be weighed against the Fund's two other mandates—surveillance and lending.

2. The scale of the Fund's CD has risen rapidly in recent decades, exacerbating the intrinsic challenges inherent in prioritizing and allocating CD. These include longstanding questions—including by past IEO evaluations—about: the extent to which CD priorities align well with the Fund's broader strategic objectives, especially given that an increasing share of Fund CD is financed by external donors; whether CD allocations take sufficient account of recipients' commitment, absorptive capacity, and track record versus weighing more heavily the need to remain engaged with members even in the absence of these factors; whether the Fund is effective in ensuring that its CD prioritization and allocation is well coordinated with that of other providers, both to avoid duplication but also to leverage synergies; and whether CD allocations take effective account of priorities identified in the context of Fund country-specific surveillance.[1]

3. In response to these questions and challenges, the Fund has taken a range of steps to strengthen the prioritization and allocation of its CD work. These include defining formal IMF-wide CD strategies in 2013 and 2018 and implementing a wide range of supporting institutional initiatives, e.g., the establishment of the Committee on Capacity Building (CCB) and strengthened processes and systems for interdepartmental allocation and monitoring of CD resources; enhanced results-based monitoring systems; new evaluation processes; and the creation of a new department with responsibility for CD oversight and strategy. And importantly, the Fund has taken significant steps to ensure that its five area departments[2] (ADs) rather than its CD departments (CDDs) take the lead role in defining CD allocations in response to country needs and demands.

[1] For example, a 2005 IEO evaluation noted that Fund technical assistance (TA) seemed to be driven primarily by the specific needs of Fund-supported programs and by new Fund-wide initiatives, and that it was only weakly linked to key policy issues identified in Article IV consultations (IEO, 2005). The IEO 2014 Update concluded the Fund had given greater emphasis to demand considerations by systematically articulating country TA requests in the TA allocation process (IEO, 2014). But "vigilance is needed going forward to ensure that the new [prioritization] system does not revive perceptions of IMF TA being excessively driven by institutional priorities."

[2] The African Department (AFR), the Asia and Pacific Department (APD), the European Department (EUR), the Middle East and Central Asia Department (MCD), and the Western Hemisphere Department (WHD).

4. More recently, the COVID-19 pandemic has posed new challenges to the Fund's processes for CD prioritization and allocation. The Fund has had to adapt its delivery modalities—which had been largely based on travel and in-person contact with country officials—to providing the majority of its assistance via video- and tele-conferences. And at the same time, the topical focus of Fund CD has had to pivot in response to the immediate strains on public policies posed by the pandemic.

5. Against this background, this paper explores the effectiveness of these efforts, focusing on the evaluation period 2012–2020 and addresses the following questions:

- How effective are the mechanisms for ensuring that CD resources are allocated in a way that appropriately balances the needs of member countries with the strategic and other priorities of the Fund?
- How well are allocations integrated with priorities identified in surveillance and program work, and with country priorities?
- How nimble and adaptable are allocation/prioritization processes, and are they able to respond to shifting needs or shocks, including the COVID-19 pandemic?
- Are there lessons to be learned from approaches to allocation and prioritization used in other CD providers and donors?

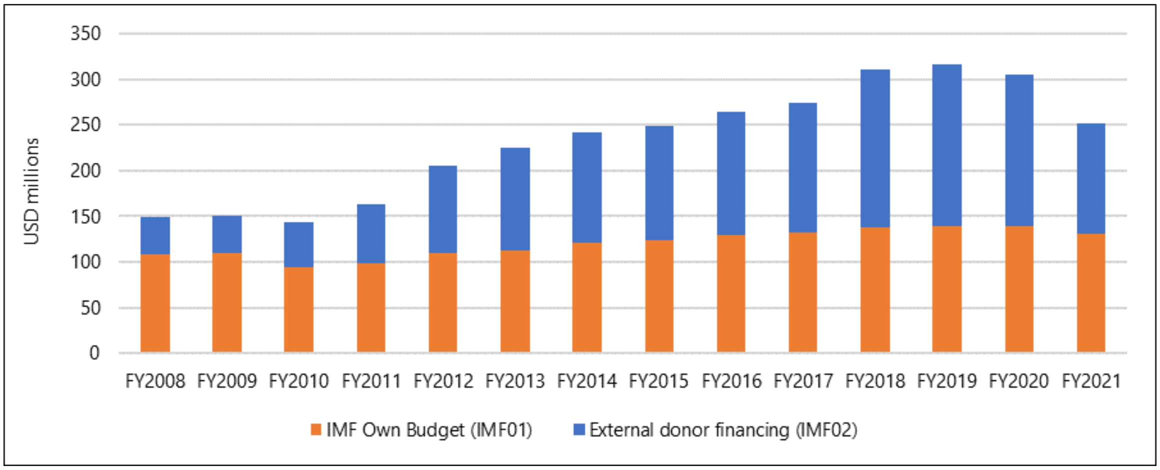
6. The material below is based on both a desk review of IMF documents as well as extensive interviews. Documents covered included myriad Executive Board papers and staff presentations, as well as a range of internal guidance and related notes. Interviews were conducted with Fund Executive Directors (EDs), staff from both ADs and CDDs, officials from other CD providing organizations and donor agencies. This paper also benefitted from the overlapping analysis and background work that was conducted for the other background papers that have been prepared for this evaluation.

7. The paper is organized as follows: Section II reviews recent trends in the size and topical/country distribution of IMF CD. Section III describes the Fund's institutional framework for CD prioritization and allocation. Section IV contains a brief description of the approaches followed by comparator institutions. Section V provides an assessment of CD prioritization and allocation, including with regard to how the IMF takes account of country needs, the importance of integration with surveillance, and CD by other providers. Section VI contains concluding remarks and suggestions for strengthening the Fund's approach.

## II. CD TRENDS[3]

8. The volume of IMF CD grew strongly over the evaluation period, but particularly rapidly in the immediately preceding years. During FY2007–2020, overall CD increased in FTE terms by 130 percent. This rise was facilitated principally by donor funding, which rose particularly sharply during FY2010–2018 (Figure 1). Donor funding was used to establish new regional technical assistance and training centers, as well to finance HQ-based CD through new thematic, country-specific, and regional trust funds.

**Figure 1. CD Outlays by Source of Financing, FY2008–2021**

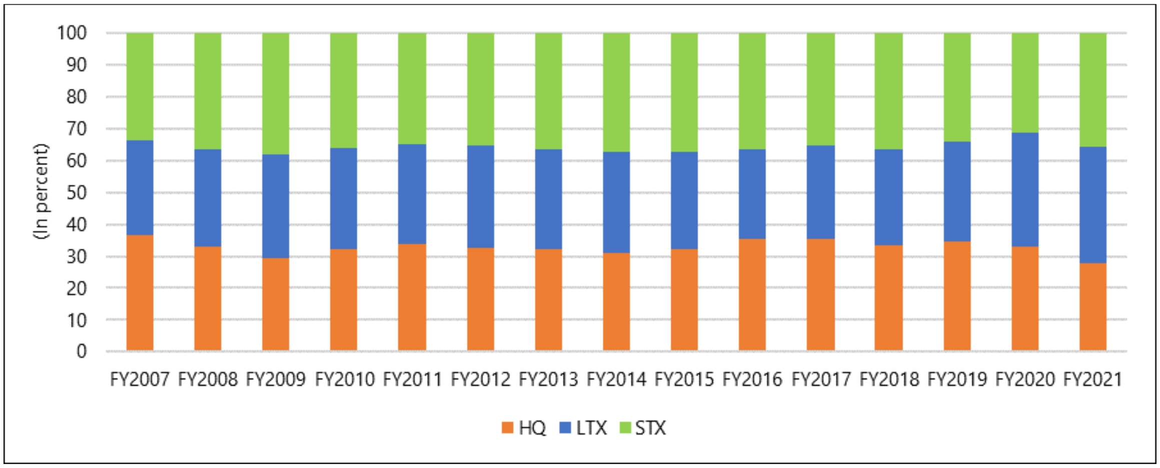



Sources: IMF, ACES; IEO staff calculations.

9. The rapid increase in CD delivered by the IMF during FY2007–2020—and the growing importance of overseas Regional Capacity Development Centers (RCDCs)—did not appear to be associated with a significant change in delivery modalities. In particular, the shares provided by headquarters (HQ)-based staff, long-term experts (LTXs), and short-term experts (STXs) was relatively steady (Figure 2). Over the period, each of these three delivery modalities represented roughly one-third of the total with relatively modest year-to-year variation.

[3] The discussion in this section uses two different measures of CD delivery. The first is defined in terms of person-years spent in field delivery (full-time equivalent), derived from the Travel Information Management System (TIMS). These data do not account for CD-related work performed at a staff member's duty station (i.e., at HQ or a RCDC), but provides a more granular picture in some respects over the evaluation period and reflects the "real" amount of CD received and is not affected by cost differences due to travel or subsistence expenses, for example. The second measures CD delivered in terms of dollar costs, derived from the Cost Estimation System (ACES), which takes account of CD activities at a duty station, but is not currently available in all the dimensions of interest, such as types of CD topic and delivery modality. It also reflects CD costs to the Fund that do not relate to the amount of CD received, such as the travel costs of CD experts.

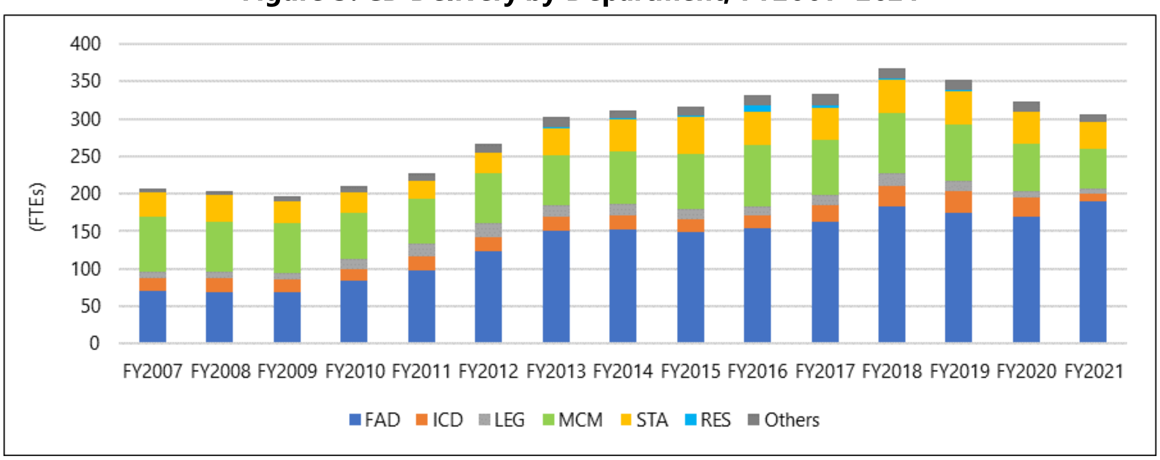
**Figure 2. CD Delivery by Modalities, FY2007–2021**




Sources: IMF, TIMS unallocated data; IEO staff calculations.
Note: This chart excludes backstopping activities and includes planned and approved missions.

10. The topical distribution of CD delivery favored assistance in the fiscal area (Figure 3). FAD's share of total CD FTEs rose steadily from 2007, reaching 52 percent of the total in FY2020. CD in financial and central banking areas rose during the Global Financial Crisis to represent almost a third of total IMF CD delivery, but then fell to only 20 percent in FY2020. CD in the area of statistics remained a roughly constant share of around 13 percent during the past decade, and assistance on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) and other legal issues declined to only 3 percent of total CD in FY2020. The establishment of several new overseas training institutes has meant that Institute for Capacity Development's (ICD) field CD delivery has risen sharply and reached about 7¾ percent of the Fund total in FY2020.

**Figure 3. CD Delivery by Department, FY2007–2021**

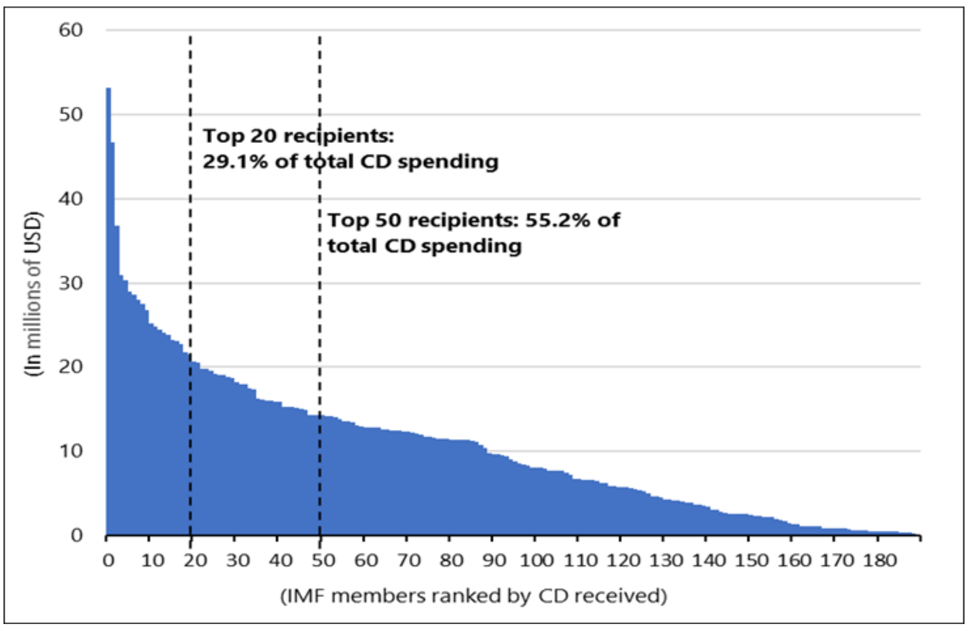



Sources: IMF, TIMS unallocated; IEO staff calculations.
Notes: Data includes planned and approved missions. For years FY2007–2012, "ICD" includes the FTEs from the IMF Institute and OTM, whose functions were subsequently transferred to the newly created Institute for Capacity Development (ICD); "MCM" includes FTEs from ICM and MFD, whose functions were transferred to MCM.

11. In recent years, the Fund has defined "growth" areas for its CD—i.e., topics, regions, and country groups deemed to be strategic priorities and where delivery is expected to rise relatively rapidly over the medium term. For example, the FY2022–2024 medium-term budget (MTB) referred to six topic areas that were to receive 9 percent in of total CD in FY2022, rising to 13½ percent by FY2024, and two regional growth areas—fragile states and the MCD region—that were to receive a 27½ percent share in FY2022, rising to 32¾ percent by FY2024.[4]

12. IMF CD is spread widely across the membership, reflecting the absence of explicit policies to encourage focus, albeit with significant concentration among some heavy users. In any given year during FY2012–2020, virtually all 155 non-advanced economies (or roughly 80 percent of the Fund's membership) received some amount of CD. However, there has been a considerable degree of country concentration of Fund CD, typically reflecting the ramping up of CD programs in response to crises and IMF lending operations, or the existence of long-lived CD projects. This intensity is illustrated by the fact that 20 countries benefited from nearly 30 percent of total IMF CD over the evaluation period (Figure 4).

**Figure 4. Allocation of CD Spending Among IMF Members, FY2012–2021**

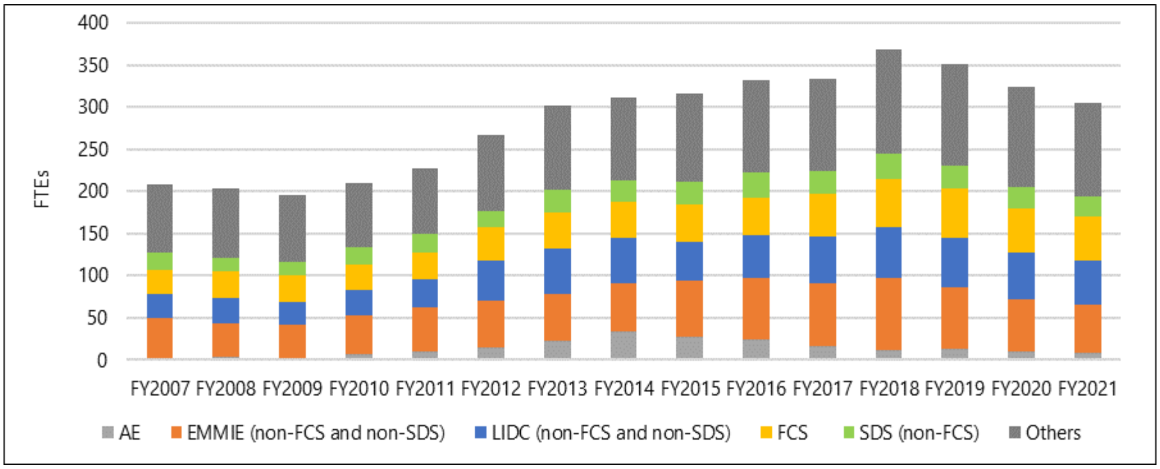



Sources: IMF, ACES; IEO staff calculations.

[4] The FY2022–2024 MTB defines the topical areas as anti-corruption, climate change, debt sustainability and debt statistics, expenditure policy and public investment management, tax policy, fintech and cyber risks. The regional growth areas are fragile states and the new Caucasus, Central Asia and Mongolia Technical Assistance Center (CCAMTAC). The increased emphasis for fragile states responded to concerns raised in the IEO's evaluations of the IMF's work in these countries (IEO, 2018).

13. Countries classified by the Fund as low-income, fragile or conflict affected, or small states received a significant share of the total allocation, reflecting Fund priorities (Figure 5).

**Figure 5. CD Allocation by Country Classification, FY2007–2021**




Sources: IMF, TIMS unallocated; IEO staff calculations.
Notes: AE=advanced economies; EMMIE (non-FCS and non-SDS)=emerging market and middle-income countries that are non-FCS and non-SDS countries; LIDC (non-FCS and non-SDS)=lower-income developing countries that are non-FCS and non-SDS countries; FCS=fragile states; SDS (non-FCS)=small and developing states that are non-FCS countries. Others=multi-country CD at RCDCs along with other countries that are not included in the other categories. Data includes planned and approved missions.

14. While there was year-to-year variation in the shares of each of these individual countries—e.g., in some cases CD ramped up quickly from low levels in some countries that were hard hit by crises and were entering a longer-term IMF programs—in most cases their status as "heavy users" was generally consistent over the period (Table 1).

**Table 1. IMF CD to Top Ten CD Recipient Countries, FY2012–2021**
(Ranking)

| Country | Avg FY12-21 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Myanmar | 1 | 82 | 1 | 1 | 1 | 3 | 2 | 1 | 2 | 1 | 3 |
| Ukraine | 2 | 6 | 13 | 32 | 2 | 1 | 1 | 2 | 3 | 3 | 1 |
| China | 3 | 41 | 36 | 9 | 11 | 9 | 11 | 5 | 1 | 2 | 2 |
| Mozambique | 4 | 18 | 4 | 5 | 13 | 6 | 9 | 8 | 5 | 14 | 29 |
| Kenya | 5 | 35 | 10 | 2 | 5 | 4 | 5 | 32 | 16 | 19 | 19 |
| Liberia | 6 | 13 | 11 | 10 | 36 | 10 | 3 | 4 | 9 | 28 | 37 |
| Uganda | 7 | 51 | 15 | 17 | 4 | 31 | 21 | 6 | 6 | 8 | 18 |
| Tanzania | 8 | 3 | 20 | 16 | 3 | 2 | 7 | 30 | 34 | 61 | 60 |
| Ghana | 9 | 39 | 55 | 24 | 12 | 5 | 8 | 11 | 13 | 17 | 6 |
| Mongolia | 10 | 37 | 25 | 20 | 17 | 19 | 20 | 10 | 7 | 7 | 12 |

Sources: IMF, ACES; IEO staff calculations.
Notes: The darkest blue shade denotes top 10 CD recipient countries in a fiscal year.

## III. THE FUND'S APPROACH TO PRIORITIZATION AND ALLOCATION

15. It is broadly understood that effective approaches for prioritization and allocation of an organization's resources are key components in ensuring cost effectiveness and impact.[5] These approaches typically entail defining the institution's strategic objectives, which then provide a basis for setting both priorities and indicators of success. Resources are then allocated against these priorities, usually with reference to costs, budget constraints, and likely benefits. This can involve a formal project-by-project assessment of "value for money," but should at least take account of project-related risks. Importantly, however, these processes should consider the institution's activities in a "portfolio" or integrated context, in order to reap potential synergies, account for overlapping risks, and maximize portfolio returns. Finally, these processes should provide assessments of progress and allow for an adjustment of priorities and allocations in response.

### A. The Evolution of the Fund's Approach

16. The sustained expansion in the size of the IMF's CD over the past three decades has led to significant changes in the framework and institutional processes for the prioritization and allocation of CD (Box 1). These included: the introduction of a new department—ICD—in 2012 to take institutional responsibility for CD policy and coordination; the establishment of the interdepartmental CCB to strengthen institutional priority setting and consistency with annual workplans; the production of formal and Board-approved CD strategies; and steps to (re)emphasize the role of the authorities and Fund area departments in identifying CD needs and prioritizing amongst them.

17. Besides these internal governance reforms, there have been important recent efforts to improve the budgeting and information management systems that support IMF CD. These had long been handicapped by weak integration with other Fund-wide systems and a lack of user-friendliness. A new IT platform was rolled out in 2015—called CD-Port—which included project management and budgeting modules and was supposed to enable a "portfolio" view of CD projects and results, in part to help ADs track and prioritize CD. However, this system failed to live up to its promise and a replacement—Capacity Development Management and Administration Program (CDMAP)—has been rolled out between 2020 and 2022 (see Lamdany, 2022).

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[5] For discussion of these issues, see United Nations (2013) and Phillips, Lawrence, and Bana e Costa (2007).

## Box 1. Key Milestones in IMF CD Prioritization

**1993:** The Fund began requiring major CD-delivering departments to forecast TA delivery plans for the upcoming year in a Resource Allocation Plan (RAP) that was subject to centralized review.

**2000:** Recognition of the need to improve the integration of TA with IMF surveillance and lending operations led to a pilot program requiring AD teams to engage in "Technical Cooperation" discussions with country authorities to assess the impact of past TA and define future priorities.

**2001:** Fund-wide TA priorities were defined in a Policy Statement on IMF Technical Assistance, (IMF, 2001) which involved setting "filters" that were to be used to prioritize between TA requests. These filters related to the likely impact of the project, whether the TA fell within an area of core specialization of the Fund, whether it complemented Fund lending programs and broader Fund policy priorities, cost effectiveness, and the availability of external financing or other providers. The Policy Statement also defined internal governance processes, including the role of the senior level Technical Assistance Committee, in overseeing the allocation of TA resources.

**2005:** In response to the 2005 IEO report on TA (IEO, 2005) and a 2005 staff taskforce report, the filters approach to prioritizing TA allocations—which were viewed as overly mechanistic—was dropped. Instead, allocation decisions were to pay greater attention to country needs, including through the use of TA country strategy notes for intensive TA users. And the Fund-wide "Technical Assistance Committee" was to play a greater role in defining priorities based on Fund-wide strategic objectives. This committee was subsequently recast and given more prominence in 2006 as the CCB as part of the implementation of the Fund's 2005 Medium-Term Strategy.

**2008:** Further Reforms to Enhance the Impact of Fund Technical Assistance (IMF, 2011) were introduced in concert with the MD's new Medium-Term Strategy. A key focus was on improving the strategic prioritization of TA through: the initiation of triennial CD strategic reviews; the launch of Regional Strategy Notes (RSNs) to help improve the integration of CD and Fund surveillance and lending; providing an enhanced role for the CCB in overseeing the allocation of TA resources; the integration of TA into the Fund's medium-term budgeting; the definition of a TA budget reserve at the beginning of the fiscal year to enable funds to be shifted mid-year in response to changing circumstances; and an emphasis on results-based management (RBM).

**2012:** The Fund's management of CD was overhauled with the establishment of the Institute for Capacity Development. This new department was formed from the merger of the Office of Technical Assistance Management and the IMF Institute, which had been the department responsible for the IMF's training programs. This step was intended to strengthen the strategic oversight and allocation of CD, and to improve the integration of Fund TA and its extensive training programs.

**2013:** A Fund-wide CD strategy was issued and steps were taken to enhance the effectiveness of prioritization processes. These involved strengthening the CCB's responsibility for ensuring that CD planning reflected the Fund's broader priorities and improving the integration of CD with surveillance. This latter objective was further supported by reinforcing the role of ADs in ensuring that CD planning reflected country demands and needs, including through their drafting of RSNs and their closer involvement in the RAP process.

**2013:** A standardized RBM framework was endorsed by the Board, which was intended to "promote feedback of lessons learned from evaluations into prioritization and delivery" (IMF, 2013). This included requiring that CDDs define a "catalogue" of standardized milestones, outcomes, and objectives for each of their principal CD product lines.

**2014:** A Statement of CD policies and practices was issued that established a revised framework for prioritization. It defined the core areas of competency in which the IMF would provide CD, and it underlined the importance of assessing implementation of past recommendations to gauge "buy-in" and the appropriateness of further delivery. It also explained how annual guidance from the Board would be used help guide the allocative processes.

**2015:** A new project management software system was rolled out (CD-Port), which was intended to provide a common Fund-wide platform to enhance CD budgeting, planning, and execution, as well as to provide a basis for recording the results from the new RBM system.

**2017:** A Common Evaluation Framework was established that called for "quantitative scoring to complement qualitative information in evaluations to facilitate comparisons and aggregation" and for CCB meetings "to use evaluation results when setting CD priorities" (IMF, 2017).

**2017:** The annual RAP process was extended to require CDDs to prepare a medium-term aggregate plan for all CD activities, with a strategic summary approved by management each May. These CD delivery plans and subsequent outcomes are monitored against CD priorities updated annually by the CCB each November.

**2018:** The Review of the Fund's CD Strategy highlighted the importance of prioritization for ensuring the impact and efficiency of CD. It emphasized in particular: (i) greater engagement by country authorities in identifying priorities; (ii) the lead role of ADs in establishing country strategies and priorities for CD; and (iii) ongoing improvements in the framework for prioritization, including the new medium-term orientation in resource allocation, efforts to streamline Fund-wide CD priorities, and continued efforts to ensure that country needs drive CD allocation.

**2020:** New operational guidance was issued to help define more clearly and strengthen the operations of the Fund's RBM systems, its CD evaluation framework, and the application of country strategy notes for CD prioritization and allocation. The new CDMAP system, a CD planning tool and management information system that replaced CD-Port, also became operational. This system facilitated implementation of a broad range of CD governance reforms that had been introduced in previous years.

## B. Current Fund Approach

### What is the Fund Aiming for?

18. The goals of the IMF's prioritization and allocation processes are laid out in the 2019 Policies and Practices on Capacity Development document (IMF, 2019c). This states that prioritization should be guided by a framework that takes account of both "country demand and the Fund's overall strategic priorities," and should "guide the allocation of scarce resources across regions, countries, and topic areas, as well as between short- and medium-term needs." It also notes that to ensure the impact and efficiency of its CD "the Fund needs to have the ability to mobilize quickly adequate resources to respond to short-term, crisis-related CD needs (curative CD) and to help countries build sound institutions to boost resilience to shocks (preventive CD), while remaining able to sustain efforts to develop capacity in member countries, in particular low-income countries (LICs), fragile, and small states (developmental CD)."

19. The Fund's emphasis on being able to respond to crises also means that attention is paid to its ability to respond flexibly to demands. The 2018 Review of the Fund's CD strategy recognized the importance of greater flexibility in resource allocation; this idea was given further content in the background work for the Review: "Effective prioritization requires agility in decision-making and flexibility in both resource allocation and delivery modalities. Meeting evolving country demands requires nimble coordination mechanisms, a seamless flow of relevant information, and innovative delivery to support efficiency."[6]

20. The 2019 Statement on CD Policies and Practices defines the main objective for IMF CD as "to help member countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies" (IMF, 2019c). Prioritization helps support this objective subject to budgetary constraints by ensuring that Fund CD is: focused in areas of the Fund's core competencies and in areas where impact is high; "demand driven" and coupled with full buy-in by the recipient authorities; coordinated with other providers to ensure complementarity and to avoid duplication; and integrated into the surveillance and lending operations of the Fund. The latter reflects a view that CD benefits the Fund in its broader mission, including by improving the traction of the Fund's policy advice with its members and its effective implementation.

21. The priorities for CD are subject to a budgetary envelope that is made up of two components (IMF, 2019c). The Fund-financed CD portion is determined in the context of "the Fund's overall budget process, taking into account the demand for other Fund activities"—these activities are usually termed IMF01-funded CD. Donor-funded CD—often termed IMF02 CD—is determined by the availability of external resources as well as the space available in the Fund's

[6] IMF (2018).

budget to cover related indirect costs and the "overall limit for externally financed CD expenditure" set by the Board in the context of the MTB.[7]

## Who are the Key Stakeholders in the CD Prioritization and Allocation Framework?

22. IMF's *Executive Board* has responsibility for broad oversight of the Fund's CD activities.[8] This takes place principally in the context of the periodic strategic reviews of the Fund's CD and the subsequent updating of the Fund's CD policies document (referred to above). The 2018 CD Review, for example, identified enhancements to the prioritization process, set out the current priorities in terms of country types and CD areas (see paragraphs 45–46 below), which were discussed and endorsed by the Board.

23. Board oversight of CD priorities also occurs in the context of the annual budget cycle, which enables the Board to reassess priorities and to ensure an alignment of the Fund's surveillance and lending with CD. Recent annual MTB documents establish total resources for CD, including an envelope for externally- and Fund-financed CD.[9] They also summarize indicative medium-term allocations, by region of recipient and CD area, as discussed by the CCB, and highlighted the major changes in allocations over the medium-term (see further details below). These priorities may also be embodied in the IMFC's semi-annual communiques.

24. The Board is less involved in CD prioritization and allocation at a country level compared to its engagement on IMF surveillance and lending operations, i.e., it is not informed about the launching of individual CD projects, nor does it review their progress. Nonetheless, it does receive periodic briefings by ICD and the CDDs on Fund-wide and departmental CD priorities, respectively. ADs also cover CD issues and challenges in their regular regional updates to the Board, and there have been long-standing efforts to include country-specific information about CD in Article IV reports and program documents.

25. The Fund's *management* works with Fund departments to translate broad institutional priorities into departmental accountability frameworks, budgets, and specific CD projects. In particular:

- Fund management chairs the interdepartmental CCB that coordinates the Medium-Term Work Plan (MTW). This was formerly known as Resource Allocation Plan (RAP), and the renaming in 2017 coincided with an extension of the planning horizon from one year to

[7] Stedman (2022a).

[8] See De Lannoy (2022a) for more extensive discussion of the role of the Executive Board in CD.

[9] The Fund has operated under a "flat real" budget constraint for several years, and the amount of internal (IMF01) budget available for CD is effectively limited by the amount needed to finance the other (surveillance, program lending, etc.) activities of the Fund. Although this constraint can and was alleviated by accessing donor funding to expand the IMF02 budget, this source of financing has also been capped in recent years. As a result, the Fund has tended to operate in recent years on the assumption that overall CD activity should remain at about 30 percent of the Fund's outputs (e.g., see the 2019–2021 and 2020–2022 MTBs for references).

three years. The MTW details the CD projects that are planned for the next three years, including missions and other associated activities, although these are still more precisely defined for the first year. The CCB's role is to ensure that these plans are consistent with broader institutional priorities and budgets. The CCB also oversees the creation of new donor-funded CD initiatives, to ensure their strategic alignment.

- Management has also established an accountability framework that requires that individual departments provide benchmarks for their activities for the coming year (including CD), which are then used to assess their performance.[10]

- The MD's semi-annual Global Policy Agenda (GPA) provides an update on the broader priorities for the Fund's policy and country work, which can have a bearing on the direction of Fund CD.[11]

26. The IMF's *area departments* play a major role in assessing the CD needs of *member countries*. This typically involves mission chiefs engaging with country authorities to define where the demands and potential impact are highest, and in the case of intensive CD users the preparation of "Country Strategy Notes (CSNs)" to establish an explicit medium-term strategy for the Fund's CD engagement.[12] ADs also are required to prepare annual Regional Strategy Notes (RSNs) that define broad strategic CD priorities for their region, based on country consultations. These inputs are then used by AD TA coordinators—in some cases informed by ad hoc priority filters—as they liaise with their counterparts among the CDDs in defining the MTW and its implementation. Follow-up to the 2013 CD strategy included assigning ADs the responsibility for sign off on the timing and scope of all CD missions.

27. Some ADs—in response to the increased responsibility they have been given in recent years to define CD priorities and allocations—weighted the requests for CD that they received from country authorities and mission chiefs by indicators of need, consistency with Fund-wide priorities, past implantation record, etc. However, prior to the roll-out of CDMAP in 2021, this approach was not applied in a uniform manner across departments.

28. *ICD* has a coordination role in the annual allocation process. This mainly involves monitoring and consolidating the CDDs' MTW submissions, and reporting the results to management and the CCB, highlighting the extent to which planned delivery aligns with previously agreed strategic priorities.

[10] These are more voluminous for the CDDs. For example, the 2021 accountability table for FAD contains roughly 13 specific CD-related commitments (covering CD volume, topical delivery, and processes); AFR's includes three.

[11] For example, the April 2020 GPA stated that the Fund would be tailoring its "capacity development to crisis circumstances." See De Lannoy (2022a) for more details.

[12] ICD's intranet site lists nearly 60 CSNs, although the large majority cover AFR countries and relatively few (only 7) CSNs have been prepared since 2019, reflecting other priorities in the face of pandemic-related demands.

29. The *CDDs* are where the Fund's technical expertise resides and where the responsibility for executing the Fund's CD delivery sits.[13] Ahead of each fiscal year, the CDDs work with country officials and the ADs to define their ability to meet CD demands (including missions and other activities), which are weighed against available resources, as well as the constraints that that are inherent under the conditions of the donor-funded trust fund agreements. They also work with ICD on developing new donor-funded CD projects, including to ensure that these are aligned with the Fund's strategic priorities.

30. *Donor partners*—typically governmental agencies—provide funding for around half of IMF CD. This usually involves support for bilateral, thematic, or regional trust funds, and these typically are governed by agreed memoranda of understanding that define how these resources are to be used and the donors' role in their prioritization and allocation. The rapid growth of donor-funded Fund CD since 2008 has led to recurrent concerns about whether these arrangements were adequately aligned with the Fund's broader strategic goals, whether they incurred unremunerated overhead costs, and whether they exposed the Fund to operational risks if funding were not renewed. In response, the 2013 CD Strategy strengthened the responsibility of the CCB and ICD for soliciting and approving new donor-funded projects, and for overseeing caps on the total amount of donor-funded CD (IMF, 2013). The 2019 Statement on CD Policies and Practices stated that decisions on external funding should be guided by a number of Board-approved principles, including that "donor financing of CD should [only] be considered when donor interests are consistent with Fund priorities and objectives" (IMF, 2019c).

31. The IMF's overseas *RCDCs* (Regional Technical Assistance Centers and Regional Training Centers) now represent an increasingly important role in the prioritization and allocation of IMF CD. There are now 17 RCDCs that provide TA and/or training, and they are largely funded by external donors. Setting the priorities for their CD delivery is a joint responsibility of the relevant AD and CDDs, subject to the oversight of the RCDCs' steering committees, which comprise the external donors, regional member governments (who also contribute to financing), and the IMF. The day-to-day operations of the RCDCs are the responsibility of a Director, who is a senior Fund staff member typically assigned by the relevant AD to ensure effective integration with HQ-based surveillance and program activity.

32. An agreed program document typically guides the allocation of donor-funded CD. For example, RCDCs typically operate on a five-year funding cycle, based on a program document that is prepared by Fund staff and endorsed by the donors and country authorities that are covered by the RCDC. The program document contains considerable detail about the planned CD activities, but more specific annual work programs are prepared by the RCDC Director (in consultation with the relevant AD and CDDs, and with reference to annual surveys of country CD

[13] As noted above, one of the CDDs—the Institute for Capacity Development—also has responsibility for Fund-wide coordination of CD and donor financing. The other main CDDs are the Legal Department (LEG), the Fiscal Affairs Department (FAD), the Monetary and Capital Markets Department (MCM), and the Statistics Department (STA).

needs), and the annual workplan is then endorsed by the RCDC steering committee. Topical Trust Funds (TTF) operate in a similar manner, although country CD recipients are not typically involved in the governance processes.[14]

## How are Recipient Country Priorities Accounted for?

33. As discussed above, the Fund has long placed an emphasis on ensuring that the allocation of its CD is demand-driven.[15] Most recently, following the 2018 CD Review, this commitment is reflected in the Fund's 2019 Statement on CD Policies and Practices, which stresses the importance of "the full involvement and buy-in of recipient countries to ensure effectiveness and impact" (IMF, 2019c). And the new CDMAP system has recently been adapted to provide a platform for systematically tracking country CD requests and assessing unmet demands.

34. The Fund typically does not charge for its CD as a mechanism for ensuring commitment or signaling demand.[16] Instead, there are a number of processes in place to help achieve these objectives. CD projects are typically delivered only upon a request by a senior government official, which can be provided in the context of surveillance discussions, during the Annual or Spring Meetings, or outside these events. And the Fund's prioritization processes require that these discussions be followed by a written request from the member. CSNs, which ADs are required to prepare for intensive CD users, also require an assessment of the "authorities' views" on the planned CD strategy. Some donor-funded TTFs have also recently sought to ensure commitment by requiring memoranda of partnership between the trust fund and the recipient before launching a multi-year CD project.[17]

35. Various other mechanisms also help ensure that recipients play a role in shaping CD priorities. The authorities' formal request for one-off CD missions will typically specify their preferred objectives, while the work of long-term CD experts—i.e., experts that are assigned for 1–3 years in the country where they will deliver CD—is usually subject to a terms of reference that the recipient agency will help prepare. The regional members of RCDCs also play a role in setting the objectives of the RCDC and will endorse their annual workplans. Chopra (2018) in his evaluation of CD ownership cites an IMF survey of country officials that suggest that CD was

[14] There are eight thematic CD funds covering revenue mobilization, management of natural resources, tax administration, financial stability, financial sector reform, debt management, economic statistics, and AML/CFT. In addition, there is one fragile states fund, focused on Somalia, and one regional fund, focused on Southeastern Europe (see Stedman, 2022a).

[15] Indeed, the Independent Evaluation Office (IEO) concluded that "after 2005, the Fund moved towards giving more weight to demand considerations" in the prioritization and allocation of TA (IEO, 2014; page 16).

[16] However, higher-income countries are expected to cover the cost of TA they receive, unless the TA is viewed as "critical" and no external funding can be found to finance it. See Stedman (2022a).

[17] For example, the program document for the Resource Mobilization Trust Fund explains that these memoranda would "include identifying a senior officials (e.g., minister, deputy minister, or permanent secretary) to serve as the main government counterpart for the project" as well as the commitment to provide necessary work facilities.

"largely initiated or co-initiated by the recipient government" and that there was a high degree of country engagement in defining CD objectives (albeit with variation).

36. Recipient countries also help shape priorities for Fund's classroom-based training. For example, decisions on which courses to offer are informed by liaison between the Fund's regional training centers and country authorities, and ICD or the CDDs will respond directly to country requests for country- and topic-specific training. And recipient countries play the principal role in nominating course participants.

37. The Fund also solicits feedback from recipients of CD (both training and TA) on the value they attach to the assistance provided, which in principle are used to inform future prioritization decisions. The most important sources of this feedback are AD Article IV surveillance missions and the meetings that CDD staff hold with senior country officials at the time of the Spring and Annual Meetings. There is limited use of surveys, although some CDDs send questionnaires to recipients of CD requesting feedback on the team's work and the quality of the advice given. However, at the conclusion of all courses, the views of participants are surveyed and the results are provided to ICD's front office. The Fund's CD evaluation processes also require that CDDs undertake periodic reviews of the effectiveness and impact of CD projects, which involve soliciting the views of the recipient authorities (these are described in more detail below). Similarly, external evaluations conducted for TTFs and RCDCs will also typically seek such information.

### How Does the Fund Align its Priorities with Other CD Providers?[18]

38. The importance of coordination of the Fund's CD with that of other agencies has often been stressed in past CD strategies and reviews. Most recently, the 2019 Statement on CD Policies and Practices notes that "effective coordination supports efficiency gains and helps sustain the impact of CD. It ensures consistency of policy advice, mitigates risks of duplicating efforts, helps better leverage available resources and expertise." And the 2018 CD Strategy Review included a commitment to improve coordination through the use of TA forums, greater involvement by RCDC coordinators, resident representatives, etc.

39. There is no centralized Fund-wide mechanism to ensure coordination between Fund CD and that of other providers. Rather, IMF resident representatives and mission chiefs are expected to monitor the CD provided by others, including to avoid duplication and overlap with the assistance that the Fund may be providing. In a few cases, donors have funded resident CD coordinators (e.g., the Ukraine and Mozambique), and in at least one case Fund staff have taken the initiative to establish a multi-stakeholder CD coordination committee (IMF, 2018b).[19]

[18] See Radelet (2022) for further discussion of coordination with other CD providers.

[19] In the case of Myanmar, the Fund helped launch in 2014 the Committee for the Coordination of Financial Sector Technical Assistance to Myanmar (COFTAM), co-chairing it with the country authorities.

40. A range of mechanisms and modalities exist for coordinating IMF and World Bank (WB) CD. Relatively unstructured and informal liaison takes place between Bank and Fund CD delivering departments, as well as between the Fund's ADs and their WB counterparts, which in the latter case is supposed to include meetings once a year to share to discuss their country work programs (including CD).[20] Country teams also liaise both at headquarters and in the field to coordinate (and at times) provide CD cross-support. However, more structured coordination mechanisms exist in the context of donor-funded CD trust funds, especially those that are jointly run by the Bank and the Fund (see Section V.J below for examples).

41. Coordination is an important focus for donor-funded thematic and regional CD trust funds. Their steering committees provide a basis for aligning priorities since they include representatives from donor agencies and strategic partner agencies that often themselves are active CD providers. The program documents for RCDCs assign an explicit responsibility to the center Coordinator/Director and resident advisors for liaison with other providers, including to ensure their respective work programs maximize synergies and avoid straining countries' absorptive capacity.[21] And some trust funds require that project proposals explain how the project would be coordinated with other providers working in the same area, and in some cases they are able to also finance a project management and coordination unit within government agencies. Donors have also encouraged the WB and the Fund to co-lead thematic trust funds to help ensure the coordination of the two institutions' work programs.[22]

### How are Prioritization and Allocation Decisions Taken?

42. The annual CD prioritization and allocation cycle is an iterative and continuous process that involves all the major stakeholders described above. Key inputs are the Fund's strategic priorities that are defined in the semi-annual IMFC communiques and MD's GPA. Although their references to CD are usually painted only in broad strokes, the policy priorities are used to define

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[20] This and other commitments for coordinating TA were part of the 2007 World Bank/IMF Joint Management Action Plan (IMF and World Bank, 2007). See IEO (2020) on collaboration more generally.

[21] The most recent program document for AFRITAC East offers suggestions on how this coordination could occur: "More systematic sharing of information on missions in areas of common interest could be envisaged, for instance through a briefing at the start of the mission and a debriefing at the end, time permitting. More active collaboration "upstream," i.e., at the design and planning stages, could also be considered where the risk of overlap is significant. Finally, joint activities, such as regional workshops or seminars, could be conducted." The project document for the RMTF requires that its long-term experts take responsibility for coordinating the work of other providers.

[22] Examples of co-chaired trust funds include the FIRST Initiative—which provides TA in support of financial development—and the Debt Management Facility—which supports effective debt management in LICs. The World Bank is a member of the steering committee for the Tax Administration Diagnostic Assessment Tool (TADAT), which has helped ensure multi-agency consensus on the design of the tool and to coordinate its application.

management's key goals, which in turn shape department-by-department accountability objectives that typically include specific commitments in the area of CD.[23]

43. The prioritization process starts in the fall with ADs updating RSNs covering the next three fiscal years (Figure 6). RSNs provide a strategic perspective on regional CD priorities, set in terms of workstreams, countries/country groups, and CD growth areas. They draw on existing institutional priorities as well as on CD CSNs and take account of the existing demand pipeline, consultations with country teams, CDDs, and RCDCs, and thus should reflect the surveillance and program underpinnings of CD priorities.[24] The CDDs concurrently, building on the same consultative process, develop their indicative workplans and budgets. Later in the fall, the CCB reviews CD priorities and the areas targeted for growth for the coming three-year period; discusses indicative allocations to workstreams, regions, and CD topic "growth areas;" and sets the departmental spending limits on both externally financed and Fund-financed CD. These priorities are built into the MTB documents discussed and approved by the Executive Board[25] and are used by the ADs and the CDDs during January–April to help shape their planning for the coming fiscal year, which starts on May 1, a process that has become more transparent with the advent of the CDMAP system. This planning results in a detailed schedule of projects—the Medium-Term Work Plan (MTW)—which covers the coming three years, albeit with greater precision in year one.

44. The MTW is constructed taking account of a wide range of internal and external stakeholder priorities. These include: close and relatively continuous engagement with country officials by the ADs, CDDs, RCDC Directors, etc., including in the context of face-to-face discussions that are held during the Spring and Annual Meetings; AD assessments of where country priorities lie (reflecting their RSNs and CSNs); CDD budget and staffing constraints; and the resource availability and priorities of the donor-funded trust funds and RCDCs.[26]

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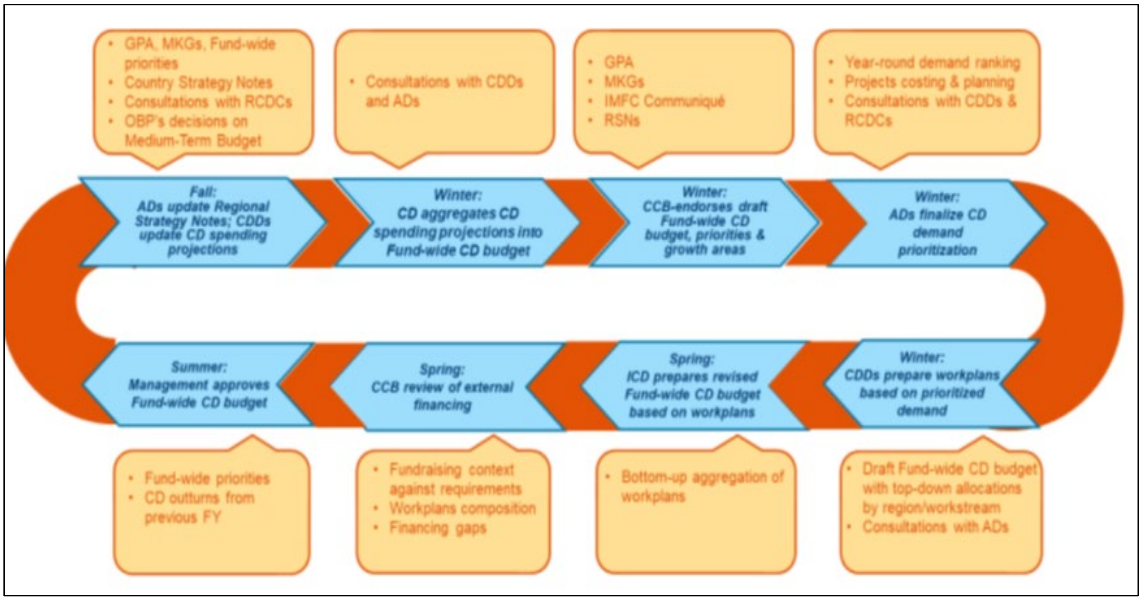
[23] For a recent example, see the CD references in the April 2021 Global Policy Agenda.

[24] These processes have been long-standing but were codified in staff guidelines issued in 2021 (IMF, 2021b).

[25] Since 2020, there has been an informal meeting of the Board to discuss proposed CD priorities, in advance of the Board's consideration of the Fund's Medium-Term Budget. See De Lannoy (2022a).

[26] The 2021 staff guidelines for CD prioritization and work planning state that "RCDCs (primarily directors but also resident advisors as necessary) should be consulted before CDDs submit their projections. The projections will not contain discrete allocations for an RCDC, but the consultations should ensure that there is a common understanding of the assumptions regarding RCDCs' overall budget availability and execution, any RCDC plans—as funding vehicles managers—to adjust resource allocations across CDDs and workstreams and also any other steering committee priorities."

**Figure 6. Annual CD Prioritization and Allocation Cycle**




Source: IMF Staff Guidelines on Capacity Development Prioritization and Work Planning (IMF, 2021b).

45. The results of the MTW process, along with the previous year's CD outturns, are then reviewed by management and department heads to ensure consistency with the CCB-agreed budget and the Fund's strategic priorities. These are then submitted to management for approval (typically in May or June). Moreover, the MTW also is used as a basis for discussion between management and individual department heads on their department's medium-term CD priorities.

46. Mid-fiscal year, the CCB takes stock of the extent to which CD has been delivered in line with the strategic and budget priorities set at the beginning of the year. The CCB also oversees a mid-year engagement between ADs and CDDs to decide how unused budget resources would be utilized. The meeting is also used to set forward priorities, based on demands observed by ADs and CDDs, as well as any shifts in Fund-wide policy directions.

47. These processes were temporarily simplified in early 2020, in light of the global pandemic. This involved allowing the CDDs/ADs to focus solely on the coming year, rather than frame their plans in a medium-term context.

## How are Priorities and Allocations Determined for Donor-Funded CD?

48. Although the annual processes described above apply to both Fund- and donor-financed CD, the scope to adjust priorities are more limited for the latter. This is because the prioritization and allocation of resources under thematic or country-specific trust funds is defined at their inception under the terms of their program documents. Also, donor funded CD is typically "programmatic," which means that funding is committed around a multi-year schedule for CD delivery. Moreover, decisions on specific CD activities and/or delivery modalities may also be

subject to an approval process involving the donors.[27] There is more flexibility in the case of the annual work programs of the RCDCs. For example, while Middle East Regional Technical Assistance Center (METAC) program document states that its annual work plan is subject to approval by its steering committee, it "is developed in consultation with member countries and within the context of the IMF's CD prioritization processes."

## How do Monitoring and Evaluation Support P&A?

49. Following their discussion of the 2013 CD Strategy, the Board endorsed strengthening the Fund's monitoring and evaluation framework to better incorporate feedback from evaluation results into the prioritization and delivery of CD. In response, staff increased their efforts to apply results-based management (RBM) as a basis for both monitoring and reporting results and for improving CD planning, prioritization and delivery. The Fund's RBM Governance Framework states that "results data, combined with other factors, should inform the IMF's strategic decision-making and prioritization processes for CD" (IMF, 2020c). A new RBM system was endorsed in 2018 by the Board that required CDDs to define a "catalogue" of standardized milestones, outcomes, and objectives for each of their principal CD product lines.[28]

50. In April 2017, a new Common Evaluation Framework (CEF) was introduced that called for "quantitative scoring to complement qualitative information in evaluations to facilitate comparisons and aggregation" and for CCB meetings "to use evaluation results when setting CD priorities" (IMF, 2017). The CEF is adapted from OECD guidelines, and was updated in 2020 (see Lamdany, 2022). A range of qualitative evaluations are performed. These include: (i) Fund-wide evaluations, including the analysis that is part of the background for the IMF's periodic CD Strategy and those by its Independent Evaluation Office of Evaluation; (ii) external evaluations that are typically required under the governance structures of donor-funded trust funds; and (iii) periodic self-assessments by individual TA departments. The 2017 CEF framework sought to improve the impact of this work including by standardizing the methodologies used for CD evaluation, promoting greater use of ex post surveys of TA recipients, and enhancing the role of the CCB in follow up (an update of the CEF was issued in 2020 and is discussed below).

## What Management Information Systems Support Prioritization and Allocation of IMF CD?

51. Despite concerted efforts, the Fund has long struggled to ensure that its management information systems provide an effective basis for CD prioritization and allocation. This has been acknowledged in a number of Fund documents, including the FY2020–2023 MTB which stated that "Fund-wide processes and systems remain fragmented, difficult to use, and often ad hoc and

[27] For example, CD projects over a certain size are subject to donor approval under the FIRST Initiative, and the program document for the RMTF also requires consultation and approval with the trust fund's steering committee.

[28] See IMF (2018b), Box 2; and Lamdany (2022) for further details.

unsupported by the corporate IT framework, with ongoing gaps in availability, timeliness, and accuracy of CD administrative and performance data."

52. In response, the Fund has invested heavily in new information systems, including with the recent rollout of CDMAP, as a replacement for CD-Port.[29] CDMAP is intended to improve the effectiveness of CD prioritization and allocation by making it easier for project managers to estimate budgets, track project execution, and access key project documents.[30] It also provides a system to record country CD requests; enables ADs to monitor CD delivery to each of their countries, and is intended to facilitate CD planning and tracking.

### C. The Fund's Current CD Priorities

53. The 2019 Statement of CD Policies and Practices document states that "core areas" will account for the bulk of IMF CD, including revenue administration, public financial management, macroeconomic statistics, financial supervision and regulation, macroeconomic frameworks, central bank operations, tax policy, and financial integrity. The document also references the importance of providing CD to low-income, fragile, and small states. It assigns responsibility to the CCB for monitoring delivery against these priorities, as well as against (unspecified) "growth areas."

54. The FY2021–2023 Medium Term Budget described the "indicative medium-term allocations discussed by the CCB." These include: faster growth of CD in AFR and MCD countries, reflecting a focus on low-income and fragile states and the addition of a new RCDC covering the Caucasus, Central Asia, and Mongolia. Within the core areas of IMF CD, there would be faster growth on tax policy, public financial management and expenditure policy, and "other" areas." CD "growth areas" were defined beginning in FY2019 as a follow up to the 2018 CD Strategy Review and included anticorruption, debt sustainability, expenditure policy and public investment management, tax policy, cyber security, and fintech; climate change was added to the list later in 2019.

## IV. Comparator Organizations

55. The prioritization and allocation processes used by a small sample of other CD agencies were also reviewed as part of this background paper. The agencies included the WB, Switzerland's State Secretariat for Economic Affairs (SECO), the UK's Department for International

[29] The first releases of CDMAP took place in August and November 2020, enabling FY2022 CD budgeting and planning. Subsequent releases took place in 2021 for the purpose of CD execution and resource management.

[30] The FY2020–2023 MTB states that "further reforms now underway aimed at facilitating more timely and analytically useful information on CD-related activities and spending… and planned strengthening of systems and processes under the CDMAP project will facilitate better monitoring and reporting. This will support better resource allocation and strategic review of the alignment of CD activities with country demand and Fund strategic priorities."

Development (DfID),[31] and the US Millennium Challenge Corporation (MCC). Although these agencies varied considerably (both among themselves and compared with the Fund) in terms of their mandates and delivery modalities, this survey suggested some potentially useful comparisons with (and lessons for) the Fund's approach. Nonetheless, these should be seen as suggestive rather than authoritative, given that they are based on a small sample of other agencies, as well as on a limited number of interviews with agency staff and a review of publicly available information. Annex I provides further, more specific, information on each of the sample's processes.

56. Subject to these caveats, a number of common themes emerged from this review:

- Like the Fund, the agencies surveyed all appear to have set high-level priorities for their development assistance (e.g., DfID's departmental priorities), and while these priorities are defined rather broadly they do seem to play a material role in driving the specific design of programs and the allocation of resources (e.g., SECO and DfID define priority countries where development assistance is concentrated, and SECO defines eight topical "business lines" that also guide allocations).

- In contrast to the Fund, most of these agencies take decisions on how to allocate resources to CD in the context of an integrated country program or project design, rather than a separate process. This means that resource allocations for CD can be more easily weighed against other priorities and forms of assistance in each country.

- Consistent with this approach, the decision on whether to allocate resources to CD versus other forms of assistance is usually not taken centrally, but is delegated to the teams that manage country-level programs.

- In the WB specifically, one-third of CD is embedded in lending or grant operations, rather than free-standing projects, and two-thirds is organized and implemented independently by donor trust funds.

- Some agencies (e.g., DfID, MCC) use quantitative criteria, empirical modeling, or analytical tools (such as structured country diagnostic exercises) to help identify how and in which countries their assistance will have its maximal impact, although final decisions

[31] In September 2020, DfID was incorporated with the Foreign and Commonwealth Office to become the Foreign, Commonwealth and Development Office (FCDO).

also incorporate qualitative judgements, e.g., about domestic political priorities and recipient country context and commitment to reform.[32]

- Information on total spending on CD activities is not generally collected or monitored, principally because these agencies do not view CD as a separate activity but simply as part of the broad range of activities that they may have with the countries they assist. Hence, CD budget constraints and prioritization are considered at the country level, rather than across enterprise-wide CD.

## V. ASSESSMENT—CHALLENGES AND OPPORTUNITIES

57. As illustrated above, over the past decade at least, the Fund has placed a significant priority on strengthening its approach to the prioritization and allocation of CD. This section seeks to assess progress in achieving these objectives including with regard to: enhancing the role of the Board in setting priorities; defining a CD strategy; establishing effective interdepartmental coordination processes; enhancing the integration of CD with surveillance; using RBM, evaluations, and diagnostic tools to inform priorities and allocations; effective use of external funding sources; budget constraints and systems; the role of country ownership; coordinating with other providers; and ensuring that Fund CD is able to respond in a nimble and agile way to new demands and member needs.

### A. Setting Broad Institutional Priorities—The Role of the Board[33]

58. Recent years have seen some deepening of the Board's role in defining institutional priorities for Fund CD. CD strategy papers are discussed by the Board every five years, including in 2013 and 2018, annual CD priorities are discussed in the context of annual budget discussions, and the GPA, discussed twice a year, includes reference to the planned topical and regional focus for Fund CD. The Board is also provided periodic briefings/status updates by ICD, the other CDDs and by ADs, giving the Board useful windows into operational CD work.

59. However, it is not obvious that the Board's role in setting strategic CD priorities has substantively deepened. For example, the MTB typically will describe shifts in priorities or cross-departmental spending retrospectively rather prospectively, or in a manner that does not substantiate how these would contribute to the achievement of specific Fund-wide priorities or

[32] Funding requests by DfID country teams are assessed initially with reference to two models that illustrate that priority is given to both poverty reduction and potential spillovers to the UK (via trade and immigration). Country teams are also encouraged to base the design of their programs on evidence of the effectiveness of different types of intervention, including with reference to in-house assessments of the cost-effectiveness of interventions in various policy areas, such as economic development/growth; social protection; health; trade etc. Candidates for MCC "compacts" are defined by filters that are place a premium on governance indicators. Once an application for a compact is received from an eligible country, the MCC undertakes a "growth diagnostic" to determine the optimal sectoral focus of the MCC's. "Root cause analyses" are then used to determine the optimal type of intervention (including TA). See Annex I.

[33] These issues are also covered in De Lannoy (2022a).

affect CD allocations. Moreover, forward-looking priorities are typically cast in terms of decisions that have already been taken at the staff level, rather than in response to the Fund's membership.[34] And the CD strategies presented to the Board in 2013 and 2018 have tended to focus on process improvements rather than addressing larger strategic issues, such as those discussed in the section below.

60. Moreover, even when strategic CD priorities are presented to the Board, they seem relatively broad brush rather than granular. The "growth areas" are relatively imprecise and/or overly encompassing (e.g., "expenditure policy and public investment management," "fragile states," and "highly vulnerable countries"); other areas such as "cybersecurity," "fintech," and "climate change" represent only a small proportion of the Fund's CD; and the trade-offs with the Fund's more conventional CD areas are not discussed. For example, Board discussions of these "growth" priorities do not seem to have addressed the concern raised in staff interviews with IEO and in a recent OIA report that the Fund "may not always have the appropriate knowledge and skills to exercise quality control" in these new strategic areas (OIA, 2020).

61. Interviews with EDs suggest some dissatisfaction with the Board's role in setting the strategic direction of IMF CD and in its oversight of implementation notwithstanding the increased attention to enhancing Board involvement. Their perception is that the oversight of CD by Board has not kept up with its importance as a Fund activity, and the Board's role is not as well understood as in surveillance and lending. Specifically, some EDs viewed the granularity of, and the discussion around, the CD priorities in the MTBs as too limited. Some EDs expressed discomfort with the fact that the information available to (and the impact of) different EDs depended on whether their constituents were major donors and therefore informed of the governance of large CD projects. And while EDs generally did not see a need for Board discussion or review of individual CD projects, they felt that Article IV Staff Reports or program documents did not provide enough information to assess how (and how effectively) CD was supporting IMF surveillance and lending. This gap was compounded by the fact that the Board is not provided access to CSNs, and at least some EDs felt that they lacked information on: how CD resources were allocated, either across countries/regions or across thematic lines; the basis for these allocations; and the impact of the Fund's CD. And many felt that this reflected a lack of a coherent and well-defined strategy that would guide prioritization.

## B. The Framework for Setting CD Priorities

62. The Fund does not have an empirical, analytical, or other framework that link the allocation of CD to the achievement of institutional change or the IMF's broader strategic objectives. Nor has it developed a framework for assessing the trade-offs between CD in different topic areas or country circumstances. In other words, there seems no strategic or analytical basis for determining choices "top down" between different CD areas (e.g., tax admin

[34] For example, the FY2021–2023 MTB states "… the CCB reviews CD priorities and areas targeted for growth for the coming three-year period."

versus tax policy versus GDP statistics); different country types (e.g., fragile states versus non-fragile LICs versus EMs); how to weigh immediate country needs against maintaining a longer-term relationship with the country, or even to weigh the size of Fund CD against its other core activities.

63. Similarly, CD priorities do not seem to have reflected analysis of the strategic or practical trade-offs between different delivery modalities. The 2011 Taskforce Report flagged this issue, but only with regard to the potential trade-offs between RCDCs and HQ-based delivery, and warning against "further increasing TA field presence beyond current plans." However, the 2013 and the 2018 CD Strategy Reviews did not explore the costs and benefits of alternative delivery modalities, nor have the Fund's CD Policies and Practices documents or MTBs, despite the large increase in the role of RCDCs. Similarly, the Fund has increasingly emphasized the importance of integrating TA and training, and significantly ramped up its use of on-line training platforms, but there has been no assessment of the relative merits of different forms of training, the benefits of integration, or the effectiveness of classroom and similar training versus mission-based TA.[35]

64. The concern that prioritization and allocation of CD lacks an analytical or empirical basis is not new. A staff background note for the 2013 CD Strategy noted that "more research, however, remains to be done to determine the effects of Fund TA on institutional improvement and its effect on economic growth and stability in member countries" (IMF, 2013). The recent mid-term evaluation for METAC noted "The IMF's approach to RBM does not include, much less require, a strategic foundation, particularly one based on thorough assessment and analysis" (DevTech, 2020a). And the evaluation of the AML/CFT TTF noted that its effectiveness would be greater if its resources were allocated with a greater attention to "AML/CFT risk and proportionately" rather than "per capita incomes, equal regional expenditures by the TTF, membership of FATF or related organizations…" (Watson, and others, 2019).

65. This contrasts with the significant empirical work by Fund staff to demonstrate the importance of institutions for growth, etc. For example, there has been considerable research into the link between growth and various metrics of institutional capacity, including: tax capacity (Gaspar and others, 2016), financial inclusion (Sahay and others, 2015), corruption (IMF, 2019), as well as the regular analyses presented in the Fiscal Monitor. However, this analysis has not been used or extended to define which topical areas, or what types of CD interventions, are most impactful.[36]

66. Other CD providers have developed quite sophisticated conceptual and analytical frameworks for informing their CD priorities. For example, the DfID and the MCC seek to maximize the impact of their interventions by prioritizing and allocating resources with reference

[35] The 2018 CD Strategy Review contained a short staff note that surveyed current training practices, but left most of these issues untouched.

[36] An illustration of how this could be done is provided by Chami, Darkey, and Williams (2021), who estimate the impact of IMF CD in the area of tax administration and tax policy on tax/GDP ratios.

to empirical and other models. The United Nations (UN) utilizes the "theory of change" approach to help guide their assistance programs (Box 2).

**Box 2. Prioritization and the Theory of Change**

Many organizations, especially those involved in development assistance, have begun to rely on Theories of Change[1] (ToC) at the institutional level to provide a framework for resource prioritization. This approach typically involves defining explicit overarching objectives for the agency's interventions, coupled with an assessment of the likely impact of alternative instruments, and with careful consideration of the causal links, risks, and underlying assumptions.

Although applications of the ToC approach vary widely across institutions, they typically define a pathway for change that links inputs and activities to specific and typically measurable outputs that contribute to the organization's ultimate goals or objectives.

The IMF uses ToCs at the project level, as part of its RBM approach, by requiring log frames that define broad project objectives, the specific outcomes expected, and time-bound milestones that define the progress being made toward project objectives.

**Example Causal Chain for a Theory of Change**


In the context of IMF CD at the institutional level, application of this approach would involve defining the range of CD instruments and alternative delivery modalities. Areas of engagement would include the range of thematic, topical, and geographical areas where CD is delivered. Intermediate outcomes would include defining the tangible, immediate, and relatively easily measured result of the CD, such as preparing drafts of new legislation, the establishment of a new fiscal risk strategy, etc. The higher-level outcomes desired from these activities could include less easily measured objectives including heightened policy transparency; higher level goals could include objectives like debt sustainability, etc.; and key institutional goals would be consistent with those established by Board and management. Using such an approach would highlight the lack of—and potentially encourage the provision of—empirical evidence on the relative effectiveness of different areas of engagement and outputs in contributing to different intermediate and higher-level outcomes.

Note: For example, a theory of change has been described as "a method that explains how a given intervention, or set of interventions, are expected to lead to a specific development change, drawing on a causal analysis based on available evidence (United Nations, 2017)."

67. In principle, the Fund's RBM system should provide a rich source of data on CD effectiveness at the project level in terms of actions taken, outcomes, and objectives that could be used to develop a broader framework for CD prioritization based on impact assessment to guide allocations and priorities across projects or to prompt the development of a systematic empirical basis for Fund-wide CD priorities.

68. Moreover, notwithstanding the long-standing emphasis on integrating CD with IMF surveillance, the Fund has not established an integrated strategy for CD, surveillance, and lending operations. Separate strategy papers are prepared for each, with mostly hortatory references to

the importance of integration.[37] Moreover, some IEO interviewees viewed the CD strategy papers as overly focused on process rather than strategic issues, and suggested that shortcomings in the Fund's strategic approach could reflect the fact that the Strategy and Policy Review Department (SPR), which co-authors the surveillance and lending reviews, has not shared an institutional responsibility for the Fund's CD strategy.

### C. Internal Prioritization and Allocation Processes

69. ICD and the CCB play a central role in promoting interdepartmental cooperation and ensuring that departmental CD priorities take account of the Fund's broader strategic objectives. The 2013 CD Strategy called for the CCB's terms of reference to be revised to "reflect the expectation that the committee would: (i) complement the demand-driven approach to CD in the RSNs by providing clear guidance to departments on institutional priorities for CD in order to improve the allocation of CD resources; (ii) review results (planned vs. actual); and (iii) provide explicit guidance on the direction of fund-raising activities."

70. The CCB and ICD have made improvements in a number of these dimensions. The CCB has provided a useful forum for discussing and prioritizing CDD requests for fund raising, for allowing CDDs and ADs to bring forward new priority topics and regional needs (including for new RCDCs), and for ensuring that (and monitoring how) CD allocations align with Fund-wide priorities (e.g., fragile states). The CCB and ICD have also pressed in recent years for improvements in the internal dissemination of CD activities and reports that now provide a firmer basis for prioritization.[38]

71. However, the CCB has not been viewed as wholly successful in achieving its strategic objectives. Concerns expressed by some of its members include that the CCB had not been effective in promoting and disseminating RBM information, or in using this or evaluation findings to help sharpen CD allocations. Some interviewees felt that the CCB appeared more focused on ensuring that budget targets were met, and lacked a high-level strategic focus that would, among other things, allow it to act as a forum for breaking down rigidities in departmental

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[37] For example, the 2014 Triennial Surveillance Review encouraged the Fund to better leverage its in-house [TA] expertise for surveillance" and suggests that "surveillance could better inform TA priorities," but does not make specific recommendations for how this would happen. The 2018 Interim Surveillance Review noted that "…little progress has been made in leveraging knowledge from cross-country experiences in Article IV policy advice and in integrating technical assistance with bilateral surveillance, and this area would benefit from a course-correction." The 2021 Comprehensive Surveillance Review (CSR) also provides little strategic or operational the relationship between CD and surveillance, notwithstanding the CSR's background paper on traction that found that "the Fund's swift provision of technical expertise and capacity development was of instrumental value to the authorities of all country cases, as well as to Fund teams given its role in shaping Fund advice." The 2018 review of program design and conditionality analyzed how CD allocations supported program conditionality, concluding that "Fund technical assistance (TA) was deployed consistently with program priorities and country needs," but CD did not figure into the list of recommended follow up actions (IMF, 2018a).

[38] The Fund's Knowledge Exchange system contains country pages that list recent CD missions and reports (Radelet, 2022).

budget allocations.[39] And while the CCB and the accountability framework have become more effective in tracking efforts to shift CD toward the new growth areas, they have not provided guidance on how these new areas can be accommodated and, where relevant, the areas that should be de-prioritized to make room for these new mandates.

72. The CCB and ICD also seem to have been slow to identify and encourage best practice among ADs in defining CD priorities across countries and topics. Prior to the rollout of CDMAP for the MTW process in 2021, ADs followed different practices, with only two basing their ranking of CD requests on scores against criteria such as need, traction, the availability of alternative providers, and whether the project met Fund-wide priorities.

73. A range of views were expressed in interviews about the potential for CDMAP to improve internal allocation processes. Interviewees tended to agree that it was still too early to pass judgement on its effectiveness, but there seemed a universal recognition that the new system is a major improvement on CD-PORT, including because it provides considerably more transparency about how CD resources are being allocated. However, a number of interlocutors expressed concern that the system's complexity will discourage project managers from making effective use of it as a planning tool.[40]

74. Interdepartmental coordination among CDDs seems relatively limited and could provide scope for improving CD prioritization and allocation. For example, the evaluation for the AML/CFT Trust Fund noted the potential and untapped synergies between the Trust Fund's work in this area and the work of other Fund CDDs in the area of risk-based financial sector prudential supervision (Watson, and others, 2019). Some staff interviewees expressed concern that the lines of topical responsibility between CDDs were sometimes blurred, with the potential for duplication and/or conflicting TA advice.[41] Conversely, staff interviewees viewed multi-departmental thematic trust funds as providing a good vehicle for collaboration and leveraging synergies across CD topics, since their steering committees include representatives from multiple departments (e.g., the Managing Natural Resource Wealth Trust Fund, MNRW; and the Financial Sector Stability Fund, FSSF).

75. A number of interviewees felt that that there was room to enhance interdepartmental coordination on TA and training. In particular, liaison between ICD and CDDs regarding priorities for ICD course content and delivery appears to be limited, which means that CD missions are not

[39] Recent efforts have been made to improve the effectiveness of the CCB discussions, including by reducing the large number of attendees, but interviewees opined that these had been less than wholly effective because these meetings tended to come late in the process and were mainly focused on validating decisions rather than allowing for a more strategic discussion.

[40] Lamdany (2022).

[41] The most obvious example is ICD's CD on macroeconomic policy modelling, an area that overlaps with MCM's long-standing responsibility for central banking operations or FAD's responsibility for fiscal policy stances. For the most part these issues have been resolved amicably, but with ICD's new emphasis on delivering country-specific CD, these issues may become harder to manage.

timed in a way that could leverage the spill over benefits from training. In addition, AD RSNs appear to place a greater weight on hands-on and topic-specific training that is delivered by CDDs or the RCDCs rather than the multi-country courses delivered by ICD, which suggests that resource allocations do not necessarily reflect well AD (or country) needs. For example, EUR's 2020 RSN flagged the importance of using IMF training to leverage the expertise of CD practitioners instead of presenting high-level overviews of policy issues and analyses.[42]

## D. Integration with Surveillance and Programs

76. The Fund has made considerable strides in ensuring that ADs play a greater role in the prioritization and allocation of CD. AD representatives typically attend the meetings between CDDs and senior officials during the annual and spring meetings to receive and discuss CD requests; AD CD coordinators collate and prioritize the CD requests that mission chiefs identify, ensuring that each year's CD mission schedule aligns with departmental priorities; and new procedures have been adopted to require AD mission chiefs to sign off on CD mission briefs. And while not all ADs have invested heavily in CD prioritization and allocation, the heavier CD users (AFR, APD, and MCD) have established CD coordination units to strengthen the department's capacity to define its CD priorities and to ensure these are communicated effectively to the CDDs.

77. The role of ADs in CD prioritization and allocation has recently been reinforced in the context of the 2021 Comprehensive Surveillance Review. This review placed greater emphasis than previous surveillance reviews on linking CD objectives with staff policy advice, and this was followed by detailed internal operational guidance to reinforce the respective roles of ADs and CDDs in integrating CD with surveillance and lending operations (IMF, 2021d).[43] These built on a "structured exercise" that was launched in 2019 that explored different approaches in 15 country pilot cases (see IMF, 2021a).

78. However, the 2021 guidelines and the staff interviewed suggested that integration still faces challenges. The guidelines noted in particular "not all country teams are employing best practices when engaging on CD, and greater clarity is needed on roles and responsibilities across departments, including in the reformed CD processes and systems." And a staff memo to Management warned that staff resource constraints, a lack of familiarity with CD information systems, and change management needed to be addressed. Staff interviewees also noted that AD mission chiefs vary in the depth of their interest in managing the CD portfolio for their country, their understanding of the technical issues around CD, their focus on training needs in the country, and their awareness of their country's absorption capacity and reform commitment.

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[42] De Lannoy (2022b).

[43] The guidance note contains detailed guidelines for AD country teams on how to set CD priorities, and also defines the respective roles of ADs and CDDs during the implementation phase of projects (IMF, 2021a). This document was complemented by a new set of guidelines on CD prioritization and work planning, which sharpened and consolidated pre-existing guidelines (IMF, 2021b).

Some AD staff expressed concern that the regional shares of CD exhibit too much inertia and do not respond flexibly enough to country needs (see Box 3 and Annex II for a description of econometric analysis that provides support for this view). Moreover, mission chiefs may be overly interested in "quick wins" given their relatively short job tenure or the exigencies of a Fund program. And ADs also vary in the corporate commitment they demonstrate to effective oversight of CD, with AFR and APD setting a higher bar.

**Box 3. An Empirical Analysis of the Factors Driving CD Allocations**

A simple econometric exercise was performed to examine the factors that have driven the allocation of IMF CD. The analysis was based on an OLS panel regression that relates the annual amount of CD delivered by the Fund to its members during 2007–2020 to variables that might proxy for the Fund's stated priorities, which include supporting low-income countries, fragile states, and countries that have ongoing IMF lending programs. It builds on and extends analyses that were performed in the context of the IEO's 2005 evaluation of IMF TA and the 2018 Strategy Review (further details can be found in Annex II).

The key results include:

- *Country size*: Larger countries, in terms of populations, tend to receive larger CD allocations, although the impact of size matters most for smaller countries and tends to be relatively modest for larger countries.
- *Development needs*: Allocations tended to be directed toward countries with lower per capita GDP and weaker levels of the WB's Human Development Index (HDI).
- *Fund programs*: CD allocations appear to be directed to a greater degree to countries with IMF programs. And while higher CD allocations are associated with stand-by arrangements, the effect of programs is largest in the case of programs that are longer-lived and those that have structural conditionality attached.
- *Fragility*: Countries classified by the Fund as fragile states (FCS) do not appear to receive significantly more CD, nor were indices of macroeconomic fragility (i.e., debt/GDP, fiscal deficit/GDP, and current account/GDP ratios) significant. However, this could reflect the fact that security conditions have often limited the scope for the Fund to provide in-country CD, especially through the assignment of LTXs. It could also reflect the possibility that other variables in the regression (the HDI, per capita GDP, and IMF program variables) acted as proxies for fragility.
- *Regional biases*: The results suggested that allocations are significantly higher in the AFR and APD regions, and MCD allocations are significantly lower, compared with the other two regions, even after taking account of the other drivers.
- *RCDCs*: The data suggest that countries covered by a regional CD center tend to benefit from significantly higher levels of CD allocations.
- *IMF- versus donor-funded CD*: Compared with internally funded CD, donor-funded CD appears more responsive to country poverty/HDI and to the presence of IMF programs. And there also seems to be a significant substitution from internally funded to donor-funded CD in the presence of an RCDC.
- *Persistence*: Country CD allocations tended to be highly persistent, and this effect seems strongest in the case of donor-funded CD, likely reflecting the fact that these are typically defined in the context of multi-year delivery programs.

The Fund has done limited statistical analysis exploring the correlations of its CD allocations, but the finding of regional bias aligns with Fund staff analysis that was presented to the January 2021 CCB meeting (IMF, 2021e). This work looked at regional shares of Fund CD over the period FY2016–2020, and compared these to simulated shares based on the size (measured by share of world GDP), and "need" (based on the World Bank's Country Policy and Institutional Assessment index) of counties in each region. The results suggested regional biases in funding toward the AFR and EUR regions, at the expense of the MCD region.

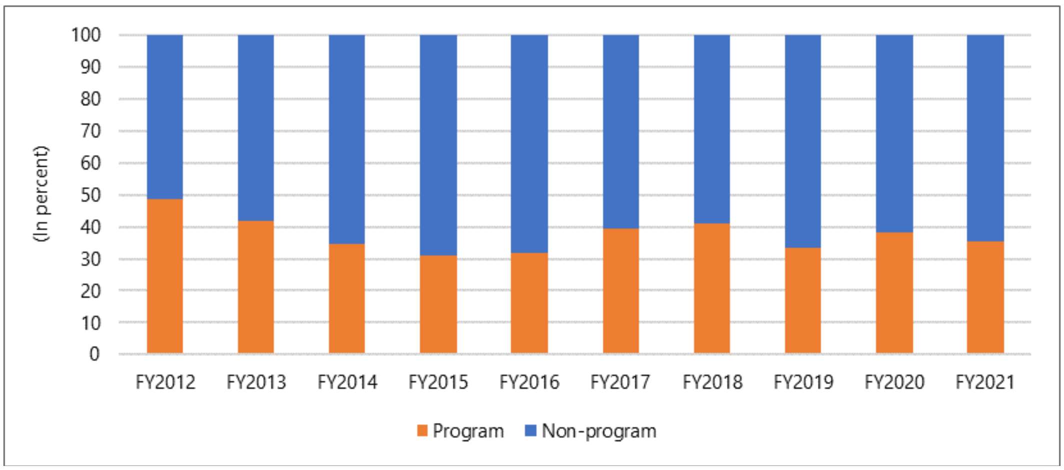
79. EDs interviewed also recognized the progress that had been made in this area but raised similar issues.[44] In their view, references to CD in Article IV reports were generally too perfunctory, without demonstrating the extent to which CD is supporting Fund policy advice or clarifying priorities. And at least one ED suggested that while integration was more obvious in program cases, this could result in CD that was driven too much by short-term priorities rather than longer-term strategic considerations. Another cautioned that promoting AD (versus CDD) responsibility for defining CD priorities could have the unfortunate effect of weakening the role

[44] See De Lannoy (2022a).

of country authorities, since their engagement on technical issues was often closer with CDDs. Several EDs remarked that they did not see much evidence that training had been integrated into surveillance.

80. Integration is typically tighter in the presence of IMF lending programs. This reflects the fact that considerable volumes of CD are directed to program cases (Figure 7) and the fact that CD is often used to support the achievement of structural and other conditions under the program. Indeed, analysis contained in the 2018 Review of Conditionality demonstrates that there is a close relationship between the topical coverage of CD and structural conditionality (IMF, 2019b). Interviewees also noted that the effectiveness of CD delivery in program cases was enhanced by generally larger teams and the greater premium that was placed on coordination with other partners.

**Figure 7. CD Spending for Program and Non-Program Countries, FY2012–2021**




Source: IMF, ACES; IEO calculations.
Note: These values do not include non-personnel costs and are only for direct delivery.

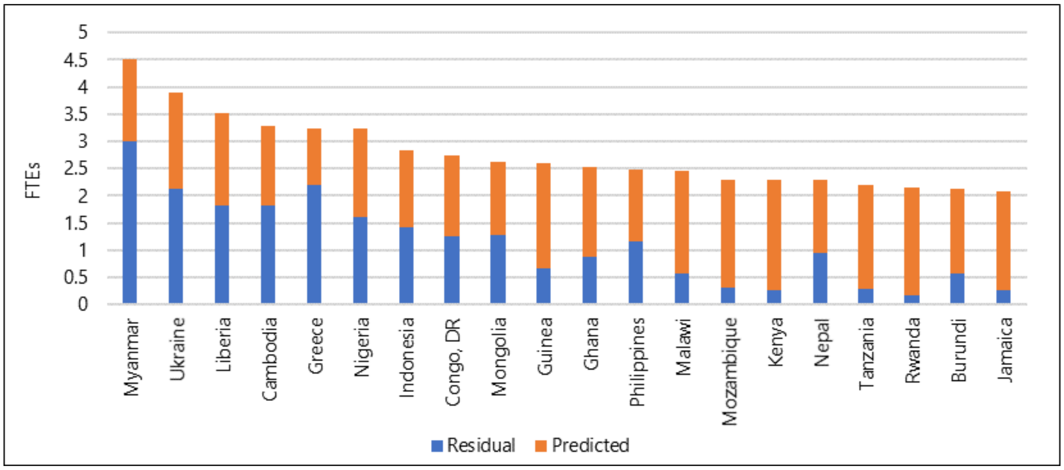
81. Nonetheless, the IEO's recent report on growth and adjustment in IMF programs notes shortcomings in the role of CD plays in IMF lending programs (IEO, 2021). It acknowledges that CD delivery was ramped up to support program conditionality, but its findings suggest that CD was not sufficiently targeted at countries with weaker capacity, nor was it obviously effective in helping countries achieve program objectives. The report also flagged the need for closer collaboration between CDDs and ADs in setting and monitoring program conditions, and for more effective collaboration with other CD providers.[45]

82. Simple regression analysis of CD allocations (Box 3) illustrates that programs, especially those that have a greater structural component, tend to be associated with larger CD allocations (especially that funded by external donors). However, it also suggests that that CD delivery to

[45] The March 2022 "management implementation plan" detailed the Fund's response to the IEO's evaluation and laid out steps for improving the integration of CD with IMF lending programs (IMF, 2022b).

so-called "heavy users" was not wholly related to their country characteristics or program status, and likely reflected other factors, possibly including the initiation of long-term reform programs (e.g., Myanmar, Nepal) or the extent of donor funding, as discussed in Section G below (Figure 8).

**Figure 8. Top CD Recipients: FTEs (Predicted vs. Residual), FY2007–2019**




Sources: IMF, TIMS unallocated data; IEO calculations.
Note: Data include planned and approved missions.

## E. The Role of Monitoring and Evaluation in Prioritization and Allocation

83. The Fund's RBM system does not yet appear to have played a major role in CD prioritization and allocation. This partly reflects the fact that the system has been introduced slowly and still provides a quite limited data set. As a result, it has only recently begun to provide basis for monitoring individual project performance as well as for judging relative success across thematic and geographic lines. However, the constraints on use of the RBM for prioritization and allocation may be persistent. The 2020 RBM guidelines seem solely focused on the processes around recording RBM data rather than its use in guiding allocations. Moreover, the use of the RBM system to make portfolio assessments is complicated by the fact that CDDs have tended to use different approaches in designing their logframes, and by the fact that internally funded CD missions are often of a one-off nature and are not required to establish milestones or outcomes. There are also issues about how RBM is applied in practice, including incentives to set CD outcomes that can be most easily achieved, and the modification of benchmarks ex post in light of experience (shifting the goal posts) that may be justifiable from a management perspective but can make RBM less useful for evaluation.

84. Nonetheless, there is some evidence of the potential for the Fund's RBM systems to inform prioritization decisions. Two FAD trust funds (the Revenue Mobilization Trust Fund (RMTF) and the MNRW) used RBM data to prepare heat maps to report to their Steering Committees on project performance, which provide a basis for periodic reprioritization of activities. And Bassanetti (2021) used RBM performance data to demonstrate that field-based delivery (i.e., the

involvement of an RCDC and/or an LTX) was correlated with better CD outcomes, whereas favorable outcomes were less likely in fragile states and in larger and more complex projects.

85. More broadly, evaluations of IMF CD prepared by CDDs, which provide greater scope for assessing CD impact beyond the period covered by RBM assessments, do not seem to have been used systematically to adjust priorities or allocations. Although the Fund's CEF (IMF 2017, updated in IMF 2020d) was supposed to have established a Fund-wide process for using evaluations to adjust CD priorities and allocations, there was no obvious follow up on this commitment.[46]

86. The periodic self-assessments performed by CDDs seem to have been less impactful than those performed for externally funded CD projects. Independent mid-term evaluations are consistently required for TTFs and RCDCs, and are typically outsourced to private firms as part of the governance framework. While interviewees noted that the quality and usefulness of these external evaluations can vary, they are acknowledged to have material impact on the design of these programs' next 3–5 year operational cycle. And this is demonstrated by the fact that subsequent program documents will typically summarize the results of the evaluations and describe follow-up actions to be taken.

87. Some of these shortcomings were candidly acknowledged in a 2020 update of the CEF (IMF, 2020d). This document noted the need to "shift the primary purpose of evaluations toward learning" including by establishing clearer policies for the dissemination of evaluations, and requiring an annual report to the CCB on the results of the past year's evaluations as well as periodic reports to the Board. However, it is too early the impact of these revisions.

## F. The Role of Diagnostic Tools

88. A hallmark of Fund CD has been the emphasis on diagnostic assessments to define priorities for and the allocation of IMF CD. In the past, this approach mostly relied on large "multi-topic" missions by CDDs that would assess CD needs in various dimensions, and provide the basis for discussions with country authorities of their CD priorities and subsequent delivery by the Fund or other providers.[47] However, with the rapid promulgation of a wide range of international standards and codes following the financial crises of the 1990s, IMF CD has increasingly emphasized these as a basis for its diagnostic CD, and for assessing follow-up CD

[46] Specifically, the 2017 CEF included a commitment by ICD to summarize annually the lessons learned from recent evaluations and "the CCB would be expected to use evaluation results to assist with setting CD priorities" (IMF, 2017). Summaries of evaluation reports had been regularly prepared by the Office of Technical Assistance Management, but this practice was abandoned with the advent of ICD.

[47] Examples include the 2015 STA evaluation of TA and training needs in Guatemala.

needs.[48] This is true for both the TTFs and RCDCs, whose program documents often explicitly emphasize the role of these standard and code assessments as the basis for defining their country-specific CD programs.[49]

89. The use of standards and codes-based diagnostic tools in CD delivery has had a number of advantages. They provide a basis for defining an internationally agreed set of good practices, and therefore help ensure consistency in IMF CD recommendations, including with other providers that may also use these tools. They establish a useful basis for defining reform strategies and CD workplans, as well as for assessing progress.[50] They also provide countries with an important basis for benchmarking themselves against others (based on objective and measurable criteria), and thereby can encourage ownership of shortfalls and a desire to match or surpass their peers.

90. However, these diagnostic tools do not appear to have been used to prioritize CD allocations across countries, and their use in prioritizing CD within a country has also faced challenges. For example, a recent independent evaluation of the IMF-SECO partnership downgraded its scoring of one CD project because the roadmap defined by the diagnostic mission appeared not to have led to a shared understanding of priorities.[51] Moreover, these tools can sometimes be seen by country authorities as reflecting good practices among the advanced economies and therefore not relevant for lower capacity systems. This issue is compounded by the fact that using these diagnostic tools in low-capacity countries often results in poor ratings along every dimension assessed, and so may not provide helpful guidance about where to prioritize (e.g., see the discussion in TADAT, 2020). This has led some CD vehicles (notably the Financial Sector Stability Fund, FSSF) to downplay the role of formal assessments in its diagnostic missions and focus more on defining well-sequenced reform agendas.

[48] In the financial area, the Financial System Stability Assessment Program (FSAP) was originally envisaged as a platform (with the World Bank) for identifying TA needs, buttressed by assessments against internationally agreed standards and codes. In the fiscal area, the IMF's has established a fiscal transparency code, and has (often with partners) a number of other diagnostic tools, including in the areas of tax administration, public investment, and debt management. IMF CD on legal and data-related matters often rely on assessments against AML/CFT and data standards, respectively.

[49] Examples of standards and tools referenced by topical trust funds include: the Management of Natural Resource Wealth Thematic Fund has used the Fiscal Analysis of Resource Industries (FARI) tool; the Revenue Management Thematic Fund has used the TADAT; the Data For Decisions Fund has used IMF data standards; the FSSF has used various financial and data standards; and the Anti-Money Laundering/Combating the Financing of Terrorism Thematic Fund has used the recommendations from the financial Action Task Force. RCDC program documents also make similar refences, depending on the sectoral expertise of the resident experts.

[50] For example, see TADAT Secretariat (2020) for examples of how this tool has been used by different TA providers and recipients in defining their CD strategies.

[51] By contrast, the evaluation referenced another case, where the authorities fully bought into the results of a TADAT mission and used it to develop a strategic plan for follow up TA. See DevTech (2020b).

## G. The Relationship with External Funders

91. The significant share of IMF CD that is funded externally has come with significant benefits. Besides the obvious advantage of enabling a massive increase in the volume of IMF CD, external funding has also allowed the Fund to leverage the donors' own experience and involvement in other CD projects, has facilitated coordination among providers, improved the transparency and accountability of some Fund CD and has encouraged the Fund to adopt a more programmatic and results-oriented approach to its CD generally.

92. However, as several EDs noted during interviews for this evaluation, the IMF's Board is provided limited information on CD trust funds. In particular, the Fund's Board has limited input into decisions on whether to launch a new CD initiative, or on how these initiatives should be shaped. And similarly, EDs only have information on the ongoing operations of these trust funds if they represent donor agencies. This lack of a "line of sight" into trust fund activities could limit the effectiveness of the Board's oversight of Fund CD, including in the context of its discussions of CD strategies and the MTB.

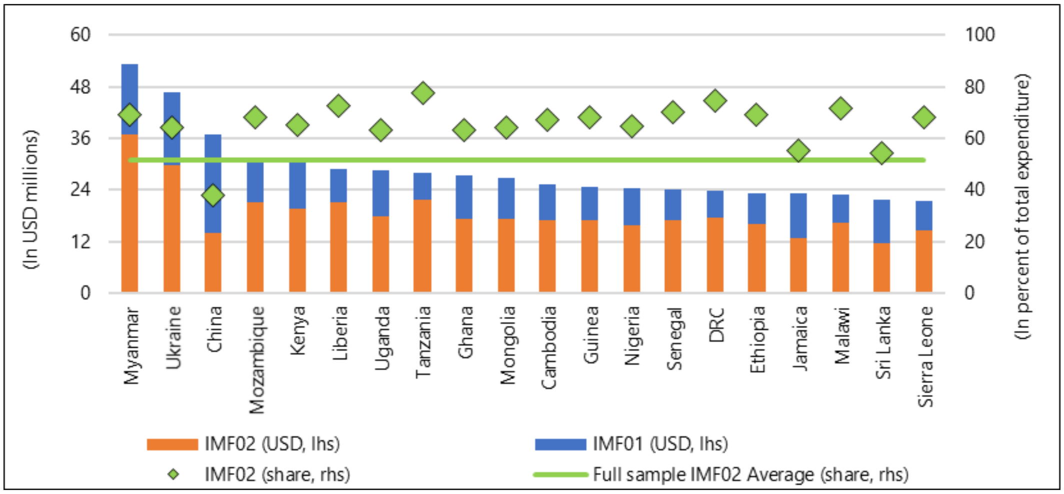
93. Moreover, the heavy reliance on donors leaves the IMF's own resources for CD at risk of having to fill external funding shortfalls, especially around the time when trust funds enter a new phase of operation. These pressures have been particularly strongly felt in the case of the RCDCs, where donor support has often been subject to shifts in donors' own regional and country priorities. And the uncertainty about the availability of funding has complicated planning and prioritization for projects that span these funding cycles. Such concerns have recently been exacerbated in the wake of the COVID-19 pandemic which brought considerable pressure on donor budgets. This issue is recognized in AFR's 2021 accountability framework, which committed itself to "resolve funding shortfalls of AFR's RCDCs and advocate for greater CD flexibility."

94. External funding also leads to perceptions that the Fund's CD priorities are defined by donors. It is the case that almost all the heaviest CD users during the evaluation period have benefitted from higher-than-average amounts of external funding (Figure 9). However, the current CD policy requires that funding is accepted only when "donor interests are consistent with Fund priorities and objectives," and interviews generally confirmed that Fund staff typically take the lead in defining the broad contours of the work of its RCDCs and thematic trust funds. Nonetheless, donors can and do press for their own specific thematic or geographic priorities, especially during the initial fundraising stage or when program documents are drafted.[52] And these pressures surfaced during interviews, when some donors interviewed expressed concern

[52] For example, donors typically limit the scope of CD delivered by thematic trust funds along geographic lines or on the basis of per capita GDP. The accompanying case study on the Ukraine illustrates examples of donors pressing for CD in areas that may not have been well aligned with IMF or recipient priorities (Everaert, 2022).

that the Fund was showing insufficient commitment to delivering in areas that they viewed as priorities—e.g., gender, financial inclusions, and climate.

**Figure 9. Top 20 CD Recipients Direct Delivery CD Spending, FY2012–2021**




Sources: IMF ACES; IEO calculations.

95. The Fund has sought to ameliorate these rigidities and enhance the alignment with Fund and country priorities by promoting larger, multi-donor trust funds. Nonetheless, bilateral and country-specific funds still represent roughly a third of donor funding, with topical and geographical responsibilities that often overlap across the trust funds. Moreover, the total number of trust funds has increased, rising from around 40 in 2010 and to over 50 in 2020, raising the challenges of efficient management of these resources. And at least some donors interviewed for this evaluation viewed the Fund's approach to fund raising as still seeming more opportunistic than strategic.[53] They cited, in particular, the Fund's effort to promote a new multi-donor trust fund—the COVID-19 CD Initiative—which they felt did not appear to have been coupled with sufficient clarity about how the new funds would be deployed (IMF, 2020d).

96. The Addis Tax Initiative (ATI) provides an interesting example of the potential for partnerships among CD donors, providers, and recipients to improve CD allocation and prioritization, but also the challenges in sustaining these efforts. The ATI includes 20 donor countries, 25 recipient countries, and over 15 CD providing agencies, including the Fund. The initiative grew out of the 2015 Addis Ababa Action Agenda, and involves a joint commitment to meeting the tax-related Sustainable Development Goals. The ATI provided a forum for sharing

[53] The World Bank has initiated a reform of its approach to trust funds that is centered around a "whole of finance" approach. Trust funds have been required to prepare "Trust Fund Portfolio Roadmaps" that explain how they align with Bank-wide strategic objectives, with the objective of eliminating less relevant trust funds and consolidating those remaining in to larger "Umbrella" vehicles.

information and coordinating tax-related CD, but after a promising start, its monitoring and coordination role seems to have been put on hold.[54]

## H. The Impact of Budget Constraints and Systems

97. The need to work within the constraints posed by Fund budget ceilings on CD has not obviously led to more strategic approaches to prioritization and allocation. During 2020, forced reductions in travel expenditure generated unexpected budget headroom, but prior to that the overall caps on donor-funded CD that were defined in MTBs appear ad hoc rather than developed with reference to a strategic assessment of how spending caps should affect CD priorities (or an analysis of the "optimal" share of external funding). In addition, CD allocations within fiscal years can be distorted by the absence of effective mechanisms for carrying over unused budget room to future years in the face of unexpected shocks (e.g., delays in hiring LTXs, political or security issues, etc.).[55] Efforts are underway to (partly) address this issue with the introduction of a centrally held carry-forward mechanism.

98. Moreover, CD prioritization and allocation has been complicated by the weaknesses in Fund systems for tracking how staff time and the Fund's budget are spent. For example, the FY2020–2023 MTB acknowledged that "Fund-wide processes and systems remain fragmented, difficult to use, and often ad hoc and unsupported by the corporate IT framework, with ongoing gaps in availability, timeliness, and accuracy of CD administrative and performance data." As a result, ADs have found it difficult to readily access up-to-date information on the CD that is planned or ongoing their countries; CDD project managers also face difficulty in obtaining real-time information on the status of their budgets; and CDDs, Fund management, and the Board have difficulty in assessing the impact of CD and setting priorities in response. Encouragingly, interviewees expressed satisfaction with the increased information on current and planned CD missions that was available with the new CDMAP system, and expressed hope that this would ameliorate some of these issues.

## I. The Role of Country Ownership in Defining CD Priorities

99. As described in Section III.B above, the Fund has put significant processes in place to ensure that CD priorities and allocations reflect country demands, but there is evidence to suggest that more could be done. For example, the survey conducted for the 2018 CD Strategy review suggested that only 49 percent of CD was initiated by the recipient; that CDDs and ADs played a significant role in prompting CD requests; and that "22 percent of recipients indicated the government agreed to accept the CD to maintain good relations with the IMF" (IMF, 2018c).

[54] For details see https://www.addistaxinitiative.net/.

[55] This issue was acknowledged in a memo to management dated September 29, 2015. This clarified that the "anchors" were to be seen as "operational targets" rather than ceilings and "limited deviations above or below the anchor would be acceptable."

100. Recent mid-term evaluations of RCDCs have generally concluded that ownership is high amongst member country authorities, albeit with room for improvement. For example, the Norwegian Agency for Development Corporation (NORAD) comparison of tax-related work of the RCDCs and the RMTF concluded that the RCDCs' CD support appeared to be more demand driven than HQ-based CD, partly reflecting the locational advantage of the centers and (possibly) the RCDCs' greater focus on hands-on implementation of reforms. But RCDC evaluations also have flagged several opportunities for improvement. For example, the evaluation for the CAPTAC-DR noted that ownership can be very different (and often lower) at the political versus the technical level, and suggested that the Steering Committee could be used to achieve better concurrence (Lawson and others, 2018). Other RCDC evaluation reports and interviews with staff suggest too that SC meetings could be more substantive and possibly held at a higher than annual frequency.

101. The Fund has taken welcome steps to promote medium-term CD strategy notes as a framework for ensuring recipients' commitment to CD, but it is not apparent how far these efforts have succeeded. For example, although the 2020 guidelines for CSNs require that "the priorities and underlying strategy should be agreed with the authorities," it is not clear how this agreement is assured since the document is not shared.[56]

102. Recent CSNs have typically contained little or no reference to agreement with the authorities. The recent China CSN is an exception that refers to priorities that are defined by staff that reflect "discussions with corresponding government agencies" and "dialogue in the context of Article IV discussions." The China case study for this evaluation supports the impression that Chinese authorities have been particularly active in guiding IMF CD priorities for the country.

103. Relatedly, two of FAD's major thematic trust funds were established with the promise that medium-term projects would be accompanied by a signed "memorandum of partnerships" that would among other things, identify the senior official counterpart for the project and specify the authorities' contribution to the project in terms of a steering committee, work facilities for the LTXs, etc.[57] However, staff report that they have placed a lesser priority on these as an instrument for promoting buy-in, partly because the commitments they contained were too easily overtaken by shifts in political priorities and/or officials viewed these as too akin to program conditionality.

104. However, there are encouraging examples of how CD has been used to establish agreement on and support medium-term reform agendas. For example, Financial Sector Stability Reviews (FSSRs) typically include a set of time-bound follow-up actions that could be supported by future technical assistance, and this action plan is typically discussed and agreed with the authorities. And in the case of the Gambia, this was followed by a government authored report

[56] See the memo "Staff Guidelines on Capacity Development Strategy Notes," January 23, 2020.

[57] For example, see the description in IMF (2016) Box 5 of the August 2016 RMTF Program Document.

that defined specific follow commitments.[58] And the Fund has collaborated with the WB, the OECD, and the UN on developing an approach to defining and supporting country-led medium-term revenue strategies (MTRS). Nonetheless, Mullins (2020) reports that progress in launching MTRSs has fallen short of initial interest, including because of "an absence of strong government-led governance arrangements."

105. Lastly, it is also not clear how well the Fund's "priority" CD areas have taken into account country demands. It is not obvious that these were defined through consultation with the recipients of Fund CD. Staff interviewees report that countries have tended to prioritize capacity building in traditional areas rather than the new areas that have been defined, although digital money and fintech issues seems to be an exception. However, one RCDC has responded to the encouragement of its donors to do more on gender and climate issues by hosting regional events, including on climate and bank supervision and on gender budgeting, to help gauge the interest (and promote ownership) in CD in these areas.

### J. The Use of Track Record to Guide CD Allocations

106. Although the IMF's 2019 CD Policies and Practices highlights the importance of a country's track record in prioritization and allocation decisions, there are no systems in place to ensure this happens.[59] Even though CSNs are expected to contain a "candid description of the ability of relevant institutions in the country to absorb and implement CD, including potential risks to implementation such as ownership and political constraints,"[60] the use of information on the track record of CD implementation by recipients in ADs' annual CD prioritization exercises has been very limited. And a recent external review of a cross section of IMF CD trust funds also suggested shortcomings in this area, by noting that "political economy considerations are not yet systematically integrated into log frames" (Moers, and others, 2019), and current practices do not allow a cross country-comparison of implementation risks. Evidence from the recent small states evaluation suggests that there have been examples where CD provided consistently exceeded country's absorptive capacity, contributing to shortfalls in adaptation (IEO, 2022).

107. The RBM system, by requiring systematic monitoring CD outcomes, promises to enable the allocation of CD with greater attention to the traction of past advice, at least through to the end of a CD project. However, for these data to provide a relevant proxy for commitment, it would be important to ensure that the log frames consistently reflect commitments by the relevant authorities. But thus far, the Fund's operational RBM guidance manual makes no

[58] See Central Bank of Gambia (2019).

[59] As described in Box 1 above, the Fund abandoned in 2005 the use of filters for TA allocations, one of which was the requirement that staff assess whether the request was supported by a track record of commitment and implementation of past advice. A 2005 staff taskforce report recommended abandoning the filters in response to the IEO's 2005 TA evaluation, which criticized the filters as being inadequate to "provide a meaningful and strategic basis for TA prioritization."

[60] See the January 2020 CSN Guidance Note (IMF, 2020a).

reference to either communication to or joint agreement with CD recipients on the objectives and milestones contained in RBM log frames.[61] This gap was flagged in the 2018 AFRITAC East mid-term evaluation, which concluded that "officials were not clear on RBM's objectives and operational advantages."

108. Track record is also inherently difficult to assess in the context of "one-off" (typically IMF01-funded) missions. This is because these missions are typically not associated with a medium-term CD program, and so there is no follow-up process for monitoring subsequent implementation of their recommendations. And the scope for monitoring implementation is further undermined by the absence of systems for recording the recommendations of these missions. However, the RBM system would seem to present an opportunity for filling this gap, by requiring such missions to record their recommendations in the context of RBM milestones, which would facilitate more systematic assessments of whether these recommendations had been acted upon. However, the RBM system only requires "one-off" missions to report relatively generic objectives and outcomes, both of which are typically deemed to have been achieved once the mission takes place.[62]

109. In addition, Fund CD allocations to countries may at least implicitly take account of factors other than past (or expected future) project performance. In particular, allocations may reflect the need to remain engaged with countries, including in cases where the receptivity of country authorities to conventional IMF policy advice may be limited.[63] Moreover, CD may be directed toward countries where past performance may have been limited but new authorities have made reform commitments that appear to merit support. And CD may be provided in cases where chances of success may be low, but country needs (and potential payoffs) may be large. However, internal allocation mechanisms do not typically make these considerations explicit in a way that would allow cross-country comparisons.

## K. Coordination with Other Providers

110. The Fund has long placed an emphasis on the need to improve its coordination with other CD providers, including to enhance CD P&A. This has reflected an awareness that

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[61] However, the RBM Governance Framework (IMF, 2020c) does encourage engagement with country authorities on project design including RBM milestones, etc.

[62] The August 2020 RBM guidelines (IMF, 2020c) require that IMF01 missions report in the RBM system, and provide the following example for a FAD tax policy mission: objective—"improved tax and non-tax revenue policy"; and outcome—"authorities have a baseline understanding of the current state of the government's tax and non-tax revenue policy and opportunities for improvement." Missions can also set a medium-term outcome (e.g., "increased/decreased revenue quantity due to amended tax rates or base") against which progress can be tracked for up to three years, but milestones are not included.

[63] CD Policy and Practices document have made this relatively explicit, e.g., by noting that "Some of these efforts also aim to deepen the dialogue between Fund and member country experts on specialized aspects of macroeconomic and financial policy issues, complementing policy discussions between member countries and the Fund related to surveillance or Fund-supported programs" (IMF, 2019c).

interagency coordination helps avoid duplicative resource allocations and allows for prioritization to be tailored in a way that maximizes synergies and complementarities.

111. However, the need for more progress in this area was acknowledged in the 2018 CD Strategy Review, which cited survey results that suggested that less than half of external providers felt that IMF CD is well coordinated with other CD providers.[64] And while staff interviewed for this evaluation generally agreed that coordination was desirable—in terms of the prioritization, design and progress reporting, of CD—they noted that it was an expensive and largely unfunded activity. Correspondingly, they felt there was a lack of a clear institutional view about where this responsibility lay—with resident representatives, RCDCs, the CDDs, or the country recipients themselves. More specifically, some interviewees worried that longstanding divisions of labor between the Bank and the Fund was inhibiting the Fund from responding to unmet demand for CD in the area of expenditure policy.

112. This said, interviewees felt that coordination with other CD providers is stronger in the context of IMF lending programs. This is partly because Fund mission chiefs have greater incentives to ensure that the CD delivered by other providers is supportive of the program's objectives. Moreover, other International Financial Institutions (IFIs) (including Regional Development Banks) also find it advantageous to leverage the results of IMF CD in designing their own policy support lending in the program context.

113. The IMF's CD trust funds enshrine requirements for coordination in their program documents and governance structures, often at the request of the external partners involved. These structures have helped: encourage better awareness by CD providers of each other's activities, encourage consistent prioritization, limit the risk of duplicative and overlapping CD allocations, and improve the scope for synergies. Examples include:

- FSSF—This trust fund includes the WB on its steering committee, Bank representatives are typically invited to attend the conclusion of FSSF missions, and Bank and Fund staff regularly meet after missions to discuss follow-up CD responsibilities.

- TADAT—The Bank is a member of the TADAT steering committee, and a multi-agency advisory group has been established to help guide the technical design of the TADAT assessment tool.

- Debt Management Facility—The Bank and Fund co-chair the steering committee, share (on a pro rata basis) in their access to DMF funding, will often jointly technical assistance missions, and collaborate on tools development.

[64] Chapter V of the staff background notes for the Review contains a useful summary of the challenges faced and suggestions for enhancing coordination.

- FIRST—The Bank and Fund both sit on the steering committee, and share and jointly approve mission schedules, and share on a pro rata basis their access to FIRST TA funding.

- RCDCs—Program documents typically assign some responsibility to the center for coordinating its CD with other providers, and their steering committees' meetings typically involve participation of other CD providers in the region.[65]

114. However, a recent evaluation of Bank-Fund collaboration (IEO, 2020) has suggested that range of institutional factors (different budget cycles, mandates, etc.) have meant that IMF collaboration and coordination with the Bank and other CD providers tends to be uneven, and often does not occur or does not go much beyond information sharing, which can result in a duplication of effort and inconsistent reform strategies.

115. Moreover, coordination has often been focused more on avoiding overlap and conflict, rather than maximizing synergies. For example, the recent evaluation of the AML/CFT TTF noted that "coordination has been limited to a broad division of labor" and suggested that "the TTF should collaborate more frequently and in more depth with other providers of AML/CFT capacity development" (Watson, and others, 2019).

116. A further impediment to coordination is the absence of frameworks for information sharing by CD providers. This is constrained by existing Fund policies that assign a lower priority to publication of its CD reports than for surveillance and lending operations, but there has also been limited effort made in sharing information on CD plans or delivery.[66] Some notable exceptions where the Fund has played a key leadership role include the establishment by MCM of the Committee for the Coordination of Financial Sector Technical Assistance to Myanmar (COFTAM), which was established in 2014 and included relevant IFIs and bilateral donors. Another example is the joint IMF-OECD-UN-WB Platform for Collaboration on Tax that has established a database with information on tax-related CD by each of the four agencies (although even in this case, access to CD reports is not shared).

## L. Nimbleness and Flexibility

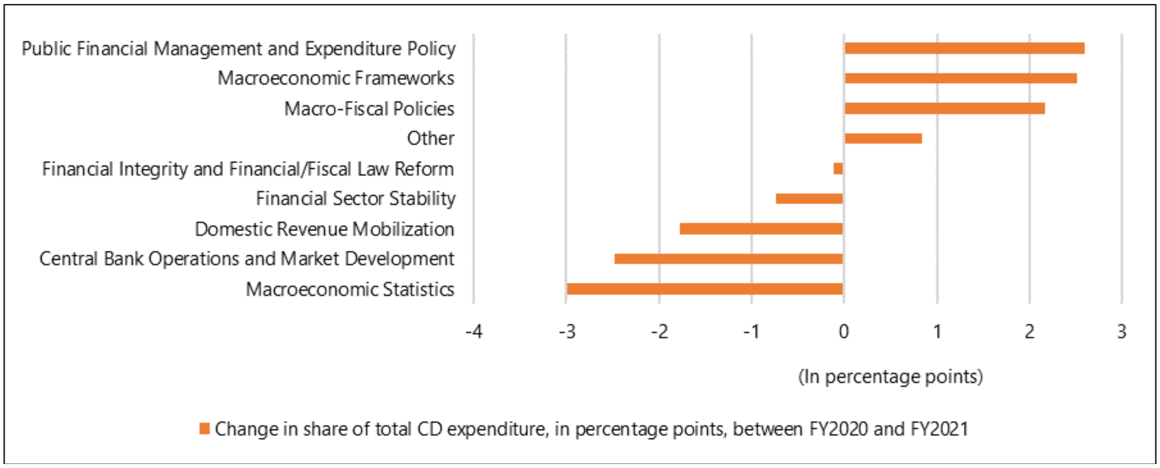
117. The pandemic has required considerable and rapid adjustments to both the focus and the modes of delivery of Fund CD delivery modalities. Regarding the focus, CDDs responded impressively and quickly by producing a large volume of topical notes to help guide IMF CD and country authorities in their policy and technical responses to the pandemic. This involved a shift in CD priorities toward topics that were made more immediately relevant owing to the pandemic

[65] This role appears to have been most effective when the RCDC is co-located in a WB office.

[66] The Fund's framework for dissemination of CD information was updated in early 2022. Although it maintained the existing requirements for publishing full CD reports, it did offer some steps to increase transparency, including by moving toward a default publication of high-level summaries of "strategic final CD outputs" (IMF, 2022a). See Radelet (2022) for further discussion.

(e.g., STA's efforts to assist countries in maintaining price statistics during a period when the scope for in-person sampling was constrained, FAD's advice on how to adapt fiscal rules in the face of COVID-19-related emergency spending pressures, MCM's work on regulatory forbearance, etc.) (Figure 10).

**Figure 10. Change in Share of Core Workstreams, FY2020–2021**




Sources: IMF, ACES; IEO staff calculations.
Note: The change in share is defined as FY2021 CD spend share-FY2020 CD spend share for each of the workstreams.

118. This recent response has followed other examples of the Fund's ability to adapt its CD quickly in response to unexpected shocks and shifts in member needs. These include the Fund's response to the Addis Agenda, which involved a significant scaling up of its assistance in the areas viewed as important for meeting the Sustainable Development Goals, including on domestic revenue mobilization and financial inclusion.

119. However, there remain several important structural rigidities that limit the flexibility of IMF CD, foremost of which is the heavy reliance on donor financing. As discussed above[67] this has resulted in the establishment of a large number of separate trust funds, whose topical and regional priorities are defined by the donors that chose to participate, rather than by broader, Fund-wide priorities. And therefore, the scope for reallocating resources in response to shocks is correspondingly more limited than is the case for Fund-financed CD (Box 3 presents evidence to suggest that donor-funded CD demonstrates more persistence than internally funded CD). Moreover, while AD interviewees welcomed the scaling up of Fund CD in the area of tax policy, they noted that this had come after years of persistent excess demand and only after increased donor funding had been obtained.[68]

[67] Stedman (2022a).

[68] However, reports of unmet demand are somewhat anecdotal since the Fund has only recently established a system to track CD requests by country authorities.

120. The Fund also suffers from inflexibility in the level, type, and allocation of its CD expertise.[69] This partly reflects the nonfungibility of technical experts, which may have been exacerbated by the decision taken to convert many of the Fund's HQ-based technical experts from term-limited employees to regular staff. But nonfungibility becomes less of a constraint over the medium term, given normal staff turnover. And interviewees tended to view the institutional inertia in interdepartmental budget allocations as a larger issue—both CDDs and ADs have an unsurprising aversion to reducing their CD budgets to make room for greater spending elsewhere, which Fund management is often reluctant to override.

121. Skills gaps can also limit the Fund's capacity to respond to new demands (Enoch, 2022). This constraint has been felt most recently with the new priorities that have been attached to non-core issues such as gender, climate, fintech, etc. However, these have come on top of the perennial excess demand relative to the Fund's expertise in areas such as tax policy, expenditure policy, pension reform, payments systems, and capital account measures. Although these constraints have been addressed somewhat through new hires, it is not apparent that—in the context of the flat budget in real terms—that the trade-offs have been identified explicitly.

122. The Fund's delivery model and its commitment to quality control, while a strength, also implies a degree of inflexibility. In particular, the premium that is placed on backstopping and project management by HQ-based experts, policies that limit "out-sourcing" of CD to commercial providers, and the relatively limited use (at least until pandemic) of remote delivery, reduce the overall resources that might otherwise be available and the flexible re-allocation of those resources between CD topics.

## VI. Overall Assessment

123. The Fund took significant steps to improve the prioritization and allocation of its CD over the evaluation period. Fund-wide CD strategies are now prepared every 5 years and presented to the Board, Fund-wide CD priorities are discussed and monitored in the context of the Fund's annual budget exercise, and Board briefings on CD-related issues have become more frequent. Internal processes for ensuring that CD allocations are aligned with these priorities have also been improved, including in the context of the establishment of a separate department that has this overarching responsibility, the creation of a management-chaired interdepartmental coordinating committee, and substantial investment in new information and management systems.

124. The Fund has also shown a commitment to ensuring that its CD aligns with country needs and the priorities that are defined in its surveillance and lending programs, and to respond to shifts in the needs of its membership. This effort has been supported by the growing importance of the RCDCs; by the increased responsibility that has been assigned to ADs for defining country CD strategies and CD priority topics, and the oversight of specific CD missions; and by more regular liaison between CDDs, ADs and country authorities on CD matters. And the

[69] Stedman (2022b).

rapid shifts in the focus of CD and in its modes of delivery in the face of the COVID-19 pandemic have demonstrated considerable agility.

125. However, the discussion in the previous section suggests that there remain shortcomings in the manner in which Fund CD is prioritized and allocated across several dimensions, and also point to a number of specific opportunities for strengthening. In particular:

- *Institutional Strategy*: Past CD strategies appear to have been too focused on process improvements, and the next round (as well as forthcoming surveillance and lending reviews) would benefit from being more firmly anchored on integrating CD and maximizing synergies with the Fund's other core mandates—surveillance and lending. The forthcoming CD strategy review, as well as the Fund's regular decisions about CD prioritization and allocation, should be better informed by analysis of the costs and benefits of different CD topics, delivery modalities, and funding sources compared to other Fund activities; the results of CD evaluations; as well as clarity on what activities should be dropped to make room for new priorities.

- *Board engagement*: A more integrated and more "strategic" strategy document would provide a stronger basis for the engagement with the Fund's Board on CD priorities and allow it to more effectively perform its oversight role. This would be further buttressed by better delivery of information to the Board on how CD is supporting the Fund's membership, including with regard to its support for Fund surveillance and lending operations.

- *Donor funding*: The large share of Fund CD that is financed by external partners, and the still large number of individual trust funds, has resulted in structural rigidities and possible inefficiencies. A review of the current funding model would be timely, and could explore mechanisms to lengthen funding cycles, consolidate existing trust funds, and provide greater Board access to trust fund documents.

- *Internal processes and integration with surveillance and programs*: Notwithstanding the recent improvements, further strengthening could involve more consistent approaches to prioritization across ADs; promoting more programmatic approaches to allocating internally funded CD; better leveraging the CCB to provide a more continuous basis for coordinating CD strategies, planning, and promoting best practices; and enhancing the content and role of CSNs, including by more consistent preparation, greater attention to building country ownership, and better integrating CSNs into the Article IV process and program needs.

- *Coordination*: The responsibility for coordinating CD priorities and allocation with other providers remains idiosyncratic and there would be merit in defining more clearly where the responsibility for performing this function lies, and ensuring that this function is well funded. Co-locating Res Reps and RCDCs with the WB offices could also help facilitate coordination between these two institutions.

- *Country ownership/traction*: CD prioritization and allocation could take better account of country priorities and country track record, as well as country commitment, by efforts to: improve the effectiveness of countries' involvement in the RCDC steering committees; obtain a clear country commitment ahead of launching a medium-term CD program; and involve country officials in the subsequent monitoring of results. These efforts could be usefully complemented by collecting and using data on traction/implementation, leveraging the information from the RBM system and CD evaluations, and by explicitly including "engagement" as a criterion in the processes for prioritizing and allocating CD.

## ANNEX I. SUMMARY OF CD PRIORITIZATION AND ALLOCATION PROCESSES IN SELECTED COMPARATOR INSTITUTIONS

| | World Bank | SECO | MCC | DfID[1] |
|---|---|---|---|---|
| **How does CD fit into operations?** | CD delivered within country-based programs is viewed as part of an integrated country strategy, rather than rather than managed as a distinct group of programs and interventions. CD delivered by donor-funded trust funds operates independently, and is driven by priorities that are defined by the trust fund's program document. | SECO delivers a small amount of CD on its own behalf, which is integrated in its larger country projects. However, most SECO CD is delivered through a large ($25 million) multi-year bilateral program and by the trust funds it participates in (e.g., RTACs and IMF thematic trust funds). | The MCC mostly finances country-based infrastructure projects, but some projects will include a CD component, which is designed to meet the project's overall aims. | CD/TA is one set of interventions to meet country program objectives rather than managed as a distinct group of programs and interventions. However, there are some stand-alone TA projects. |
| **How is CD funded?** | Roughly two-thirds of WB CD is funded by donor trust funds. The balance is mostly funded by WB loans to recipient countries. A small amount is provided as advisory services on a reimbursable basis. | From own budget. | From own budget. | From own budget. |
| **What are the primary modes of delivery?** | TA is typically delivered by WB staff (who may be employed by WB trust funds), or by contractual experts. | Mostly delivered by externally contracted experts or delegated to trust funds operated by IMF, WB, etc. | Unknown. | Delivery of TA is by external providers, or sometimes by UK or developing country government experts. DfID also contributes to TA trust funds operated by IMF, WB, etc. |
| **Who receives CD?** | Mostly low-income and lower-middle income countries. | SECO has defined 13 priority countries, which are "more economically advanced developing countries in Africa, South-East Asia and Latin America." Priority countries are determined on the basis of analysis conducted every four years, and are typically MICs or LMICs that have important trade or other links to Switzerland, and often these countries are in the process of negotiating free trade arrangements or have important migration linkages (e.g., Indonesia and Tunisia, respectively).<br><br>The trust funds SECO contributes to have a wider span of coverage, but typically must include these countries. | The MCC has strict eligibility criteria for "compacts"—countries must be a LIC or LMIC or be among the 75 lowest per capita countries. Applicants for compacts must also meet governance requirements. The MCC has had "compacts" with 29 countries. Smaller programs can be in place with "threshold" countries—i.e., those that do not meet the governance requirements. | As of 2020, DfID had bilateral programs in 32 countries across Africa, Asia and the Middle East, many of which are fragile or at risk from fragile neighbors. It also has regional programs in Africa, Asia and the Caribbean, and development relationships with three aid dependent Overseas Territories—St Helena, the Pitcairn Islands and Montserrat. In addition to working directly in countries, DfID also gives UK Aid through multi-country global program and core contributions to multilaterals. |

| | World Bank | SECO | MCC | DfID[1] |
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| **What are the main topics or issue areas targeted?** | These vary widely, and typically adhere to the issues covered by the WB's various thematic units. | TA delivered by directly SECO typically will support its infrastructure projects. The trust funds that SECO supports vary in their thematic focus, but these typically fall within the expertise of SECO's own divisions. | The TA that the MCC may provide will typically directly support the infrastructure investment that is being funded (e.g., training for Liberia Electric Corporation employees). However, some TA is provided to support policy reform. | There are three main types of CD which DfID include in their programs<br>- Large-scale systems development, e.g., a five-year program with the Malawi Ministry of Education to manage their school curriculums.<br>- Project-specific support, e.g., on regional trade development.<br>- Shorter term capacity development, e.g., DfID co-funds the International Growth Center based at LSE, which has draw-down contracts with academic economists to provide quick turn-around advice to Ministers of Finance. |
| **Do CD activities overlap/intersect with IMF's? Are there arrangements for collaboration?** | The WB's CD activities overlap significantly with the IMF's in multiple areas. Collaboration is case dependent: there is joint IMF/WB participation in some trust fund steering committees (e.g., FIRST, PEFA, TADAT), and MCM and its WB counterparts co-chair a Financial Sector Liaison Committee to coordinate work. RCDC coordinators liaise with WB country teams, and IMF LTXs will typically coordinate (and sometimes share TA responsibilities with their WB counterparts). | SECO is a partner in numerous IMF thematic trust funds and RCDCs. Collaboration is via the TFs' steering committees. | There is little apparent overlap with the IMF, given the MCC's focus on infrastructure investment. The MCC, however, has engaged with the IMF occasionally to utilize Fund expertise. | DfID has several programs that fund IMF CD. These typically support the Fund's RCDCs and topical trust funds (as well as those jointly led with the World Bank), with a particular focus on tax administration, PFM, AML/CFT, and financial sector stability. Support is also provided for IMF research on LICs. |
| **What is the approach to identifying CD needs or priorities?** | Country Directors are responsible for defining lending programs under their aegis. These are based in part on Systematic Country Diagnostic exercises, which identify key impediments to growth, and then a detailed Country Partnership Framework, which builds on this analysis and defines (in consultation with the country authorities) the policy interventions that will be supported by the loan.<br>TA delivered by trust funds may be used to support these lending operations. TA that is delivered outside a lending program is subject to the approval of the relevant Country Director. | See below. | MCC uses a model-based approach to identify sectoral needs (see below for further details). | In its budget allocation process, DfID does not distinguish between CD and its other interventions. Decisions are made on how much is allocated to a given country, and it is then up to the country teams to decide how the funds are allocated.<br>The starting point for the budget request is a country diagnostic, which will look at political economy, macro-economic and poverty trends and drivers, leading to an assessment of where UK development interventions can have the greatest impact on poverty and other SDGs in the country. This factors in DfID's experience in the country, the partner government's performance and credibility, and the development activities of other donors. |

| | World Bank | SECO | MCC | DfID[1] |
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| **How are resources allocated across countries and topic areas?** | Country Directors compete for funding as part of the annual budget exercise, but much of the WB's activities are financed by the loans that it provides. The Country Partnership Framework and loan agreements will define allocations across topic areas for a given country.<br><br>The allocation of CD delivered by topical trust funds will typically be defined broadly by the donors at the TF's inception and subsequently be refined by the staff of the trust fund and subject to the approval of the steering committee. | As discussed above, SECO has defined 13 priority countries., Within each of those SECO does not define allocations across projects a priori. Divisions are provided yearly budget envelopes and projects are approved in two stages: a concept note is prepared and discussed, then a more detailed description of the project is discussed and approved by an operations committee. Projects are required to follow standardized presentations—termed "credit proposals"—that include log frames, risk assessments, a description of how the project aligns with SECO priorities, etc. Credit proposals are required to include a section on "sustainability," including by referring to the results of previous interventions and evidence of the authorities' current commitment. Project log frames also include indicators that provide evidence of traction. The proposals will also reference in the risk section where they may be a risk that traction may be weak and define mitigating measures. Responsibility for final approval will depend on the size of the project | MCC does not have a "top down" rationale for deciding on MCC-wide country or sectoral priorities; these are driven mainly by country demand and the analytical frameworks used. Candidates for MCC "compacts" are defined by filters that are place a premium on governance indicators. Once an application for a compact is received from an eligible country, the MCC undertakes a "growth diagnostic" to determine the optimal sectoral focus of the MCC's. "Root cause analyses" are then used to determine the optimal type of intervention (including TA). Projects must achieve a minimum of a 10 percent economic rate of return. | For country-specific interventions, DfID has a centralized allocation model with explicit criteria (e.g., poverty rates, GDP/head etc.), with political decisions layered over that. The model results are then weighed by a central body that compares these with the requests by country teams for funding. (The country team will have developed a plan for the country, usually covering 3 years ahead, based on the country diagnostic described above.)<br><br>Once allocations between countries are made, decisions on country-specific measures, including TA, are decentralized to country teams who have discretion to allocate from their overall country budget, subject to Ministerial preferences and agreement. |
| **What are the arrangements for project approval ?** | Multilayered internal reviews are required for WB lending programs, which culminate in Executive Board approval. Trust funds typically will submit projects to their steering committees for approval. | Projects are approved in two stages: a concept note is prepared and discussed, then a more detailed description of the project is discussed and approved by an operations committee. Responsibility for final approval will depend on project size. | A local Compact Development Team is charged with developing compact project proposals, which are based on diagnostic assessments and stakeholder engagement. The proposals are then reviewed by the MCC and subject to an economic rate of return analysis. A final compact agreement is then negotiated and is subject to approval by the MCC board. | Country teams prepare and submit for approval detailed business cases for programs and projects, many of which will include TA components. These business cases may require 6 months and considerable effort to prepare; they go through a review process (which in the case of bigger programs could include Treasury review) before sign off, which could be at Ministerial level. All business cases are published. |

| | World Bank | SECO | MCC | DfID[1] |
|---|---|---|---|---|
| **What are the arrangements for monitoring and evaluation?** | Lending programs have log frames attached. All loan programs are reviewed [ex post?] by the WB's independent evaluation office.<br><br>Trust funds typically have log frames that are built into their program document, and performance of the trust fund is assessed by external evaluators. | Project managers perform the internal reviews; independent consultants outside SECO perform the external and independent evaluations. Evaluations follow the DAC criteria. | A results focus was built into the legislation that created MCC and every compact has a monitoring and evaluation plan developed at the start and revised as needed.<br><br>Compacts have a limited timeframe for completion and include a "project logic" that is used to assess performance. MCC staff monitor closely project implementation, including by vetting procurement agreements, with judgments taken on whether to proceed based on the assessments of the countries' willingness to go forward, the project's economic rate of return, the feasibility of the project being completed in 5-6 years, and environmental impacts. Projects can be shelved at various stages of review.<br><br>Independent teams evaluate all projects, either as a relatively rigorous "impact evaluation," or as a "performance evaluation" that focuses mainly whether the project met its originally-planned scope. | Every DfID project has a log frame that defines activities, outputs, outcomes and impacts. Targets are specified for each year for each output, and there is annual review of progress against those targets. Every project requires a completion report on outcomes. Each project can decide at the outset whether it also wants an independent evaluation. There is a Quality Control process for independent evaluations, run by a central team, who are responsible for identifying and disseminating lessons. All independent evaluations are published.<br><br>In designing their programs, country teams are supposed to draw on cross-country evidence on the impact of different policy interventions, which has been synthesized by DfID into a series of unpublished "best buy" notes. |

[1] The information cited for DfID was obtained prior to this organization's recent replacement by the Foreign Commonwealth & Development Office (FCDO) in September 2020.

## ANNEX II. EMPIRICAL ANALYSIS OF FACTORS DRIVING CD ALLOCATIONS[1]

This annex describes an empirical analysis of the factors that have driven the cross-country allocation of IMF CD, building on similar analyses that were performed in the context of the IEO's 2005 evaluation of IMF TA and the 2018 Strategy Review (IEO, 2005; and IMF, 2018b).[2] The purpose of the exercise is to update these earlier studies and examine the extent which IMF CD has been allocated in line with stated priorities, including to support LICs, fragile states, and countries that have ongoing IMF lending programs.

The analysis here also examines the extent to which allocations have been affected by the coverage for some countries of a regional capacity development center; these have grown in number and scale since the earlier empirical analyses were conducted. In addition, we also explore the extent to which macroeconomic fragility, regional biases, and a range of other factors explain CD allocations.

It is important to note that CD delivery is defined here are in terms of staff time (full-time equivalents, or the FTEs) that are recorded in the IMF's Travel Information Management System (TIMS).[3] These data provide a relatively accurate reflection of staff field time in support of CD, including because the TIMS system is linked to the Fund's system for authorizing and tracking travel budgeting. But an important disadvantage of these data is that they ignore the time spent by HQ-based staff on CD while at headquarters. Accounting for this latter activity was not possible, primarily because time reporting by staff at HQ of their CD work suffers from well-known inaccuracies, including the fact that staff often do not report the specific country on which they may be working.

Other caveats also attach to the analysis. Foremost of these is that the explanatory power of the regressions is low, suggesting that the model provides only an indication of the factors driving CD allocations and that important other, unidentified factors are at work. In addition, many of the explanatory variables are likely to be collinear—e.g., lower income countries are also more likely to be fragile states, to suffer macroeconomic fragility, and to have IMF programs. As a result, it is difficult to assess the significance of the coefficient estimates.

### Results

The analysis utilizes an OLS panel regression that relates the annual amount of CD delivered by the Fund for 193 countries, most of whom are IMF member countries, to a range of explanatory

[1] Prepared by Sriram Balasubramanian, Senior Research Officer, Independent Evaluation Office of the IMF.

[2] Direct comparison with these earlier results is not possible, both because the timeframe is different and because the model here has included consideration of a different array of dependent and independent variables.

[3] TIMS is used to manage the travel arrangements by the Fund personnel. Travel is typically planned through missions and initiated using travel authorization. The approved travel authorization provides the basis for Expense Reporting.

variables.[4] The sample period begins in May 2006 and is truncated in April 2020 to abstract from the distortions to IMF CD allocations that were caused by the COVID-19 pandemic.[5]

The model relates the amount of FTEs spent in a given year on a given country to a range of explanatory variables. However, since the FTE data are recorded on an IMF fiscal-year basis (i.e., the FY2007 FTE covers the period from May 2006–April 2007), the analysis uses the one-period lead (FTELEAD) to better align with the calendar-year basis used for the dependent variables (see table for detailed descriptions of the data).

The model can be expressed as follows:

$$FTELEAD_{it} = b_1PCGDP_{it} + b_2LPOP_{it} + b_3FCS_i + b_4HDI_{it} + \Sigma\, c_j\,(\text{Program Dummies}_{jit}) + \Sigma\, d_j\,(\text{Program Dummies}_{jit}) + b_5RCDC_i$$

Where $PCGDP_{it}$ is country i's per capita GDP in period t, LPOP is the log of country population, FCS is a dummy variable indicating whether the Fund deems the country as a fragile state, $HDI_{it}$ is the country's human development index, and $RCDC_{it}$ is a dummy indicating whether the country is covered by one of the Fund's regional capacity development centers. The model also includes dummy variables indicating whether and when the country was engaged in an IMF program, and regional dummies that align with the IMF's five regional departments (see Table AI.2 for details).

Estimates of regression results are contained in Table 1. The first column describes the results for a full range of right-hand side variables, and the second column presents results after nonsignificant variables are eliminated. The next two columns report the results from separate regressions for CD funded from the IMF's internal and external resources (FTE01LEAD and FTE02LEAD).

These results (columns 1-4) point to several empirical regularities with regard to the allocation of IMF CD:

- *Country size*: CD allocations tend to be larger for larger countries, in terms of their population (LPOP). However, the effect is nonlinear and diminishing—i.e., the marginal increase in size matters most for smaller countries and is relatively modest for larger ones.
- *Development*: Allocations tended to be directed toward countries with lower per capita GDP and weaker levels of the WB's human development index.
- *Fund programs*: CD allocations appear to be directed to a greater degree to countries with IMF programs. The largest effects appear to be with regard to EFF and SBA arrangements, but ECF/PRG and PSI arrangements also appear to be significant drivers of CD.

[4] Fixed effects versions of the regressions were also examined, but these were viewed as less useful given that the explanatory power of the country-specific factors swamped that of the other variables given the relatively small-time dimension of the data set (14 years).

[5] These distortions result from both the shift in CD needs, but also from the virtual cessation of travel, which meant that the IMFs travel system was no longer an effective basis for proxying CD delivery.

- *Fragility*: Countries deemed to be fragile states (FCS) do not appear to receive significantly more CD, although this effect may be swamped by the more granular information that is embodied in the HDI, per capita GDP, and IMF program variables. The lack of significance also likely reflects the fact that a time series of the FCS variable was not available and so was defined by its value in 2020.

- *Regional biases*: Allocations are significantly higher in the AFR and APD regions, and MCD allocations are significantly lower, compared with the other two regions, even beyond that which would be explained by the development and other indicators already included in the model.

- *RCDCs*: The data suggest that countries covered by a regional CD center tend to benefit from significantly higher levels of CD allocations.

There are interesting differences when the model is reframed to explain separately internally and donor-funded CD (FTE01LEAD and IMF02LEAD, respectively, in columns 3 and 4 respectively). Donor-funded CD appears more responsive to country poverty/HDI and to the presence of IMF programs. And there also seems to be a significant substitution from internally funded to donor-funded CD in the presence of an RCDC. However, IMF01 CD appears less driven by regional biases than CD funded by the IMF02 budget.

To examine whether CD allocations respond to macroeconomic fragilities/stress, the same regressions were also run including measures of countries' fiscal deficits/GDP, current account deficits/GDP, and public debt/GDP. The results (not reported here) suggested only a modest response of allocations to these variables, likely because the program dummies also act as a proxy for macroeconomic difficulties.[6]

CD allocations also appear to show considerable persistence over time, which was tested by including the previous period's value of FTEs as a dependent variable (columns 5, 6 and 7). This persistence is stronger in the case of donor-funded CD, likely reflecting the fact that this usually adhere to multi-year delivery programs, and the persistence of IMF01 CD is considerably less pronounced. The other coefficient estimates are broadly similar in size and significance to the regressions without the lag FTE variable, once they are adjusted and reinterpreted as long-run coefficients. However, these results should be viewed with caution, since the correlation between the lagged dependent variable and the unobserved panel-level effects typically render the coefficient estimates inconsistent in dynamic panel models. Moreover, the persistence that is signaled by the coefficient on the lagged FTE variable could also reflect of the lack of variation over time of the other right-hand-side variables.

[6] The regressions were run excluding cases where the current account deficit/GDP ratio was greater than 20 and less than -20, to avoid the effect of extreme outliers.

## Annex Table AII.1

| | (1) FTELEAD | (2) FTELEAD | (3) FTE01LEAD | (4) FTE02LEAD | (5) FTELEAD | (6) FTE01LEAD | (7) FTE02LEAD |
|---|---|---|---|---|---|---|---|
| PCGDP | -3.420* | -3.598** | -3.889*** | 0.291 | -0.204 | -1.738*** | 0.508 |
| | (1.367) | (1.383) | (0.407) | (1.233) | (0.797) | (0.333) | (0.713) |
| LPOP | 0.0944*** | 0.0926*** | 0.0197*** | 0.0729*** | 0.0254*** | 0.00860*** | 0.0217*** |
| | (0.00907) | (0.00927) | (0.00256) | (0.00857) | (0.00507) | (0.00225) | (0.00458) |
| FCS | -0.0913 | | | | | | |
| | (0.0809) | | | | | | |
| HDI | -1.189*** | -1.078*** | 0.0351 | -1.113*** | -0.315* | 0.0336 | -0.342** |
| | (0.247) | (0.250) | (0.0593) | (0.231) | (0.137) | (0.0518) | (0.124) |
| PRGF | 0.384 | 0.359 | 0.187*** | 0.172 | 0.117 | 0.105* | 0.0497 |
| | (0.226) | (0.222) | (0.0476) | (0.203) | (0.134) | (0.0486) | (0.113) |
| ECF | 0.241** | 0.234** | 0.00252 | 0.232** | 0.0606 | 0.000103 | 0.0605 |
| | (0.0826) | (0.0814) | (0.0192) | (0.0766) | (0.0538) | (0.0179) | (0.0500) |
| PSI | 0.481*** | 0.498*** | -0.0327 | 0.531*** | 0.100 | -0.0101 | 0.0964 |
| | (0.130) | (0.130) | (0.0344) | (0.132) | (0.113) | (0.0338) | (0.101) |
| SCF | 0.135 | | | | | | |
| | (0.166) | | | | | | |
| SBA | 0.657*** | 0.669*** | 0.241*** | 0.428*** | 0.242*** | 0.134*** | 0.157* |
| | (0.105) | (0.0996) | (0.0370) | (0.0887) | (0.0674) | (0.0317) | (0.0623) |
| ESF | -0.195 | | | | | | |
| | (0.183) | | | | | | |
| PLL | 0.288 | | | | | | |
| | (0.189) | | | | | | |
| PCL | 0.00499 | | | | | | |
| | (0.175) | | | | | | |
| EFF | 1.393*** | 1.404*** | 0.433*** | 0.971*** | 0.384*** | 0.172*** | 0.333*** |
| | (0.162) | (0.160) | (0.0719) | (0.139) | (0.0857) | (0.0482) | (0.0899) |
| AFR | 0.402** | 0.343** | 0.0188 | 0.324** | 0.0424 | -0.00807 | 0.0614 |
| | (0.125) | (0.117) | (0.0360) | (0.1000) | (0.0747) | (0.0305) | (0.0620) |
| MCD | -0.310* | -0.359** | 0.0118 | -0.371*** | -0.161* | -0.00581 | -0.145* |
| | (0.133) | (0.125) | (0.0381) | (0.106) | (0.0799) | (0.0328) | (0.0647) |
| WHD | 0.227 | 0.174 | 0.00668 | 0.167 | -0.0217 | -0.0132 | -0.000205 |
| | (0.135) | (0.129) | (0.0391) | (0.111) | (0.0845) | (0.0333) | (0.0709) |
| APD | 0.422** | 0.357** | -0.000294 | 0.358** | 0.0379 | -0.0156 | 0.0587 |
| | (0.141) | (0.136) | (0.0355) | (0.119) | (0.0818) | (0.0315) | (0.0688) |
| EUR | -0.154 | -0.214 | -0.00314 | -0.210 | -0.102 | -0.0182 | -0.0752 |
| | (0.148) | (0.141) | (0.0443) | (0.120) | (0.0891) | (0.0371) | (0.0743) |
| RCDC | 0.308*** | 0.303*** | -0.108*** | 0.411*** | 0.0843** | -0.0469*** | 0.1000*** |
| | (0.0523) | (0.0527) | (0.0166) | (0.0484) | (0.0314) | (0.0123) | (0.0298) |
| FTE | | | | | 0.798*** | | |
| | | | | | (0.0246) | | |
| FTE01 | | | | | | 0.540*** | |
| | | | | | | (0.0425) | |
| FTE02 | | | | | | | 0.804*** |
| | | | | | | | (0.0269) |
| $R^2$ | 0.607 | 0.607 | 0.478 | 0.535 | 0.858 | 0.641 | 0.830 |
| *AIC* | 6576.3 | 6570.5 | 944.7 | 6167.8 | 4170.3 | 61.81 | 3805.5 |
| F | 187.8 | 236.9 | 152.8 | 165.7 | 526.9 | 177.9 | 375.2 |
| *N* | 2355 | 2355 | 2355 | 2355 | 2355 | 2355 | 2355 |

## Annex Table AII.2. Data Description

| Variable | Description |
|---|---|
| FTE | CD delivery is defined in terms of "full-time equivalents," i.e., number of years spent by HQ-based staff, LTXs, RCDC resident advisors, or STXs delivering CD to a specific country. Note, these data are recorded on an IMF fiscal-year basis—i.e., the 2010 observation reflects FTEs during May 2019–April 2020. In addition, FTE data used here only include time spent while in (or traveling to) the beneficiary country. Not included is time spent by resident advisors while at their RCDCs, time spent by HQ staff or other personnel delivering multi-country courses.<br><br>FTELEAD is the FTE variable led by one year to better align the fiscal-year FTE data to a calendar year frequency.<br><br>FTE01LEAD is the amount of FTEs funded by the IMF's internal resources, and FTE02LEAD is the amount of FTEs funded by external (donor) resources.<br>(Source: Travel Information Management System, TIMS.) |
| PCGDP | GDP per capita in purchasing power parity (PPP) terms, scaled in millions. Source: IMF WEO for GDP PPP and population data from WBG. |
| LPOP | Log of country population (in billions).<br>(Source: World Bank World Development Indicators.) |
| Program dummies | Program dummies set to 1 during a year while a country is engaged in a specific program, and zero otherwise.<br><br>Stand-By Arrangements (SBAs) are shorter term (up to 3-year) arrangements, with lesser emphasis on structural conditionality;<br><br>Standby Credit Facility (SCF) arrangements are similar to the SBA but for lower income members, so lending terms are concessional and structural conditionality is often present;<br><br>Extended Financing Facility (EFF) arrangements are up to four years with a greater emphasis on structural conditionality.<br><br>Extended Credit Facility (ECF) arrangements are similar to EFFs, including emphasis on structural conditionality, but for lower income members and carry concessional terms.<br><br>Flexible or Precautionary Credit Lines (FCL/PCL) are provided to countries with already strong policies to mitigate crisis risk and boost market confidence, and do not carry ex post conditionality.<br><br>Policy Support Instrument (PSI) is used with low-income members that are not facing immediate balance of payments needs to provide a signaling benefit of a Fund program, and includes structural and other policy commitments.<br><br>Precautionary and Liquidity Line (PLL) is similar to the PLL, but with a lower bar for the strength of current policies.<br><br>Poverty Reduction and Growth Facility (PRGF) provides support to lower-income countries for an extended period and with a focus on structural reform and conditionality (has been replaced by the ECF).<br><br>Exogenous Shocks Facility (ESF) provides concessional financing for low-income members facing an exogenous shock. ESF program have a lesser emphasis on structural conditions.<br>(Source: IMF Monitoring of Fund Arrangements (MONA) Database.) |
| FCS dummy | Fragile and conflict affected state dummy, set to one if the country was defined as an FCS in 2021. |
| RCDC dummy | Set to one if the country is served by a regional capacity development center, beginning the year after the center was launched. |
| Regional dummies | Set to one if the country depending on which IMF regional department they are covered by: AFR - African Department; MCD - Middle Eastern and Central Asia Department; EUR - European Department; WHD - Western Hemisphere Department; and APD- Asia Pacific Department. |
| HDI | The Human Development Index is a composite index that takes account of life expectancy, educational attainment, and income per capita.<br>(Source: UNDP.) |
| CAD | Current account deficit-to-GDP ratio.<br>(Source: IMF World Economic Outlook.) |
| DTG | Public debt-to-GDP ratio.<br>(Source: IMF World Economic Outlook.) |
| FID | General government deficit-to-GDP ratio.<br>(Source: IMF World Economic Outlook.) |

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