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THE IMF AND CAPACITY DEVELOPMENT

EVALUATION REPORT **2022**

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The following Background Papers are available on the IEO website at [IEO.IMF.org](https://www.imo.org):

BP/22-02/01. The IMF and Capacity Development—Case Studies for Africa

BP/22-02/02. The IMF and Capacity Development—Case Studies for Asia

BP/22-02/03. The IMF and Capacity Development—Case Studies for Europe

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- ▶ An en-dash (–) between years or months (e.g., 2021–22 or January–June) indicates the years or months covered, including the beginning or ending years or months.
- ▶ A slash (/) between years or months (e.g., 2021/22) indicates a fiscal or financial year, as does the abbreviation FY (e.g., FY2021).
- ▶ “Billion” means a thousand million; “trillion” means a thousand billion.



FOREWORD

This evaluation has been one of the IEO's most ambitious undertakings. The IMF's Capacity Development (CD) work now represents about one third of the IMF's administrative budget. Moreover, the evaluation examines the full range of issues that influence how effective the IMF has been in meeting the CD needs and expectations of recipient countries, as well as the Fund's institutional objectives. The evaluation is timely, given that the Fund is about to embark on its next five-year CD strategy review.

Overall, the evaluation reaches a positive assessment of IMF CD. It finds that it has generally been relevant, valued, and effective in supporting member countries build institutional capacity in a very wide range of country circumstances. Recipients, donors, and the wider membership all see IMF CD as being of the highest technical quality in the areas of the Fund's core expertise and judge that it has become better tailored to recipient needs and circumstances in recent years. The IMF has also put substantial effort into integrating CD with surveillance and programs, which has enhanced its overall engagement with member countries.

While recognizing these achievements, the evaluation also identifies a number of important challenges facing IMF CD. It makes recommendations in seven broad areas seeking: to enhance the strategic framework for prioritization of CD work; to deepen information available to Executive Directors and opportunities to exercise their strategic oversight role; to further strengthen the integration of CD with surveillance and programs; to boost CD ownership and provide effective delivery; to bolster the monitoring and evaluation framework; to reinforce the sustainability and flexibility of the CD funding model; and to gear HR policies and incentives to ensure the needed expertise in both the Fund's core and newly emerging CD topics.

I am pleased that Executive Directors broadly supported the IEO's findings and recommendations and look forward to a strong implementation plan aimed at further strengthening the Fund's capacity development.

Charles Collyns

Director, Independent Evaluation Office

CONTRIBUTORS

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The evaluation benefited from discussions with participants at several workshops and interviews with current and former IMF staff, CD experts who have worked with IMF staff, member country officials and academics. The final judgments are the responsibility of the IEO alone.

The report was approved by Charles Collyns.

ABBREVIATIONS

ACES	Analytical Cost Estimation System
AD	Area Department
AFR	African Department (IMF)
AFRITAC	African Regional Technical Assistance Center
AIV	Article IV
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
APD	Asia and Pacific Department (IMF)
CAPTAC-DR	Central America, Panama, and the Dominican Republic Regional Technical Assistance Center
CCB	Committee on Capacity Building
CD	Capacity Development
CDD	Capacity Development Department
CDIMS	Capacity Development Information Management System
CDMAP	Capacity Development Management and Administration Program
CDOT	Capacity Development Office in Thailand
CEF	Common Evaluation Framework
CES	Country Engagement Strategy
CICDC	China-IMF Capacity Development Center
COE	Categories of Employment
CSN	Country Strategy Note
DAC	Development Assistance Committee (OECD)
ED	Executive Director
EUR	European Department (IMF)
FAD	Fiscal Affairs Department (IMF)
FCS	Fragile and Conflict-Affected States
FSAP	Financial Sector Assessment Program
FM	Fungible Macroeconomist
FY	Financial Year
HDI	Human Development Index
HQ	IMF Headquarters
HR	Human Resource
HRD	Human Resources Department (IMF)
ICD	Institute for Capacity Development (IMF)
JVI	Joint Vienna Institute
LEG	Legal Department (IMF)

LTX	Long-Term Expert
MCD	Middle East and Central Asia Department (IMF)
MCM	Monetary and Capital Markets Department (IMF)
MECEF	IMF-Middle East Center for Economics and Finance
METAC	Middle East Regional Technical Assistance Center
MTB	Medium-Term Budget
M&E	Monitoring and Evaluation
OECD	Organisation for Economic Co-operation and Development
OIA	Office of Internal Audit (IMF)
OLS	Ordinary Least Squares
ORM	Office of Risk Management (IMF)
PATS	Participant and Applicant Tracking System
PTP	Peer-to-Peer
PFM	Public Financial Management
RA	Resident Advisor
RBM	Results-Based Management
RCDC	Regional Capacity Development Center
RES	Research Department (IMF)
RSN	Regional Strategy Note
RTAC	Regional Technical Assistance Center
RTC	Regional Training Center
SDS	Small Developing States
SE	Specialist Economist
SPR	Strategy, Policy and Review Department (IMF)
STA	Statistics Department (IMF)
STI	IMF-Singapore Regional Training Institute
STX	Short-Term Expert
TA	Technical Assistance
TIMS	Travel Information Management System
TTF	Thematic Trust Fund
WHD	Western Hemisphere Department (IMF)

EXECUTIVE SUMMARY

A key function of the IMF alongside surveillance and lending is to assist its member countries develop their institutional and human capacity to design and implement sound macroeconomic and financial policies. Capacity development (CD) is available to the full membership, and indeed has benefited all member countries at some point in the Fund's history, although it is directed mainly toward low- and middle-income countries. CD activities represent about one-third of the institution's administrative budget, having expanded substantially in the last decade, a development enabled by rising contributions from external donors.

This evaluation assesses how effective the IMF has been in meeting the CD needs and expectations of recipient countries, as well as in fulfilling the Fund's institutional objectives for CD on behalf of all member countries. It evaluates CD activity in the period 2012 to 2020 and provides an early review of how IMF CD adapted to new challenges during the initial phase of the pandemic. It reaches a positive overall assessment of progress made over this period, while also identifying a number of shortcomings and challenges. It concludes with a number of recommendations for further strengthening the impact of IMF CD.

Drawing on a broad range of evidence, the evaluation finds that IMF CD was relevant, valued, and broadly effective. Recipients, donors, and the wider membership saw IMF CD as being of the highest technical quality in the areas of the Fund's core expertise, and also perceived



that it had become better tailored to recipient needs and circumstances over the course of the evaluation period. Further, although objective assessment of CD effectiveness and impact is difficult, the evidence suggests that, overall, Fund CD has supported member countries in building the institutional capacity to formulate and implement sound macroeconomic and financial policies, in a very wide range of country circumstances. The IMF has also put substantial effort into integrating CD with surveillance and programs, which has in general enhanced its overall engagement with member countries.

Adaptations by the IMF to promote ownership of CD through a more consistently country-led approach and to tailor advice to country circumstances have yielded considerable benefits. Country ownership is the key determinant of the success of CD and the Fund has made good progress in ensuring that CD is provided in the areas that recipients need and want, including by enhancing the role of its area departments (ADs) in working with country authorities to identify and clarify their CD priorities. The Fund has strengthened its framework and processes for allocating its CD resources, with the result that recipient countries reported, and our assessment broadly confirms, that IMF CD is generally well aligned with their needs and priorities. The Fund has also shown itself to be flexible in reallocating resources in response to changing circumstances and priorities, both before and during the pandemic. The Fund has applied flexibly an extended, modernized, and better integrated range of delivery modalities. In particular, an increasing role for Regional Capacity Development Centers (RCDCs) has brought recipients into an oversight role, provided a platform for both recipients and donors to work actively together to develop CD work programs well-tailored to country needs, and strengthened the follow-up to CD advice from the Fund.

The IMF also took important steps to enhance the funding, management, and governance of CD. Increased external funding has enabled the significant expansion of CD in the last decade and contributed to positive innovations, such as more consistently taking a medium-term programmatic approach to CD and working more effectively with partners through RCDCs and Trust Funds. The IMF has implemented pragmatically its dual internal/external funding model for CD, adapting it as needed and effectively

managing funding risks. After a slow start, the institution made substantial headway in enhancing monitoring and evaluation (M&E) of CD activities, by extending the coverage of the Results-Based Management (RBM) system to reinforce the move to outcome-oriented CD and introducing the CD Management Administration Program (CDMAP) platform to integrate planning, budgeting, managing, and monitoring of CD. The resulting increase in data and information is now reaching a critical mass that will be valuable for better prioritizing, managing, and reporting CD; helping ADs achieve effective integration between CD, surveillance, and programs; and informing strategic choices about developing the CD delivery model in the light of experience during the pandemic. Engagement with the IMF's Executive Board on CD has also increased since 2018, with strategic CD priorities discussed with the Board and monitored through the annual budget process, as part of a governance framework for CD that provides clear and broadly appropriate responsibilities to the Board. Although there was limited progress in increasing dissemination and publication of CD information during the evaluation period, the new policy introduced in 2022 is aimed at a better balance between increasing the public good benefits of CD and protecting recipient confidentiality where necessary.

Furthermore, the IMF's initial response to the challenges for CD caused by the pandemic was impressive. The institution readily and appropriately shifted the focus of CD topics, quickly synthesized key lessons and advice for member countries into a series of "COVID notes" and switched to virtual delivery modes quickly and as effectively as was feasible. Authorities and staff alike recognized that remote delivery was not a full substitute for in-person engagement and agreed that blended CD delivery that incorporates the benefits of virtual delivery is the way forward. The pandemic was also a test for the IMF's hybrid funding model, the pressures on which were managed well, including by introducing a new financing mechanism that raised additional resources to flexibly support CD needs.

While recognizing these achievements, the evaluation also identifies a number of important shortcomings and challenges in IMF CD work, including in addressing some of the priorities set by the Board as part of the staff's 2018 CD review.

Prioritization and the strategic framework for CD could be enhanced further. Strategic CD priorities in terms of country groups and topics are not clearly grounded in an integrated Fund-wide strategy covering surveillance, lending, and CD activities; such a strategy would make it easier to understand how the amount and allocation of CD resources—and synergies of CD with other Fund activities—are intended to support the achievement of the Fund's broader strategic goals. It would be desirable to develop clearer guidance, endorsed by the Board, on how staff should balance considerations of recipient need, recipient preferences, likelihood of success, and evenhandedness across the Fund's membership in allocating CD resources. Prioritization should also be more clearly grounded in regular assessments of the relative effectiveness and impact of different CD topics and delivery modalities in different circumstances, and clearer analysis of recipients' track records with past CD and commitment to current CD. Strategic CD reviews every five years have effectively set the agenda for enhancing Fund CD but have largely focused on internal management of CD. Key strategic questions—such as the role and relative importance of CD in different country contexts, the overall scale of CD relative to surveillance and lending, the appropriate funding model for CD, and how the CD delivery model should evolve—merit focused attention in the context of the Fund's broader institutional strategy and objectives. The upcoming CD strategy review provides an opportunity to reflect on these strategic issues, as well as follow up on this evaluation's recommendations.

There remains dissatisfaction among many Executive Directors (EDs) about the information available to them on CD and their opportunities to exercise their oversight role. While EDs recognize and appreciate their recent enhanced engagement on CD, many continue to question whether the Board has a sufficient role in setting the strategic direction for CD and would like better information on how CD fits with wider Fund engagement in countries and on the effectiveness and impact of CD. IEO found that even among heavy users of Fund CD, coverage of CD in Article IV (AIV) and program documents was highly variable but generally limited.

Integration of CD with surveillance and programs needs further attention, particularly in the context of programs. While some of our case studies found that CD enhanced the

granularity and relevance of Fund advice in surveillance and improved the design and supported the implementation of program conditionality, the overall integration of CD with AD work was uneven. Progress was constrained by resource pressures on AD teams and behavioral inertia on the part of some mission chiefs. There are also particular concerns about how effectively CD is integrated with program design and implementation; a key issue appears to be overly ambitious timetables pushed by program needs that then can undermine CD ownership. Our case studies suggest that the integration of CD delivery with broader AD engagement has been good in some program countries, where country ownership has been strong, but in other countries where ownership of the program was less committed, there were concerns that the inclusion of CD recommendations in program conditionality could undermine the trusted advisor status of CD experts. There is limited guidance to staff on how to navigate these tensions and no clear framework or process for the Fund to assess the merits of integrating CD and programs.

There is room to further enhance ownership and delivery. The Fund has appropriately identified country ownership as the key determinant of successful CD but has done little work to systematically measure and understand the drivers of ownership. Involvement of CD recipients in the design, implementation, and monitoring of projects, as well as in the development of country strategies for CD, was uneven. Notwithstanding the modernized and extended range of delivery modalities, some recipients interviewed in our case studies indicated that they would still like more tailoring of CD design and delivery to fit their needs and circumstances. Recipient authorities are not required to indicate their commitment to IMF CD, for example by signing off detailed terms of reference or explicitly agreeing to provide specific support to Fund CD experts. Collaboration with partners—another key determinant of CD success—was mixed, and there is limited attention to how the Fund can help recipient authorities lead the coordination of different providers. The opportunistic development and funding of widely appreciated RCDCs led to gaps in coverage and uneven availability of CD and some delivery modalities. Progress against the Fund's objective of greater dissemination of CD information was modest. The new policy and guidance introduced in FY2022 is aimed at better balancing authorities' legitimate expectations of confidentiality and the benefits of greater

dissemination, although it is too early to gauge the effects of the new approach.

User experience of CDMAP remains challenging, and gaps remain in the M&E framework and integration of its output into the IMF's management of CD. We heard strong views from many staff that the data demands of CDMAP and glitches in functionality have made switching to the new system difficult, suggesting the need for a full review of CDMAP. To realize the benefits of the Fund's substantial investment in RBM, greater attention should be paid to deriving and disseminating measures of cost effectiveness, which would yield dividends in terms of transparency and strategic decision-making, as well as responding to donor concerns. The evaluation framework has been enhanced, but the selection of topics is still bottom-up rather than strategic, and the mechanisms for integrating the lessons from evaluations are unclear. There are no standards or processes to assess broader and longer-term CD impact in the context of the Fund's overall engagement with a member country, an absence of systematic attention to assessing the cost-effectiveness of different delivery models, no attempt to measure progress in capacity at the level of organizations in recipient countries, and little strategic thinking about how findings and lessons from M&E should contribute to CD prioritization, the design of CD projects, and the choice of delivery modalities.

The challenge of sustaining funding to meet the CD needs of IMF members merits further attention. Despite efforts to diversify, external financing continues to come primarily from a relatively small number of donors. Donor interests in countries, regions, and topics led to inconsistencies in the availability of external financing, as well as some rigidities in its allocation. The limited success of the COVID-19 Initiative funding vehicle raises questions about the scope to introduce greater flexibility to the existing reliance on external funding. All these observations suggest that it is time to consider options for reinforcing the funding model.

Human resource (HR) policies and incentives pose some issues for seeking to sustain high-level expertise in the Fund's core areas and to nurture the Fund's capacity to deliver CD in newly emerging areas. In general, the range of appointment types for CD experts promotes flexibility for the IMF but can work against the building and

maintaining of expertise, and against continuity of experts in CD engagements. The limited career opportunities for specialist economists (SEs) on staff, who are so fundamental to CD work, complicate recruitment and retention of CD experts. More broadly, the persistent perception internally that CD work is less valued than surveillance and program work poses an institutional challenge to longer-term effectiveness. These challenges suggest a need for further steps to enhance the career opportunities and employment conditions of the SEs that much of CD work relies on. There is also a need for further reflection of the importance of CD to the IMF's mandate in IMF policies and practices for human resources in the medium term.

RECOMMENDATIONS

The evaluation offers seven broad recommendations aimed at further strengthening the efficiency, effectiveness, and impact of CD and the IMF's overall country engagement with member countries. The recommendations seek to build on the considerable progress made in strengthening CD over the evaluation period. Many could be appropriately considered in the five-year CD strategy review that is about to be launched. Each recommendation is accompanied by suggestions on more specific actions (set out in Chapter 5) that could be considered to achieve the recommendations' objectives.

Recommendation 1. Further enhance the strategic framework for IMF CD to provide clearer guidance for a more intentional and transparent approach to the prioritization and allocation of IMF CD.

Recommendation 2. Further develop the Executive Board's strategic and oversight role through increased engagement and provision of information.

Recommendation 3. Reinforce measures to promote CD ownership, along with tighter integration with surveillance and lending, tailoring to country circumstances, and closer collaboration, as key drivers of CD effectiveness.

Recommendation 4. Leverage further the advantages of RDCs and put them on a sustainable footing.

Recommendation 5. Further enhance the monitoring and evaluation system and fully exploit it to drive improvement in CD prioritization, design, and delivery.

Recommendation 6. Consider steps to enhance the stability and flexibility of CD funding in order to sustain support for the CD needs of member countries.

Recommendation 7. Calibrate HR policies and incentives further to ensure that the IMF maintains and enhances the quality and continuity of CD expertise, and that CD receives appropriate priority as an integral aspect of country engagement.

BUDGETARY IMPLICATIONS

The recommendations recognize the overall budgetary constraints and the competing demands for available resources across the Fund's activities. A number of the recommended actions are already resourced in the Fund's Medium-Term Budget. Nevertheless, some suggestions would imply significant increases in expenditure, although others present opportunities for efficiencies and some would be broadly budget neutral.

Several recommendations imply more resources being allocated to the planning, coordination, and evaluation of CD and better learning from CD experience, as opposed to operational delivery. We do not envisage a major reallocation in resources at the expense of operational delivery, but rather anticipate that a small shift in the overall CD budget could allow significantly stepped-up attention to assessing and utilizing CD results with a substantial payoff over the medium term through better allocation, effectiveness, and impact of CD.

INTRODUCTION

This evaluation assesses how effective the IMF has been in meeting the Capacity Development (CD) needs and expectations of recipient countries and in achieving its institutional objectives for CD on behalf of all its member countries. It evaluates CD activity over the period 2012 to 2020 and provides an initial review of how IMF CD adapted to new challenges during the initial phase of the pandemic.

CD provided by the IMF refers to a set of activities that aim to “help member countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies” (IMF, 2019c). The Fund provides CD mainly in its traditional core areas of competence, such as revenue administration, public financial management (PFM), macroeconomic statistics, financial supervision and regulation, macroeconomic frameworks, central bank operations, tax policy, and financial integrity, with some attention to emerging areas such as digital currencies and climate change. IMF CD consists of technical assistance (TA), aimed at enhancing institutional capacity, and training, aimed at enhancing human capacity, delivered through a range of modalities.¹

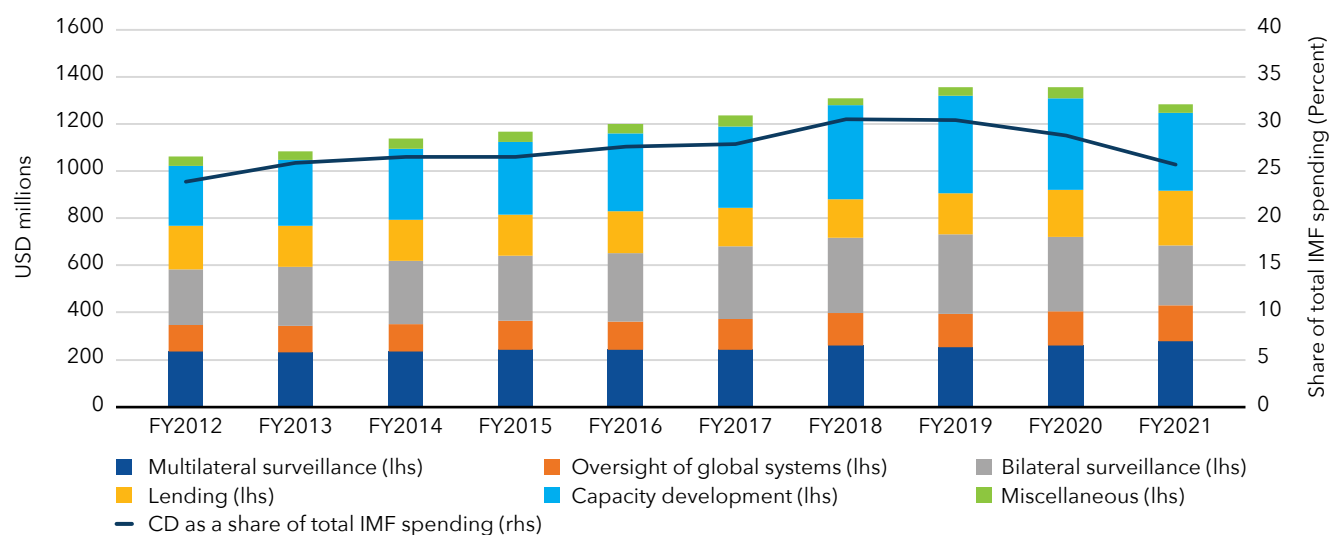
IMF CD activities are anchored in the Articles of Agreement, which allow the Fund to perform “financial and technical services” consistent with the Fund’s purposes to member countries on request.² Unlike the Fund’s surveillance and lending operations, where the obligations of the IMF and the member countries are clearly spelled out in the Articles, CD is entirely voluntary; it requires a request from the member country and acceptance by the Fund of that request. CD is available to the full membership and indeed has benefited all member countries at some point in the Fund’s history. Almost all CD is provided free of charge to member countries, with the exception of noncritical CD to high-income countries. IMF CD activities are thus predominantly financed by a combination of the IMF’s own resources and resources provided by external donors.

CD activities have increased significantly in the last decade. By FY2020, they accounted for around US\$400 million of spending a year, or roughly one-third of the Fund’s administrative budget, a larger share of the IMF’s administrative budget than program activity, bilateral surveillance, multilateral surveillance, or oversight of the global system (Figure 1). This expansion has been supported by strong growth in external funding, which now finances about 55 percent of IMF CD spending.

¹ The Fund works in many ways to develop the capacity of its member countries to design and implement sound economic and financial policies, including through its Article IV surveillance (AIV), Financial Sector Assessment Program (FSAP), cross-country research, developing guidelines/principles in particular policy areas, and lending activities. But for the purposes of this evaluation, CD is defined more narrowly, and in the same way as in the Fund’s budgetary processes, namely: direct delivery of services to recipient countries; associated management and administrative activities; and development of CD-related tools and analytics.

² We discuss the objectives for IMF CD in greater depth in Chapter 3.

FIGURE 1. IMF TOTAL SPENDING BY ACTIVITY, FY2012–2021



Sources: IMF, ACES; IEO staff calculations.

The IMF has taken steps over the past 10 years to adapt its CD to meet the changing needs of members, as well as to improve its efficiency and effectiveness. Changes have reflected learning from experience, input from beneficiary and donor countries, external evaluations, and periodic CD strategy reviews by staff, most recently in 2013 and 2018 (IMF, 2013; 2018b).³ In particular, the evolution of CD since 2012 has included:

- ▶ Changes in the relative importance attached to IMF strategic priorities versus country demand in the allocation of CD resources.
- ▶ Efforts to enhance CD engagement and follow-up through a growing set of Regional Capacity Development Centers (RCDCs), of which currently there are 17.
- ▶ Shifting toward a medium-term orientation in CD engagement with countries, in part at the prompting of external donors.

- ▶ Developing a Results-Based Management (RBM) framework to support better design, monitoring and evaluation (M&E) of CD work and introducing management information systems to bring together RBM and other CD information for planning, implementation, and reporting purposes.
- ▶ Efforts to better integrate IMF CD with surveillance and lending activities, in particular by increasing the role of area departments (ADs) in CD.
- ▶ Increased engagement with the Board.
- ▶ Adapting to the pandemic, which required the IMF to quickly adjust CD delivery mechanisms and respond to rapidly evolving country needs.

Notwithstanding these substantial efforts, a number of long-standing issues continue to pose challenges for IMF CD. First, there is the basic question of how much impact CD work has and whether the IMF has taken sufficient steps to put in place a fully functioning approach to monitoring and evaluating CD. Second, there is the question of how

³ Since the 2005 IEO evaluation of TA (IEO, 2005), Fund staff have conducted a number of strategic reviews, including a Task Force on TA in 2005 to develop proposals in response to the IEO evaluation (IMF, 2005a); two reviews in 2008, one on TA (IMF, 2008a) and another of training (IMF, 2008b); a Report of the Task Force on the Fund's TA Strategy (IMF, 2011); and the two strategy reviews of CD in 2013 and 2018 already mentioned.

far the Fund has moved in its efforts to prioritize country needs and interests in allocation and prioritization of CD, to provide CD in emerging areas beyond traditional areas of expertise, and to align CD activities with surveillance and lending work. Third, there are issues related to how CD is delivered, such as the balance between headquarters (HQ)-based and field-based experts, the balance between best practice and fit-for-purpose TA, the approach to quality control, the attention to follow-up, and the challenge of rapidly scaling up remote CD delivery after travel was curtailed during the pandemic. Fourth, there is the question of how the IMF should draw on donor financing in a way that balances the interests of the Fund and donors and mitigates constraints and risks of dependence on external funding. Fifth, there are questions about whether the Fund is well positioned to recruit and retain the needed technical expertise to sustain high-quality CD, including in emerging areas. And sixth, there are issues related to coordination with other providers and dissemination of CD products, such as whether there is sufficient learning across projects, countries, and regions.

This evaluation examines these and other issues related to IMF CD. The IEO previously evaluated IMF TA in 2005 (IEO, 2005), with an update in 2014 (IEO, 2014).⁴ Given the growth and evolution of CD over the last decade, it is time for the IEO to revisit the subject. The evaluation is also timed to provide input to the Fund's next five-yearly strategic review of CD, due in 2023. More specifically, the evaluation aims to:

- ▶ Assess progress made in implementing the strategic directions set by the Board following the 2013 and 2018 CD reviews.
- ▶ Identify and discuss some of the broader issues that the 2013 and 2018 reviews largely did not cover, such as the scale of CD relative to other IMF activities, the sustainability of and risks associated with external financing, the implications of

alternative funding models, the adequacy of human resource (HR) policies to nurture needed expertise for CD delivery, and long-standing issues concerning the role of the Board.

- ▶ Provide an early assessment of the response of IMF CD to the pandemic.
- ▶ Recommend steps the Fund could take to enhance the effectiveness of its CD in meeting both the needs and expectations of recipient countries and the Fund's strategic priorities.

The evaluation covers IMF CD activities from 2012, when major internal changes to the governance of CD were initiated, through 2020.⁵ We also provide information on some subsequent developments that are important—in particular, the evolving response of IMF CD to the pandemic and updates on some of the key reforms to CD that are ongoing—without seeking to draw evaluative conclusions on this recent experience.

The evaluation assesses IMF CD against a range of benchmarks and criteria. These include the Board's priorities for CD following the IMF's internal CD strategy reviews in 2013 and 2018; the objectives for CD set out in the 2019 Statement of CD Policies and Procedures (IMF, 2019c); the performance and approaches of other CD providers; and the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) evaluative criteria, namely, relevance, coherence, efficiency, effectiveness, impact, and sustainability.⁶

The main sources of evidence for the evaluation are: (i) semi-structured interviews with current and former IMF Board members, management and staff; current and former country officials; academics; and representatives from donor agencies, other CD providers and civil society; (ii) desk review of internal documents and Board presentations, IMF TA reports and other outputs, Article IV (AIV) staff reports, program documents, policy papers and reviews of CD; (iii) analysis of various IMF databases relevant to CD; and (iv) surveys of all IMF member

⁴ CD has also been covered in some recent IEO evaluations, in particular IEO (2018; 2021).

⁵ In some cases, we use financial year data, which in the IMF runs from May to April, and thus consider FY2012 through FY2021.

⁶ See OECD (2019).

BOX 1. BACKGROUND PAPER TOPICS

Country Case Studies

- ▶ Africa: Democratic Republic of the Congo, Liberia, Nigeria, Senegal, and Uganda (Legg and Sembene, 2022)
- ▶ Asia: Cambodia, China, Indonesia, and Sri Lanka (Citrin and Legg, 2022)
- ▶ Europe: Albania, Moldova, and Ukraine (Everaert, 2022)
- ▶ Middle East and Central Asia: Georgia, Saudi Arabia, and Somalia (Chopra, 2022)
- ▶ Western Hemisphere: Brazil, Guatemala, Jamaica, and Peru (Ter-Minassian, 2022)

Thematic Papers

- ▶ The Role of the Executive Board in Capacity Development Governance (De Lannoy, 2022a)
- ▶ Prioritization and Allocation (Towe, 2022)
- ▶ Delivery (Enoch, 2022)
- ▶ Training (De Lannoy, 2022b)
- ▶ Coordinating and Collaborating with Partners (Radelet, 2022)
- ▶ Monitoring, Evaluation, and Effectiveness (Lamdany, 2022)
- ▶ Costs and Effectiveness (Jensen and Kell, 2022)
- ▶ Funding Issues (Stedman, 2022a)
- ▶ Human Resource Issues (Stedman, 2022b)
- ▶ IEO Surveys and Analysis of AidData Surveys (Pedraglio and Stedman, 2022)

countries (recipient authorities, nonrecipient countries, and donors) and of staff, including contractual employees who have worked on Capacity Development in the last three years.

The rest of this report is structured as follows. Chapter 2 provides the context for the evaluation. Chapter 3 presents an overall assessment of each of the key elements of IMF Capacity Development, namely, strategy and oversight;

prioritization and allocation of Capacity Development resources; delivery; working with partners; monitoring and evaluation; effectiveness, impact, and costs; funding; and HR issues. Chapter 4 provides a summary of key findings and conclusions, and Chapter 5 lays out the evaluation's recommendations. Fifteen detailed background papers (Box 1) provide the underlying evidence for the evaluation's findings and conclusions. Ten address thematic issues and 5 contain 19 country case studies grouped by region.

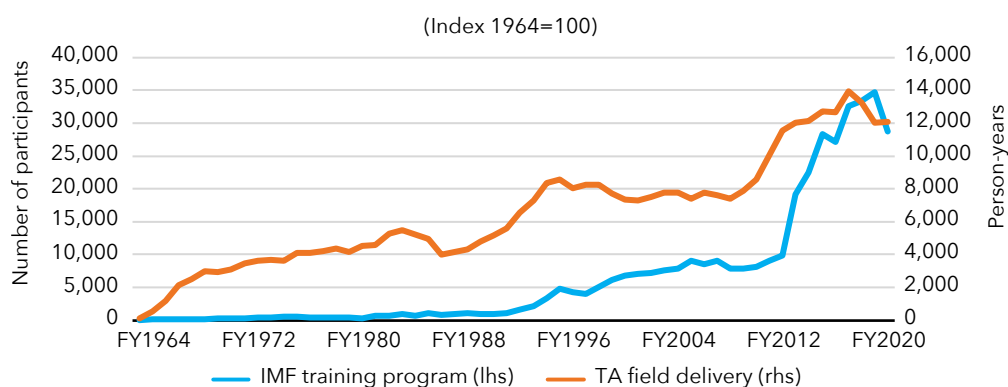
CONTEXT

CAPACITY DEVELOPMENT AT THE IMF: A BRIEF HISTORY

Contributing to building institutions and skills has long been an important part of the international community's support for countries' efforts to achieve sustainable and inclusive growth. The IMF is one of a wide range of organizations that support countries in this way and provides only a small fraction of this type of assistance, which the OECD estimated to total US\$17.1 billion across all developing countries in 2020, over 50 times the IMF's annual capacity development (CD) spending.⁷ Nevertheless, the IMF is among the largest providers in its areas of expertise, including fields such as public financial management (PFM), domestic revenue mobilization, macroeconomic statistics, and financial sector stability.

The IMF has provided some form of CD support since its early years. Initially, this took the form of technical assistance (TA) provided on an informal basis as needed, alongside surveillance. The IMF institutionalized such activities in the mid-1960s when many newly independent countries became members, creating three new specialized departments to provide expertise and training courses to member country officials (Boughton, 2001). These activities grew over time in response to increasing demand from member countries (Figure 2). From the early 1990s, the Fund started to open regional TA centers to support TA delivery. The provision of classroom-type training to member country officials accelerated in the early 1990s with the opening of regional training centers (RTCs), and again from 2013 with the creation of an online learning program.

FIGURE 2. TECHNICAL ASSISTANCE AND TRAINING EVOLUTION, FY1964–2020



Sources: 2018 CD Strategy Paper; Participant and Applicant Tracking System (PATS) data; Travel Information Management System (TIMS) data; and IMF staff estimates.

⁷ Other providers include other multilateral organizations (for example, the World Bank, the United Nations, and the OECD), regional entities (such as the European Commission and the African Development Bank), bilateral government agencies (including finance ministries, central banks, and development ministries), and civil society organizations. The OECD estimate is based on data on official sector spending on “technical cooperation” in developing countries (<https://stats.oecd.org/Index.aspx?DataSetCode=Table2A#>); it does not include TA packaged with development projects nor technical expertise provided to emerging market or advanced economies.

As the Fund adjusted to declining operating income through a “downsizing” in 2008, it imposed significant cuts in the internal resources allocated to CD. The institution then launched a proactive effort to attract increased external funding for CD. This shift led to greater alignment of IMF CD activities with donor development strategies and efforts to develop long-term partnerships around specific topics and/or regional delivery mechanisms (IMF, 2008a; IEO, 2014). With the arrival of the global financial crisis, the IMF’s expertise attracted both donor financing and country interest. Demand for CD work has received further boosts from countries’ desire for CD support for their efforts to meet their Sustainable Development Goals, from increasing attention to the needs of fragile states and small states, and from growing interest in areas such as anti-corruption, fintech and cyber risks, climate change, gender, and debt management. More recently, the IMF has accelerated the use of remote delivery of CD, in response to the challenges posed by the COVID-19 crisis.

AN OVERVIEW OF THE IMF’S CURRENT APPROACH TO CAPACITY DEVELOPMENT

High-level objectives for CD during the evaluation period were set out in the CD Policy and Practice statements of 2014 and 2019. The latter states “Consistent with its mandate, the main objective of the Fund’s CD activities is to help member countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies. 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). The statement also highlights that:

- ▶ CD activities are driven by demand from member countries.
- ▶ Fund CD should be tailored to the country’s needs and reflective of its absorptive capacity, but also integrated with the policy dialogue between member countries and the Fund that take place under surveillance or Fund-supported programs.

- ▶ Fund CD should represent advice or training that is of the highest quality, reflecting international best practices and complemented by the Fund’s analytical work.
- ▶ The Fund delivers its own CD services, and “stands by the services it delivers regardless of the mode of delivery and exercises quality control.”
- ▶ The Fund cooperates closely with other providers of CD “to avoid duplication in coverage and to enhance complementarity with other CD providers.”

IMF CD can be broadly split into two types: that which is mobilized quickly for short-term needs and that which helps countries build sound institutions in order to manage policies effectively and boost resilience to shocks. The first type can be crisis-related or to fill a specific gap identified by surveillance or to support a lending program. Such CD may be a single event or a succession of engagements. The second type reflects the longer-term nature of institution-building and increasingly involves a “programmatic approach.” The former has been termed “curative” CD; the latter, “preventive” or “developmental” CD.

In terms of CD services to countries, the IMF has moved away from considering CD as either TA or training, and now emphasizes a range of delivery modalities that should, as far as possible, be integrated. These modalities include field assignment of experts for periods ranging from days to years; missions from headquarters; online, classroom, and customized training; peer-to-peer (PTP) learning and technical workshops; and discussions at Fund headquarters or remotely from headquarters. This evaluation generally uses the term “CD” to cover all these various modalities, but in some instances, we use the more traditional distinction between TA and training.

IMF CD has a different delivery model than other providers, the key difference being that the IMF does not outsource any of its CD. All CD is delivered by combinations of HQ-based experts, long-term experts (LTXs) based in the field, and short-term experts (STXs) who have been directly selected for specific CD engagements. LTXs are recruited for assignments typically lasting several years in an RCDC or placed as resident advisors (RAs) in an agency in a recipient country. STXs are recruited for a particular

mission, traditionally lasting about two weeks; longer-term involvement may be achieved through repeated short-term visits. HQ-based staff and contractual employees oversee and prepare CD projects, deliver CD (usually working closely with STXs and LTXs), and “backstop” (or conduct quality assurance of) all CD. By contrast, other public sector providers typically outsource CD delivery to consultants or private companies who frequently write their own terms of reference; the resulting report is usually that of the consultants alone.⁸

Since the IMF focuses its CD on topics where it has in-house expertise, there are cases in which the institution needs to work with other providers to leverage each side’s comparative advantages. The IMF and World Bank collaborate in many countries, each focusing on areas in which they have particular expertise. Some advanced countries “twin” with recipient countries—such as France with Albania—allowing a more intensive interrelationship between them. Some other providers deploy far bigger CD resources than the Fund.⁹

The planning, delivery, and reporting of CD at the IMF involves the interaction of area departments (ADs) and capacity development departments (CDDs).

- ▶ **ADs** formulate CD strategies at the regional and country levels in Regional Strategy Notes (RSNs) and Country Strategy Notes (CSNs) for heavy CD users¹⁰ and prioritize CD demand based on their active engagement with member countries via surveillance and program work. ADs are also responsible for managing many of the RCDCs located in member countries (Box 2).
- ▶ **CDDs**—the Fiscal Affairs (FAD), Monetary and Capital Markets (MCM), Statistics (STA), and Legal (LEG) departments and the Institute for Capacity Development (ICD)—each deliver CD

in their areas of expertise.¹¹ Responsibilities for managing CD expertise, delivery, and resources continue to rest with individual CDDs, each of which has different practices and organizational arrangements for delivery and review.

- ▶ **Inter-departmental coordination.** The Committee on Capacity Building (CCB), chaired by one of the IMF’s Deputy Managing Directors, is charged with internal oversight of Fund CD and ensuring consistency with institutional priorities. It advises IMF management about CD priorities, identifies CD topics targeted for growth for the coming three-year period, coordinates and approves the medium-term work plan, and fixes limits (set department-by-department) on externally financed CD activities. The CCB is supported by ICD, which, since its creation in May 2012, has been responsible for developing the Fund’s overall CD strategy, coordinating across Fund departments, fund-raising and managing partnerships with donors, and designing and coordinating M&E processes. ICD works with SPR on the integration of CD with surveillance and programs.

The **Board** provides “strategic direction and oversight” for IMF CD, “including with respect to the overall envelope for externally financed CD and the size of CD relative to other outputs of the Fund” (IMF, 2019c). IMF management is responsible for setting medium-term priorities for CD and allocating resources, taking into account the guidance provided by the Board.

The IMF has introduced a unified system to facilitate the planning, managing, and reporting CD. A Results-Based Management (RBM) framework was instituted in 2013 and has required the setting of, and reporting against, standardized outcomes and objectives for all CD projects

⁸ World Bank CD has some of the elements of the Fund CD, but generally is delivered as a component of a lending program (and often outsourced to consultants), rather than by a specialist division with in-house expertise.

⁹ The World Bank, for instance, has 400 staff in its office in Jakarta alone, enabling a much more extensive operation than the Fund’s—although many of them are engaged in activities not equivalent to or related to CD.

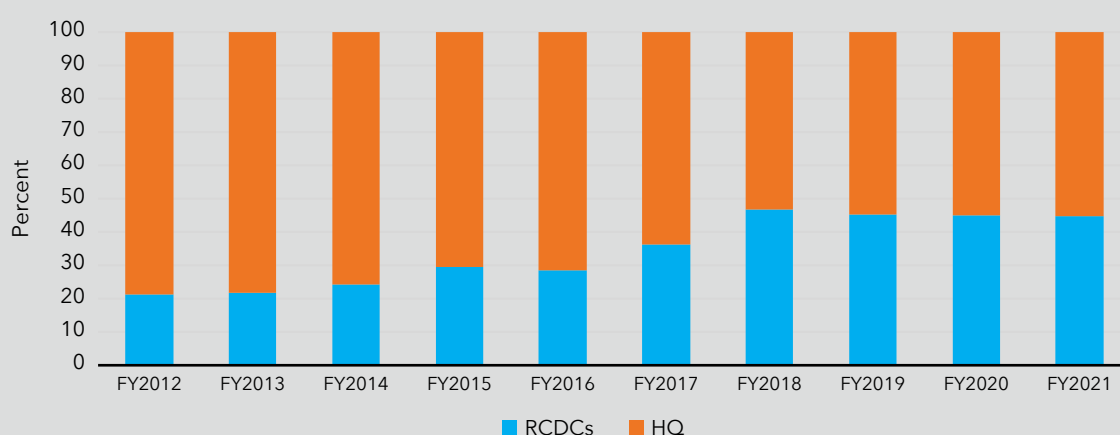
¹⁰ IMF staff consider a country to be a “heavy user” of CD when annual CD spending is greater than US\$1.5 million for the most recent fiscal year (IMF, 2020a).

¹¹ Other departments, such as Research (RES) and Strategy, Policy and Review (SPR), also provide some CD.

BOX 2. REGIONAL CAPACITY DEVELOPMENT CENTERS

The IMF maintains a growing global network of Regional Capacity Development Centers (RCDCs) that coordinate much of its capacity development (CD) in the field. Located in member countries, these centers aim to help the Fund respond to emerging needs of authorities, including by tailoring work to regional challenges and providing sustained on-the-ground support. Currently, there are 17 RCDCs operating in Africa, Central America, the Caribbean, the Middle East and North Africa, Southeast Asia, the Pacific Region, China and South Asia, and the Caucasus, Central Asia, and Mongolia. These centers represent partnerships between the IMF, participating countries (i.e., the CD beneficiaries), and external donors. External partners—host countries and donors together—provide more than three-quarters of the resources to fund these centers and also contribute expertise to help with coordination, delivery, and sharing of best practices. Since 2018, nearly half of IMF CD is delivered through the RCDCs (see figure).

CAPACITY DEVELOPMENT DELIVERED BY REGIONAL CAPACITY DEVELOPMENT CENTERS AND HEADQUARTERS, FY2012–21



Sources: IMF, TIMS; IEO staff calculations.

Some RCDCs were founded with a focus on technical assistance (TA), others on training; one was designed from the outset to cover both. The particular set of CD activities in each RCDC is guided by the agreement between RCDC member and donor governments and the IMF when the center was originated and is subject to independent evaluation, usually at the midpoint of each five-year tranche of funding. Dedicated training centers focus primarily on delivery of classroom-based courses, based on the needs of participating countries.

RCDCs are staffed by a director, from IMF staff, who manages the center's work, and topical experts who both deliver TA and training and arrange for delivery by short-term experts (STXs). RCDC staff deliver IMF CD under the supervision and guidance of capacity development departments responsible for the topical area, in support of and complementary to CD provided by IMF headquarters (HQ), in most cases. The workplans for the RCDCs are discussed and agreed with the functional departments. The work of topical experts is typically coordinated and quality-assured by HQ-based experts.

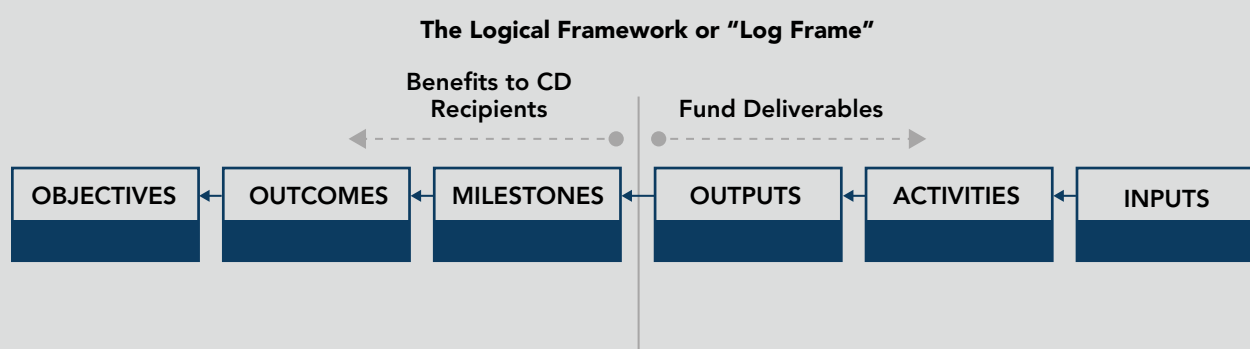
Sources: Enoch (2022), De Lannoy (2022b), Radelet (2022), and Stedman (2022a).

since 2017 (Box 3). The RBM framework is now integrated in the CD Management and Administration Program (CDMAP), a broader management information system that aims to bring together information relevant to the planning, execution, and monitoring of CD, across topics

and departments in a way that enhances transparency, accountability, and coordination. CDMAP has been operational for all projects since 2021, although some capabilities remain to be added.

BOX 3. THE RESULTS-BASED MANAGEMENT FRAMEWORK AND THE CAPACITY DEVELOPMENT MANAGEMENT AND ADMINISTRATION PROGRAM

Results-Based Management (RBM) is an approach used by many development agencies, both multilateral and bilateral, to design and monitor their projects and interventions. It is centered on the concept of a “logical framework,” or log frame, which comprises a series of steps causally linking the resources, or inputs, of a project, to activities, outputs, and, finally, medium-term and longer-term results (see figure). During the past two decades, at the request of its Board, partners, and donors, the IMF has been gradually introducing a dedicated RBM system to plan and monitor the inputs, outputs, and outcomes of its technical assistance. More specifically, the Fund’s RBM system aims to contribute to (i) capacity development (CD) project design and management; (ii) strategic and resource allocation decision-making at the portfolio level; (iii) accountability and reporting; and (iv) evaluations (see IMF, 2020b; Lamdany, 2022). The Fund started to collect RBM data for some donor-funded projects in 2013, and in 2017 it standardized the format and expanded coverage to include all CD projects, internally as well as externally funded.



The Fund’s RBM system has been embedded within broader management information systems to support CD coordination and accountability. Since 2005, the IMF has used different systems, such as the TA Information and Management System and CD-Port. From 2020, CD-Port has been progressively replaced by the Capacity Development and Administration Program (CDMAP), which aims to transform how the Fund manages its CD activities by addressing gaps and inconsistencies in processes and IT systems underlying the administration of CD operations. According to staff, these problems with earlier systems put a heavy burden on staff administering CD, contributed to operational risks, and created siloed information that made it hard for all those involved to get a clear picture of the Fund’s CD activities.

CDMAP is country focused, so that for the first time area departments and others can obtain a comprehensive picture of all CD activities in a country, including those led by Regional Capacity Development Centers (RCDCs). It is therefore intended to facilitate the integration of CD, surveillance, and lending operations. Also, the increasing diversity of Fund delivery modalities should to some extent be identifiable, as CDMAP distinguishes six different delivery modalities, consistent with the taxonomy in the 2021 guidance note on CD Prioritization and Work Planning (IMF, 2021c). It also tracks a program’s progress, for instance with a code to quickly identify when a program is off-track. It thus also gives a real-time dashboard picture of CD delivery to management.

The first release of CDMAP went live in August 2020 and enabled FY2022 CD budgeting and planning. Release 2, enabling CD execution and resource management, went live in April 2021. Release 3 (November 2021) included capabilities for project close, evaluation, and risk management. Further releases are planned to add additional functionalities.

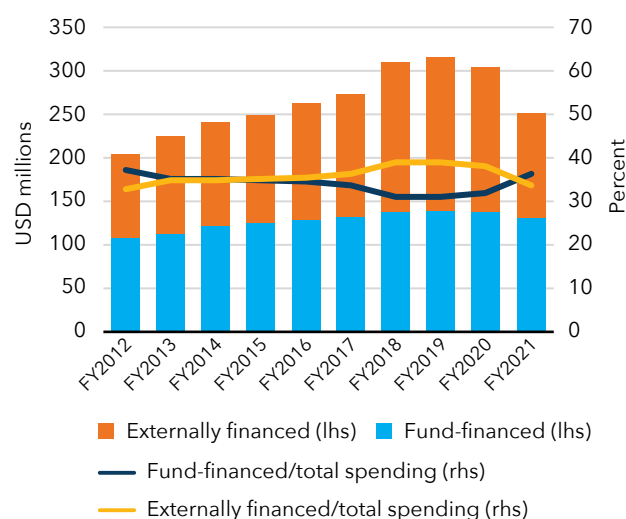
Source: Lamdany (2022).

CURRENT CHARACTERISTICS

CD spending grew by about 50 percent over the evaluation period, with expenditure on “direct delivery” of CD increasing from around US\$200m in FY2012 to around US\$300m in FY2019.¹² Spending on CD then leveled off as the Fund sought to maintain an appropriate balance between the scale of CD with other core activities as well as to preserve the quality and value of CD, though CD spending fell in FY2021 because of COVID-19-related disruptions (Figure 1). TA accounted for the bulk of total CD, with training accounting for about one-sixth of total CD (De Lannoy, 2022b).

As noted above, IMF CD activities are financed almost entirely by the IMF’s own budget resources and resources provided by external donors. CD to high-income countries, which represents a small share of total CD, is self-financed unless it is de minimis or judged to be critical; in addition, other recipient countries very occasionally co-fund IMF CD (Stedman, 2022a). The share of CD spending financed by external donors grew during the evaluation period to more than half in FY2018–FY2020, up from about a quarter in FY2008 (Figure 3).

FIGURE 3. IMF DIRECT SPENDING ON CAPACITY DEVELOPMENT BY SOURCE OF FUNDING, FY2012–2021



Sources: IMF, ACES as of September 2021; IEO staff calculations. Note: These data exclude indirect overhead costs such as the costs of the Board, IMF buildings, and other facilities. See Jensen and Kell (2022).

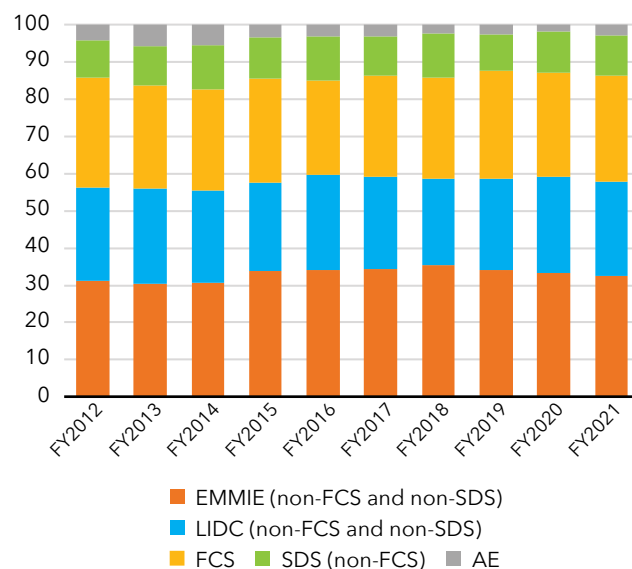
¹² This is spending that can be directly attributed to CD activity; total spending on CD also includes CD’s share of indirect costs of overheads such as IMF governance, accommodation, and various support services. See Jensen and Kell (2022) for further discussion.

¹³ As of February 2022, the Fund had classified 42 economies as FCS, around a fifth of its members (IMF, 2022c).

Almost all CD has been focused on low-income developing countries (50 percent) and emerging market and middle-income members (46 percent). More than a quarter of IMF CD spending in the last three years went to fragile and conflict-affected states (FCS) (29 percent in FY2019, 27 percent in FY2020, and 28 percent in FY2021, Figure 4).¹³ Relative shares allocated to different country groups have not changed much over the evaluation period.

CD has been provided to over 180 IMF member countries over the evaluation period (Figure 5). At the country level, CD is spread widely across the membership, albeit with concentration among some heavy users. In any given year during the evaluation period, 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, and/or the existence of long-lived CD projects and extensive donor funding. This intensity is illustrated by the fact that

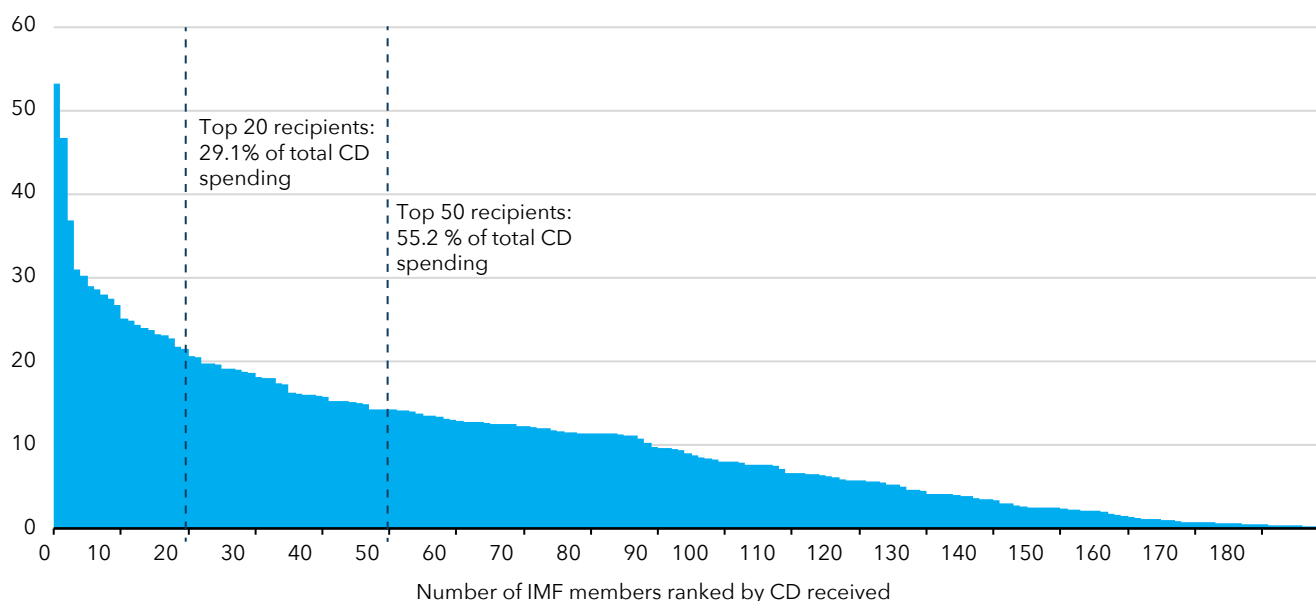
FIGURE 4. CAPACITY DEVELOPMENT ALLOCATION BY COUNTRY CLASSIFICATION, FY2012–2021
(In percent)



Sources: IMF, ACES; IEO staff calculations.

Note: AE = advanced economies; EMMIE (non-FCS and non-SDS) = emerging market and middle-income economies that are non-FCS and non-SDS countries; LIDC (non-FCS and non-SDS) = low-income developing country.

FIGURE 5. ALLOCATION OF CAPACITY DEVELOPMENT SPENDING AMONG MEMBERS, FY2012–2021
(In USD millions)

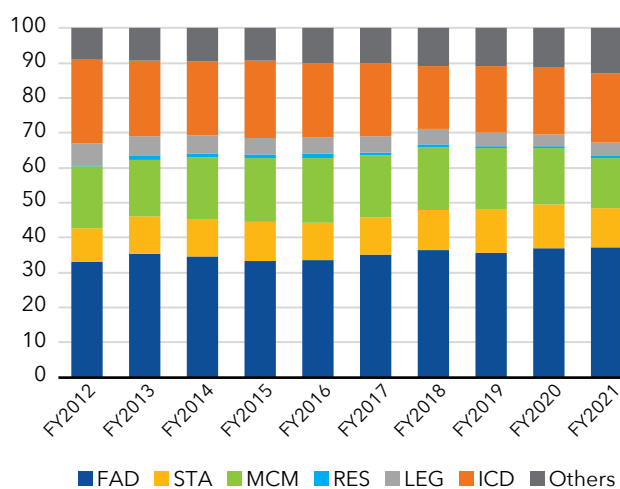


Sources: IMF, ACES; IEO staff calculations.

20 countries benefited from nearly 30 percent of total IMF CD over the evaluation period (Towe, 2022).

The topical distribution of CD delivery has been steady, with CD in the fiscal area as the largest area of support (Figure 6). CD in financial and central banking areas rose during the global financial crisis to represent almost a third of total IMF CD delivery. CD in the area of statistics has had a roughly constant share of around 11 percent during the past decade, and assistance on anti-money laundering/combating the financing of terrorism (AML/CFT) and other legal issues has declined from 6 percent in FY2012 to 4 percent of total CD in FY2021. Beginning in FY2019, the Fund defined a number of topical “growth areas” where an increase in the share of CD over the medium term was targeted. These topics are a combination of traditional CD areas where there has been persistent unmet demand, such as tax policy, and new topics such as digital money and climate change.¹⁴

FIGURE 6. TOTAL CAPACITY DEVELOPMENT SPENDING BY DEPARTMENT, FY2012–2021
(Share of spending, in percent)



Sources: IMF, ACES; IEO staff calculations.

¹⁴ The initial list of topical growth areas identified in the IMF’s 2019 medium-term budget included anti-corruption; debt sustainability, and debt statistics; expenditure policy and public investment management; and tax policy, fintech, and cyber risks (IMF, 2019a). The topical growth areas have been modified slightly since then. In FY2021, the growth topics together constituted 9.3 percent of total CD delivered (IMF, 2021j).



ASSESSMENT OF IMF CAPACITY DEVELOPMENT, 2012–2020

This chapter provides an assessment across key elements of IMF capacity development (CD): strategy and oversight; prioritization and allocation; delivery; partnerships, and dissemination; monitoring and evaluation; effectiveness, impact, and costs; funding; and human resources during the evaluation period. It draws on the detailed evidence provided by the accompanying background papers (see Box 1).

STRATEGY AND OVERSIGHT

Overall Strategy and Objectives

After several decades of somewhat organic and opportunistic evolution of its TA/CD activities, the IMF has taken substantial steps in the last 10 years to articulate and refine its CD objectives and strategies. The introduction of periodic CD strategy reviews was an important development that is now well established. The strategy reviews of 2013 and 2018 reflected extensive consultations with recipients, partners, and donors on the quality and utilization of CD products and provided an opportunity to examine the overall CD program with some time perspective. These reviews were discussed by the Board, which agreed on key priorities to further enhance IMF CD. The strategy reviews were followed by statements on policies and practices on CD that articulated objectives, scope, and modalities for CD, as well as principles to guide prioritization, partnerships with donors, delivery, monitoring and evaluation (M&E), and dissemination (IMF, 2014a; 2019c).¹⁵ The CD budget envelope is updated and approved by the Board each year as part of the institution-wide Medium-Term Budget (MTB). The role of CD was also considered in the context of a number of other reviews of institutional strategies, including surveillance and lending reviews, and those aimed at strengthening governance and tackling corruption (IMF, 2018a), addressing climate change (IMF, 2021f), and enhancing support to fragile and conflict-affected states (FCS) (IMF, 2022c).

In responding to the 2018 CD strategy review, the Board supported the five specific areas of recommendations and endorsed three other areas for enhancement. These are set out in Box 4. Subsequently, staff has worked to make progress against these priorities.

The Fund has made good progress on many aspects of the Board-endorsed priorities from the 2018 Review. In particular, the Fund has taken steps to ensure that CD is provided in areas that recipients need and want, including by enhancing the role of its area departments (ADs) in working with country authorities; strengthening its framework and processes for

¹⁵ In addition, several guidance notes provide more detail on operationalizing policy and expectations for staff, for instance with respect to the integration of CD with surveillance and lending. These include Staff Guidelines on CD CSNs (January 2020); Revised Staff Guidelines on RSNs (June 2020); RBM Governance Framework (August 2020); Staff Guidelines on CD Prioritization and Work Planning (April 2021); Operational Guidelines for Integrating CD with Surveillance and Lending (April 2021); and Operational Guidelines—2020 RBM Governance Framework (May 2021).

BOX 4. BOARD-ENDORSED PRIORITIES FROM THE 2018 CD REVIEW

Directors supported the five specific areas of recommendations that underpin the Fund's CD Strategy:

- (i) **Roles and responsibilities.** Directors emphasized the importance of country authorities playing a leading role throughout the CD process. Such a country-centered approach requires area departments to be in the leading role on the Fund's overall country engagement. Directors encouraged staff to learn more systematically from best practices in integrating CD and surveillance.
- (ii) **Prioritization and monitoring.** Directors considered that effective prioritization is critical. They welcomed the move to a medium-term orientation of CD planning. They also agreed on the need to further strengthen overall monitoring of activities and narrowing the list of priorities, building on better information systems. In this regard, Directors looked forward to further steps to operationalize RBM and the Common Evaluation Framework (CEF).
- (iii) **Country-tailored delivery focused on implementation.** Directors agreed that departments will need to build on existing strategies to move toward greater modernization and agility in CD delivery. They called for continued experimentation with innovative technologies to support more flexible delivery of CD and encouraged cost-efficiency evaluation of the different modalities of delivery. They also supported further work on strengthening the operational support for RCDCs. Directors underlined the importance of Fund CD activities in FCS, with some calling for further prioritization for these countries.
- (iv) **Internal consultation and information sharing.** Directors called for further efforts to strengthen information sharing on CD activities within the Fund. They noted the Fund's capital investments, including in the CDMAP, which will help address critical gaps and support the harmonization of CD processes across departments.
- (v) **Coordination, communication, and dissemination.** Directors encouraged staff to better systematize existing good practices on coordination with other CD providers, notably with the World Bank, and to pursue innovative approaches to raise awareness of the Fund's CD work. Highlighting the benefits of sharing best practices, they saw merit in improving the presentation of recommendations in TA reports and publishing more topical notes and TA reports while preserving confidentiality and client trust.

In addition, Directors highlighted three other priorities:

- ▶ **The need to strengthen the sustainability and fungibility of external financing** and to closely monitor and manage related risks. They asked for more comprehensive information about the funding model, with a few Directors noting the need to discuss the funding issue in future updates.
- ▶ **The importance of strengthening HR practices** and better incentivizing work on CD.
- ▶ **The need for the Board to provide strategic direction and oversight** through regular reviews of, and policy guidance for, the Fund's CD policies and activities, and the budget process. While respecting the demand-driven nature of CD activities, they stressed the importance of more information sharing to better inform their views on broad priorities for CD and to strengthen the strategic role of the Board.

Source: IMF (2018b).

the prioritization, monitoring, and evaluation of CD; modernizing, expanding, and integrating its CD delivery modalities; enhancing the sharing of CD information between departments; and strengthening in-country coordination with other CD providers through the work of Regional Capacity Development Centers (RCDCs). We expand on these assessments in the rest of this chapter and

summarize overall progress against the Board's priorities in Chapter 4.

While the CD reviews have been instrumental in guiding internal reforms to enhance the effectiveness and efficiency of CD, they have not addressed some of the key substantive strategic questions. In particular:

- ▶ What is the role and comparative advantage of IMF CD, and how can the Fund maximize the synergies between CD, surveillance, and lending in different country contexts?
- ▶ What is the optimum size of CD in absolute terms and as a share of overall Fund activity?
- ▶ What is the appropriate model for funding this CD?
- ▶ How does the Fund trade off the competing priorities for allocating its finite CD between countries (e.g., need versus likelihood of success)? How might these considerations differ between internally and externally funded CD?

Further, the IMF has not assessed performance against its overall CD objectives at the Fund-wide or country level. In principle, the institution has the basis for systematically assessing the success of individual CD projects (which we discuss in the section in this chapter on Monitoring and Evaluation), but it does not assess the cumulative impact of its CD on key institutions within each country or assess the success of its overall engagement, across all its activities, with each member country. There is no systematic assessment or measurement of the overarching objective of CD helping the Fund's dialogue with member countries, even at the project level, despite this being central to the Fund's engagement strategy for some countries.¹⁶ And despite the lack of comprehensive information and associated uncertainty related to CD impact, the Fund has not set out its institutional level approach to risk tolerance in defining and measuring the success of CD at project or portfolio levels.

More broadly, the Fund has not set out an overarching strategy explaining the roles, synergies, and tensions between CD, surveillance, and program work in almost 20 years.¹⁷ The absence of an updated overarching institutional strategy positioning CD within the IMF's activities and defining how it should contribute to the institution's mandate and objectives has made it harder to set CD

priorities, allocate CD resources, and make a coherent assessment of the impact of CD, both for the purposes of internal management and external accountability. In addition, the usual approach of reviewing surveillance, program, and CD activities separately means that inter-linkages across these activities and their coherence in advancing the IMF's mandate may not receive sufficient attention. By contrast, the holistic approach taken with the recent IMF Strategy for FCS (IMF, 2022c) helped that review do a good job of explaining how surveillance, lending, and CD have worked together to support FCS, and sets out a coherent set of proposals to strengthen the individual and collective effectiveness of each of the three core functions (see Box 5).

There are gaps in organizational responsibilities for strategic issues, and some overlaps and inconsistencies in CD delivery and fundraising responsibilities across departments. While the IMF has prioritized integration of CD with surveillance and lending, strategy and risk management for these activities is split, with the Strategy, Policy and Review Department (SPR) responsible for surveillance and lending, and the Institute for Capacity Development (ICD) responsible for CD. This means that there is no department directly responsible for how the activities together help advance the IMF's mandate, nor how risks related to each may aggravate or mitigate each other, for instance. The Fund's Office of Internal Audit (OIA) has noted this could mean some strategic risks are not managed appropriately (IMF, 2021a). Further, ICD's strategic role and coordination across capacity development departments (CDDs) is exercised through the Committee on Capacity Building (CCB), which is seen as largely approving departmental priorities and plans rather than strongly influencing or deciding between them. Moreover, other CDDs tend to regard ICD more as a peer or competitor than as an entity with broader oversight or review responsibilities. This dynamic was accompanied by concerns on the part of some CDDs about ICD's growing role in delivery of TA, raising questions about possible overlap in coverage in the area of CD on macroeconomic frameworks and whether ICD's TA role was compatible

¹⁶ See, for example, the China and Nigeria case studies in Citrin and Legg (2022) and Legg and Sembene (2022), respectively.

¹⁷ The Fund produced such a strategy in 2005, the MD's Report on the Fund's Medium Strategy (IMF, 2005b). In response, the Board concluded that TA should focus on economic institutions that are important for the implementation of policies to promote macroeconomic and financial stability "...on which the Fund has built considerable knowledge and expertise" but cautioned that "...developing broad institutions is beyond the Fund's core expertise."

BOX 5. CD AND FRAGILE STATES

Background. The IEO evaluation of The IMF and Fragile States (IEO, 2018) found that CD is the area where the Fund can provide the greatest value-added support to these countries after initial macroeconomic stabilization is achieved, but that such work faced large obstacles to achieving effective delivery and follow-up and lasting impact in difficult environments. The 2018 evaluation recommended practical steps to increase CD impact by increasing use of in-country experts to support follow-up implementation and ensuring adequate financial resources after years in which resources devoted to CD on fragile states had plateaued. This recommendation was broadly supported by EDs and led to development of forward-looking Country Engagement Strategies (CES) that lay the basis for full integration between surveillance, lending, and CD in fragile and conflict-affected states (FCS). The staff's 2018 CD Strategy Review also included a focus on FCS, and in response the Board underlined the importance of Fund CD activities in fragile states, with some Directors calling for further prioritization for these countries (see Box 4).

Allocations to FCS. FCS have accounted for 27.6 percent of CD resources over the evaluation period; this share has not changed much over time (Figure 4). Towe (2022) reports some econometric analysis that suggests that FCS do not appear to have received significantly more CD than nonfragile states, controlling for other factors. This is despite FCS having been an institutional priority for Fund CD since 2014, and FCS being designated by the CCB in 2019 as a "growth area," i.e., where an increase in the share of CD over the medium term is targeted. According to staff, the difficulty of increasing the share of total CD spend allocated to FCS reflects the particular challenges of aligning CD with varying levels of political ownership and limited absorptive capacity in FCS, but also financing and personnel rigidities, including difficulties in attracting qualified staff to work on FCS (see IMF, 2022c).

Coverage by field-based resources. Almost all the 42 FCS (as currently defined by the Fund) are covered by a Regional Capacity Development Center (RCDC). But long-term expert (LTX) and resident advisor (RA) resources vary widely across FCS, reflecting differences in absorptive capacity and demand for CD between FCS, but also as a consequence of differences in external funding for different RCDCs.

Evidence from IEO case studies and external evaluations. The three FCS in our country case studies—Democratic Republic of Congo (DRC), Liberia, and Somalia—saw a range of experiences in terms of the relevance, coherence, and effectiveness. Liberia had significant capacity before the civil war and CD helped reconstitute it, although sometimes with limited success. In DRC, projects often stalled because there was limited reform drive. In Somalia, because all the institutions of the state had to be recreated from afar, IMF staff had modest but realistic objectives, many of which were met, with support from a dedicated country trust fund. Overall, most CD in these countries yielded limited outcomes in the short run, but some major achievements considering their context. Somalia, African Regional Technical Assistance Center (AFRITAC), and Middle East Regional Technical Assistance Center (METAC) external evaluations show achievements of CD activities that were major in the context of those fragile states—and that Lamdany (2022) argues should probably have been rated higher than they were in the evaluation reports. On the other hand, the same achievements would not be considered significant in other contexts. More generally, beyond a certain level, additional CD may not lead to better results. For example, there are indications that in Liberia pressures to deliver on the Capacity Building Facility led staff to significantly increase the intensity of CD delivery even though it was at odds with existing capacity constraints.

The recent IMF Strategy for FCS (IMF, 2022c) sets out further specific measures to strengthen support to FCS across surveillance, lending, and CD modalities. As regards CD, the Strategy sets out three interlinked elements: (i) closer integration of CD with surveillance and lending, centered on country engagement strategies to be developed for all FCS; (ii) increased field presence; and (iii) better tailoring of CD to FCS conditions. Additional resources for FCS are identified in the FY2023–2025 Medium-Term Budget (IMF, 2022b). With expected donor contributions, field-based CD support is forecast to increase by 70 percent, from 42 to 72 long-term experts (based in RCDCs) and resident advisors (based in-country). Additional IMF resources for CD will include additional resources for the RCDCs covering many FCS.

with ICD's responsibility for coordinating CD fundraising across the IMF, despite the arrangements ICD has put in place to mitigate this concern. As the breadth of CD continues to grow, and more IMF departments provide CD, potential overlaps in delivery and lack of clarity over responsibility for quality and consistency of Fund advice may need to be addressed.

Role of the Board¹⁸

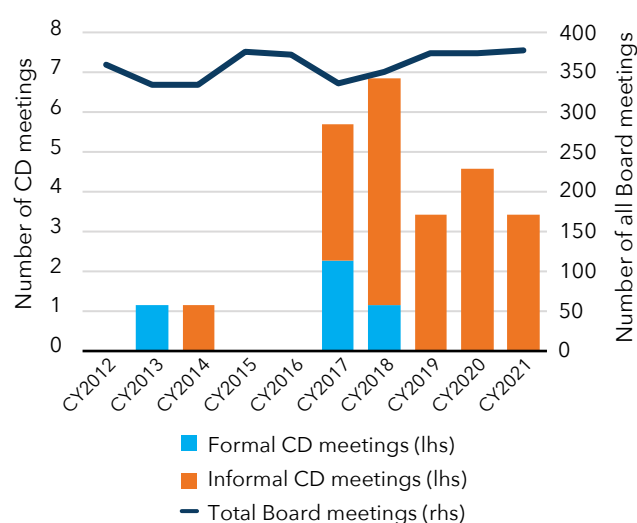
The governance framework for CD for the most part assigns clear roles and responsibilities for the Board, as well as management and staff. The Board's current role in oversight of CD was set out in the 2019 statement on CD policies and procedures, which states that "the Executive Board provides strategic direction and oversight, including with respect to the overall envelope for externally financed CD and the size of CD relative to other outputs of the Fund" through regular CD strategy reviews, the budget process, and the risk management process (IMF, 2019c). The conduct of operations is delegated to IMF management,¹⁹ as is the establishment of CD policies "in some areas" in consultation with the Board (IMF, 2019c). The Board has the power to take any decision it deems necessary to ensure that the IMF's CD strategy reflects the needs of the membership. Board views on country issues, as reflected in surveillance and program discussions, feed into the prioritization of CD resources. In addition, through its review of the CD strategy and its role in approving the IMF's annual budget, the Board has the levers to ensure that needed internal resources are made available to implement that strategy.

The Board spends much less time on CD than on surveillance and programs, but its engagement has increased since the 2018 review, at the request of Executive Directors (EDs). During the evaluation period, the Board held on average 357 meetings a year, but only a total of 4 formal meetings and 16 informal meetings dedicated specifically to CD (Figure 7). Following the Board's request, while discussing the 2018 CD review, for more engagement and information

on CD, the frequency of informal meeting has increased. Of the 16 informal meetings during the evaluation period, 8 were held during 2019 and 2020, with 6 more organized between January 2021 and March 2022. The scope and specificity of information on CD activities provided to the Board has also increased.²⁰

Nevertheless, the level of engagement and information provided continue to fall short of what EDs believe is necessary for them to conduct sufficient oversight of CD activities, which account for a third of the IMF's budget. EDs recognize and appreciate recent enhancements, but they continue to question both whether the Board has a sufficient role in setting the strategic direction for CD and the adequacy of the information they receive on how CD fits with wider Fund engagement in countries and on the effectiveness and impact of CD. In particular, some EDs noted that regional briefings are inconsistent in their coverage of CD and that country documents do not routinely cover CD in a substantive way that would allow the Board to

FIGURE 7. BOARD MEETINGS BY TOPIC, 2012–2021



Sources: IMF; IEO staff calculations.

Note: Total includes committee and miscellaneous meetings in addition to formal and informal meetings.

¹⁸ This section draws mainly on De Lannoy (2022a).

¹⁹ The Board has not had a direct role in approving individual CD activities in member countries since 1991 (IMF, 1991).

²⁰ For instance, Board papers for the annual MTB process in the spring of each year have included backward- and forward-looking information on CD expenditure, including new budget demands related to CD. Since 2015, EDs have also received a staff paper each year providing information on budget outturns for the fiscal year just ended, including an annex specifically on CD. Since 2020, the MTB discussion has been preceded by an informal Board discussion on CD priorities.

understand why certain CD activities are undertaken and how they fit in that country's overall CD strategy. Indeed, IEO analysis of Board surveillance and program documents for the period 2018–2021 for the 50 largest CD recipients confirmed that only 38 percent covered CD in a substantive way and also found considerable variation across countries and regions (Figure 8).²¹ In addition, EDs suggested that informal Board briefings on broader CD issues could be upgraded to provide more in-depth assessment and more consistent coverage, including both progress in advancing the agreed strategy and analysis of new issues.

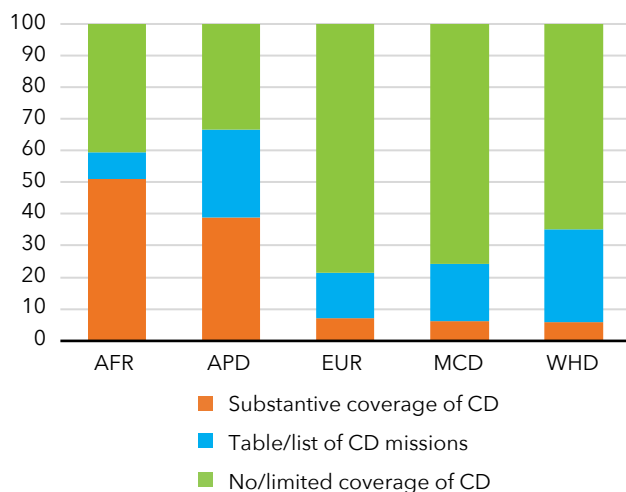
Strategic oversight by the Board could be enhanced without changing the formal design of the governance framework. It is appropriate that the Board focuses on strategic issues and is not involved in day-to-day operational decisions related to CD. Challenges to the effectiveness of the Board's governance role could be addressed by going further to enhance Board engagement in CD, including by carving out more time to focus on high-level CD issues, such as regular Board meetings on progress being made in implementing

new initiatives arising from the five-year CD reviews and newly emerging issues. The Board could also be provided with more information on CD delivery and results in a more consistent and regular way. For example, the IMF could give EDs access to Capacity Development Management and Administration Program (CDMAP) dashboards giving an up-to-date overview of CD activities and results, in line with the updated CD dissemination policies (IMF, 2022a), and could be provided with more analysis of CD outcomes and impact using the results of Results-Based Management (RBM) and CD evaluations. Management could also provide the Board more information about new funding vehicles or arrangements with donors and allow for discussion of strategic issues (such as an assessment of the extent to which the proposed vehicle or arrangement aligns with IMF institutional objectives), rather than seeking the required Board approval on a lapse of time basis without discussion.

PRIORITIZATION AND ALLOCATION²²

The Fund has strengthened its framework and processes for prioritization in multiple dimensions over the evaluation period. Priorities are informed by the regular strategic reviews of CD and monitored as part of the Fund's annual budget process, providing channels for guidance from the Board. ADs now play a major role in defining the CD needs of member countries, as part of overall IMF engagement with each country, working with CDDs. Needs and priorities for each region are set out by ADs in annual Regional Strategy Notes (RSNs), based on engagement with each country; in addition, ADs are required to develop individual CSNs for the most intensive CD users in order to establish an explicit medium-term strategy for CD engagement (Box 6). The CCB coordinates and proposes to management a Medium-term Work Plan that allocates resources to priority topics and regional needs; the CCB body also monitors the extent to which broad CD allocations align with Fund-wide priorities (e.g., an increasing share of CD resources allocated to fragile states).

FIGURE 8. COVERAGE OF CAPACITY DEVELOPMENT IN COUNTRY DOCUMENTS FOR HEAVY CD USERS, BY REGION, 2018–2021



Source: IEO analysis of country documents for the 50 heaviest CD users in FY2019 in De Lannoy (2022a).

²¹ For example, Ter-Minassian (2022) finds in her case study of Guatemala that the traction of CD has not been commensurate with the resources devoted to it. She argues that it would have been useful to increase the reflection of CD recommendations and the progress in implementing them, in surveillance documents, to bring to the attention of the Management, the Board, other CD providers, and the domestic public the fruits of the CD, or the lack thereof.

²² This section draws on Towe (2022).

BOX 6. COUNTRY STRATEGY NOTES

Background. Reforms in 2017 called for area departments (ADs) to develop Country Strategy Notes (CSNs) for all heavy capacity development (CD) users to complement Regional Strategy Notes (RSNs). For other countries, CSNs were not required but encouraged. The 2018 CD strategy review formalized the recommendation that CSNs would be required for all heavy CD users (IMF, 2018b), covering a three-year period. As each AD prepared CSNs in its own way, in January 2020 the Institute for Capacity Development (ICD) published guidelines to increase the consistency and accessibility of the CSNs. The stated objectives of CSNs are to facilitate (i) improved prioritization of CD delivery, by ensuring consistency with the priorities of surveillance and program engagement, as well as those of the authorities; and (ii) effective communication on CD in a specific country, e.g., in country documents and in communication with external stakeholders (IMF, 2020a). The CSN guidelines stress the importance of consultations with the authorities in developing CSNs to help ensure that CD is country driven and that CD country strategies reflect the priorities and needs of the member country. CSNs are internal documents, not published or shared with the Board (since sharing CSNs more widely would likely reduce their candor), but staff are encouraged to include a summary of the CSN in the country's Article IV reports (IMF, 2021b).

Country coverage. Most CSNs, but not all, are posted on ICD's internal webpage. IEO found that coverage of heavy CD users is patchy. During FY2018–2021, the African (AFR) and Middle East and Central Asia (MCD) Departments prepared CSNs for all heavy CD users (with the exception of one AFR heavy user in FY2021 whose CSN was no longer current and one MCD user in FY2018). The other ADs, however, did not prepare CSNs for all heavy CD users in their region (Figure 9). This does not necessarily mean that the respective country teams did not develop a CD strategy, but if they did, it was not in the format of a CSN.

Content. The 2020 guidelines require CSNs to provide: (i) country political context; (ii) a brief summary of engagement with the Fund; (iii) an assessment of previously provided Fund CD; (iv) staff's understanding of the authorities' priorities, based on consultation with the authorities and CDDs; (v) no more than five top CD priorities, with a discussion of what CD areas should be growing or shrinking in the medium term; and (vi) a discussion of the engagement strategy, reflecting the country's absorptive capacity, and including approaches for engaging with the authorities, coordinating within the Fund, and engaging with outside partners to avoid duplication. The CSN guidelines also stipulated that CSNs should be produced every three years, with annual updates as needed for CD heavy users, and that the documents should be concise. The CSN guidelines, however, do not prescribe a template or format. Our case studies and a desk review of CSNs found that:

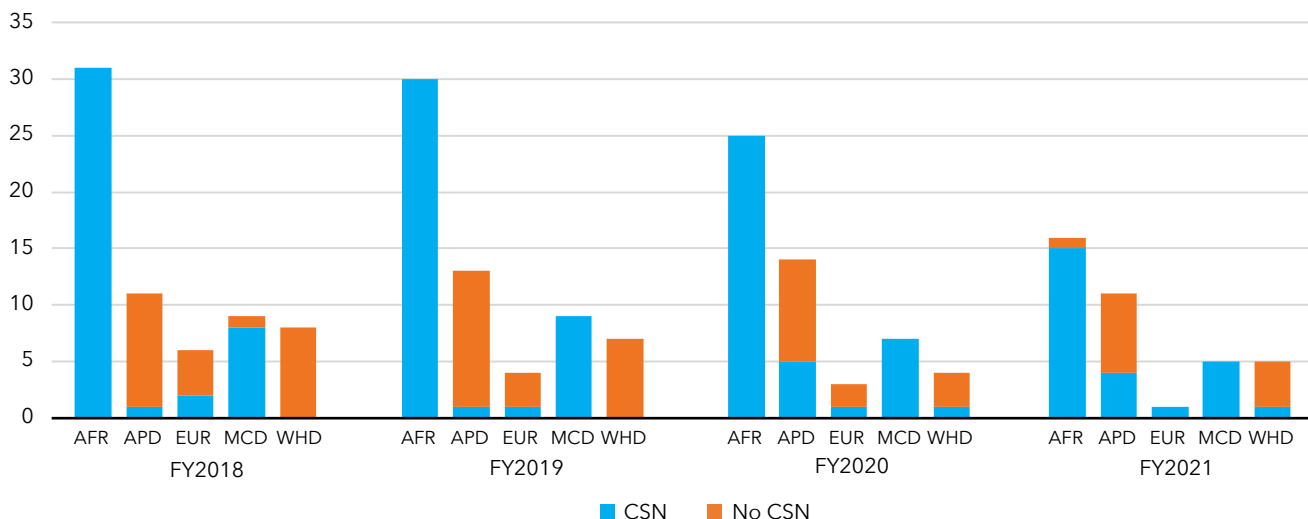
- ▶ The format, coverage, and quality of content of most CSNs prepared before the publication of the CSN guidelines in January 2020 varied widely, with the length ranging from one page to over 15 in some cases.
- ▶ CSNs prepared after the publication of the guidelines generally covered most of the required topics. But while we found examples of very comprehensive CSNs (e.g., the 2018 CSN prepared for Myanmar), none of the CSNs reviewed fully covered all of the content requirements.
- ▶ CSNs prepared by AFR generally followed a more structured and consistent approach, even before the CSN guidelines, than those of other ADs, and come closest to meeting the requirements in the CSN guidelines;
- ▶ Discussion of trade-offs (which CD areas should grow and which should be scaled back), was either partial or missing altogether.
- ▶ It is not clear how the different ADs, or CDDs for that matter, assess absorptive capacity and thus how it helps guide the resource allocation, as called for by IMF policy.
- ▶ Most CSNs also only assessed previously provided Fund CD in a short, qualitative way, without discussing e.g., RBM results.
- ▶ Our case studies and survey responses suggest lack of systematic engagement of authorities in the development of CSNs, and it is not always clear from the CSNs whether there were e.g., differences in views on CD priorities and needs between the authorities and staff.

The new FCS strategy calls for the development of a CES covering the different elements of Fund engagement, including CD, for individual FCS (IMF, 2022c). Initially, CSNs developed for FCS that are heavy users of CD are expected to feed into these CES. Over time, however, it is envisaged that CES for FCS would replace CSNs, as CES would provide a more holistic overview of Fund engagement and cover CD engagement.

Sources: De Lannoy (2022a); Towe (2022).

FIGURE 9. COVERAGE OF COUNTRY STRATEGY NOTES FOR HEAVY CAPACITY DEVELOPMENT USERS BY REGION, FY2018–2021

(Number of heavy CD users)



Sources: IMF; IEO staff calculations.

Note: Staff consider “heavy CD users” to be countries for which spending on CD was greater than US\$1.5 million in the applicable fiscal year (IMF, 2020a). Countries were considered to be covered when a CSN had been prepared within the preceding three years, as envisaged in the 2020 CSN guidelines.

This evaluation finds that allocations have struck a reasonable balance between country demands and IMF priorities.

- Evidence from our case studies and surveys clearly suggests that recipient authorities believe that IMF CD is generally well aligned with their needs and priorities. In our survey of CD recipient authorities, 90 percent of respondents agreed or strongly agreed that IMF CD was consistent with their institution’s priorities. Only 9 percent indicated that they agreed to Fund CD to maintain good relations with the IMF (compared to 22 percent of recipients who responded that way to the staff’s survey for the 2018 CD Review (IMF, 2018d)). Our case studies also generally found that CD was well aligned with recipient priorities. They identified only a few instances of CD being “supply driven,” such as IMF staff advocating for CD on advanced financial supervision or financial inclusion issues when the authorities felt further attention was needed to core financial supervision issues.

- At the same time, our analysis suggests that allocations are also reasonably well aligned with Fund strategic priorities, with two possible exceptions. First, the share of CD resources allocated to fragile states did not increase during the evaluation period, despite this being identified as an institutional priority (Figure 4 and Boxes 5 and 7). Second, there was concern among some EDs and MCD staff about the share of CD allocated to the MCD region in particular, and whether this adequately reflected country demands and needs (Box 7). In both cases, allocations have been affected by staff assessments of country demand and absorptive capacity; in particular, some CDD staff indicated in interviews that lower allocations to MCD were appropriate given levels of country commitment to CD. For FCS, the IMF recently adopted an enhanced approach to FCS work to support the priority to increase the FCS share of total CD resources (without having a specific target) (Box 5). For MCD, there has been some recent increase in CD, but it still falls short of what is needed in view of MCD staff.

BOX 7. EMPIRICAL ANALYSES OF CD ALLOCATIONS

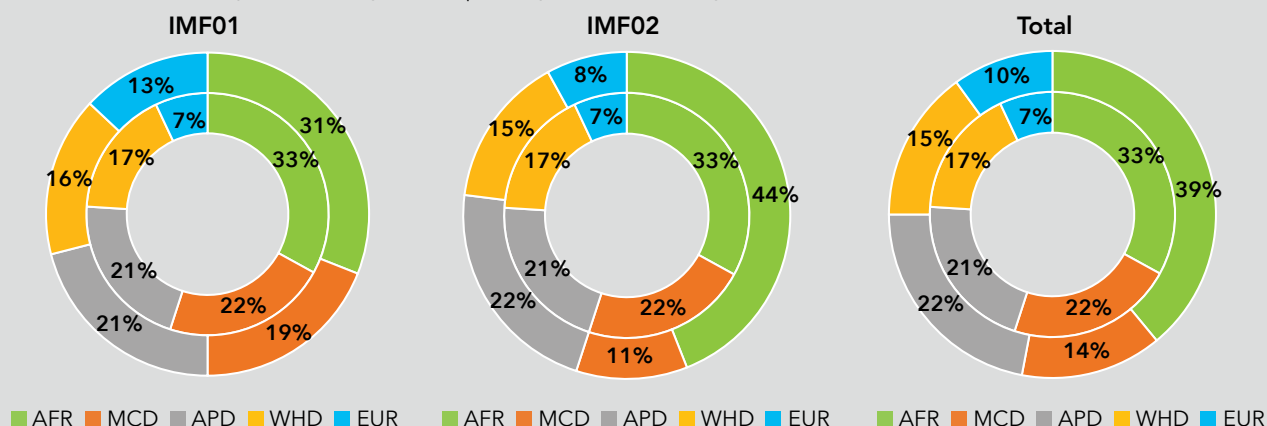
Towe (2022) includes a simple econometric exercise to examine the factors correlated with allocations of IMF CD. The analysis was based on an ordinary least squares (OLS) panel regression that relates the annual amount of CD delivered by the Fund to its members during 2007–2020 to variables that might proxy for the Fund’s stated priorities, which include supporting low-income countries, fragile states, and countries that have ongoing IMF lending programs.

Key findings include the following: (i) Larger countries, in terms of populations, tended to receive larger CD allocations, although the impact of size matters most for smaller countries and tends to be relatively modest for larger countries; (ii) allocations tended to be directed toward countries with lower per capita GDP and weaker levels of the World Bank’s Human Development Index (HDI); (iii) CD allocations appear to be directed to a greater degree to countries with IMF programs; the effect of programs is largest in programs that are longer lived and those that have structural conditionality attached; (iv) fragile and conflict-affected 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) found to be significant determinants of CD allocations; (v) allocations are significantly higher in the African and Asia and Pacific regions; Middle East and Central Asia allocations are significantly lower compared with the other two regions, even after taking account of the other drivers; (vi) countries covered by an RCDC tend to benefit from significantly higher levels of CD allocations; and (vii) compared with internally funded CD, donor-funded CD appears more responsive to country poverty/HDI and to the presence of IMF programs. There also seems to be a significant substitution from internally funded to donor-funded CD in the presence of an RCDC. 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 results in Towe (2022) generally accord with staff analysis of regional shares of CD allocations that was presented to the January 2021 CCB meeting (IMF, 2021e). This work looked at regional shares of Fund CD in FY2020 compared to benchmark shares based on country characteristics. Staff concluded that: (a) Fund-financed CD allocations (IMF01) were broadly aligned with the simulated regional shares, although the European Department (EUR) appeared to be over-resourced, while the African (AFR), Asia and Pacific (APD), Middle East and Central Asia (MCD), and—to a lesser extent—Western Hemisphere (WHD) Departments appeared somewhat under-resourced; (b) donor-financed CD allocations (IMF02) did not correspond to the simulated regional share weights, with AFR—significantly—and EUR—moderately—over-resourced, while MCD and—to a much lesser extent—APD and WHD appearing to be under-resourced; and (c) the lower-than-benchmark Fund-financed resources to AFR could be seen as reflecting large donor-driven allocations, but IMF-financed CD allocation (IMF01) resources that could have offset relatively low donor finance for CD in MCD (and to some extent WHD) instead appeared to go to EUR countries. Staff noted that these were indicative considerations and subject to important caveats; in particular, the weighting schemes did not take any account of countries’ actual CD demand and absorptive capacities, and did not reflect either traction or results and their impact on resource allocation.

SIMULATED SHARES AND FY2016–2020 DIRECT CD SPENDING

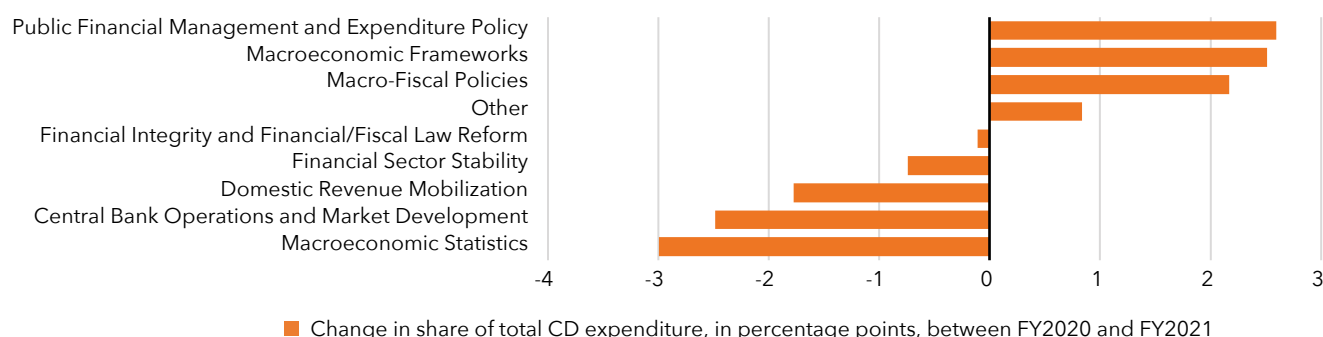
(Shares with modified weights, inner ring; actual spending shares, outer ring)



Source: IMF staff estimates.

Note: IMF01 = IMF-financed CD allocations; IMF02 = Donor-financed CD allocations.

FIGURE 10. CHANGE IN SHARE OF CAPACITY DEVELOPMENT WORKSTREAMS, FY2020–2021
(In percentage points)



Sources: IMF, ACES; IEO staff calculations.

Note: The change in share for each of the workstreams is defined as (FY2021 CD spend share) – (FY2020 CD spend share).

The Fund has shown itself to be flexible in reallocating resources in response to changing circumstances and priorities. The evaluation found many examples, prior to the pandemic, of the Fund effectively managing the potential rigidities associated with external funding. In response to the pandemic, the Fund has shifted the focus of CD topics appropriately (Figure 10). Provisions for adjusting allocations of resources between CCB meetings helped the IMF pivot to increase CD on topics relevant to immediate strains that authorities were experiencing, for instance related to risk management, cash and debt management, and fiscal rules.

These achievements notwithstanding, prioritization of CD could be enhanced across a number of dimensions.

First, balancing the different priorities relevant to allocating IMF CD resources continues to be a challenge for the IMF. During the evaluation period, there was initially a shift to increase the emphasis on alignment with the IMF's strategic priorities (IMF, 2013); subsequently, the 2018 review put renewed emphasis on country needs (IMF, 2018b). These and other imperatives—such as whether CD should be allocated where it is most likely to be effective, versus where CD needs are greatest, versus the need for even-handedness between IMF member countries—continue to be in tension.²³ Interviews and surveys for this evaluation found a broad spectrum of views among stakeholders about the relative weight to put on these

considerations, and there has not been an effective engagement with the Board to reach an institutional view.

While the increased role of ADs provides an important mechanism to facilitate country-centered prioritization and allocation, this approach needs to be implemented more consistently. CDMAP is designed to introduce more standardization and transparency to how ADs prioritize CD requests from member countries (see Box 3). But RSNs and CSNs could be more consistent and effective. RSNs generally set out priorities but contained little discussion of trade-offs across countries and topics. Coverage and content of CSNs is still patchy, even among heavy CD users (see Figure 9). Our case studies and survey responses suggest lack of systematic engagement of authorities in the development of CSNs (see Box 6). Further, it is not clear how the different ADs, or CDDs for that matter, assess absorptive capacity and thus how it helps guide the resource allocation, as called for by IMF policy.

Despite flexibility in adapting to changing circumstances, particularly in response to the COVID-19 crisis, there remain rigidities in the allocation of CD resources. Beyond supply constraints—CD experts are generally not fungible: a bank supervisor cannot suddenly switch to providing tax policy advice—inertia in interdepartmental budget allocations also constrained flexibility, including due to the tendency among both CDDs and ADs to protect their budgets. Some ADs expressed frustration in particular at the long-lasting excess demand relative to the Fund's

²³ See, for example, the discussion in Box 7 on allocations between regions.

expertise in areas such as tax policy, expenditure policy, pension reform, payments systems, and capital account measures. In the case of tax policy, new external funding helped facilitate a scaling up of Fund CD, but there were also examples of a lack of external funding and competition for internal funding impeding an agile response to CD needs.

The CCB has not fully lived up to its intended function in balancing considerations across departments and providing strategic direction for CD. Progress has been made by the CCB; for example, growth areas are more specific than previous old priorities, and there has been more discussion and analysis of information on outcomes. But IMF staff in CDDs and ADs alike acknowledged that the CCB has largely endorsed the aggregation of bottom-up resource allocations coming from CDDs, and focused on ensuring that budget targets were met, rather than applying a strategic focus to break down rigidities in allocations across other departments. In prioritizing new areas in which CD should be increased, the CCB has failed to identify which CD topics should be de-prioritized to make room for new mandates. Further, the CCB has not been as effective in promoting and disseminating RBM information and lessons from evaluations, or in using these to help sharpen CD allocations. Terms of reference for the CCB were established at its inception in 2006 but have not been revised since 2013 (see De Lannoy, 2022a).

Further, there is a lack of systematic connection between allocation and results. Our country case studies and

interviews indicate that track record seems to have played little role in allocations, while inertia and Fund preference to use CD to stay engaged have been relevant factors. There are two or three instances in our country case studies of CD being cut back or delayed in response to limited traction (prospective and retrospective).²⁴ But most case studies find little evidence of this. Rather, limited evidence of CD traction was superseded by considerations such as the desire of the AD to stay engaged and rebuild relationships (e.g., Indonesia); proactive engagement by the authorities (e.g., Cambodia); the RCDC *modus operandi* of multi-year work programs based on broad donors' and recipients' consensus in the case of Guatemala; and the Fund's strategic priority to use CD to engage with systemically important countries such as Nigeria or fragile states such as the Democratic Republic of the Congo even in the face of limited traction.

More generally, there is room to increase the strategic grounding of prioritization, by enhancing the connection to institutional objectives and priorities, as well as to information about effectiveness. First, CD priorities should be defined with clearer reference to how CD is expected to support the achievement of the Fund's broader strategic goals. Second, prioritization could be facilitated by development of an empirical/analytical framework for assessing the trade-offs between CD in different topic areas or country circumstances, as a number of other CD providers have done.²⁵

²⁴ Legg and Sembene (2022) reports instances when IMF CD delivered by HQ and short-term experts (STX) was purposefully scaled down when IMF staff felt that domestic ownership and the traction of CD recommendations was weakening, notably in the run-up to the February 2019 presidential elections. In Moldova, the volume of CD provided fell sharply in 2015 following major fraud in the banking sector (Everaert, 2022). Citrin and Legg (2022) note one example in the case of Cambodia in 2013 where TA engagement was at least temporarily wound down, in revenue administration, due to the authorities deciding not to follow IMF advice. Ter-Minassian (2022) notes that in the case of Guatemala, CD from HQ was scaled back, but not that from CAPTAC-DR, the RCDC based in Guatemala.

²⁵ For example, the UK aid agency and US Millennium Challenge Corporation (MCC, 2022); see Towe (2022).

DELIVERY²⁶

Fund CD continues to be widely regarded as being of excellent technical quality. Recipients and external funders continue to consider that IMF CD is the best among all providers, in most, if not all, of its core competency areas. Fund TA and training is sought even by high-capacity countries—an indication of its reputation and quality. While recipients in almost all cases receive CD free of charge and might therefore be expected to be very positive about it, donors choose how much funding to provide for IMF CD and therefore provide something of a market test for the perceived quality and value of IMF CD. The IMF's focus on areas within its expertise, its model of directly sourcing experts for CD delivery (whether staff or consultants, based at headquarters (HQ) or in the field), and its approach to quality control are clear assets in this respect.

CD was also generally well adapted to the needs, preferences, and circumstances of recipients, in terms of both design and delivery modalities. The country case studies found that CD was largely well tailored to country circumstances and institutional needs and preferences. The IMF also delivers a broadly balanced combination of tailored and nontailored training content (recognizing that not all training content requires tailoring). As a result, appreciation for TA and training overall is very high, as reflected in interviews with recipients for country case studies and surveys of country officials.²⁷

Our case studies find that the IMF is flexible in adapting CD implementation modalities to country circumstances. For example, in China, highly valued bespoke delivery mechanisms have been developed, in particular in FAD's longstanding CD partnership with the State Administration of Taxation (Citrin and Legg, 2022). In Somalia, Chopra (2022) notes that the offsite delivery model adopted in the face of security concerns required the IMF staff to improvise and adapt, with many missions conducted in third countries, to provide continuity to CD engagement and support various program arrangements. In Liberia,

CDDs shifted to virtual modes of delivery during the Ebola epidemic of 2013–2016 (Legg and Sembene, 2022).

RCDCs have played an increasingly important role and are highly regarded by their member countries. They have been instrumental in enabling more tailored and flexible CD delivery, more continuous and extensive engagement with authorities and other stakeholders in RCDC member countries, and a shift toward more long-term experts (LTXs) working regionally. In Nigeria, for example, following the withdrawal of a request for an RA to work on monetary operations, the task of keeping the door open was taken up by the RCDC, involving a mix of regionally focused training courses and workshops, occasional diagnostic/stocktaking missions (Legg and Sembene, 2022). The recent IEO evaluation of IMF Engagement with Small Developing States (IEO, 2022) found that RCDCs have been a key driver of success in IMF CD in small developing states. Basing LTXs in RCDCs helped bring management and cost efficiencies and also helped address concerns about RAs substituting rather than building capacity. Nonetheless, RAs in some cases are preferred to RCDC-based support by recipients and donors and continue to be deployed, for instance in many FCS where close and continuous contact is particularly important (see Box 5).

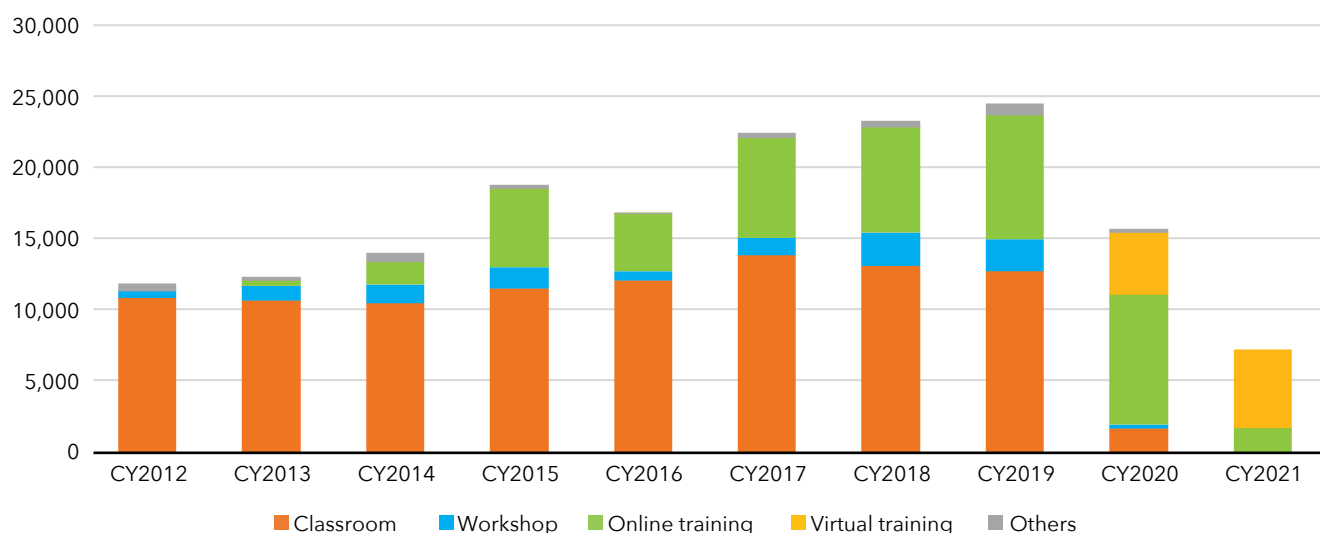
More generally, the extension, modernization, and increased integration of delivery modalities was widely appreciated. Several of our country case studies find that training has been integrated effectively with TA.²⁸ Notably, the Fund has successfully used advances in information and communication technology to broaden its range of training modalities, to deliver much expanded online training (Figure 11), and to rapidly expand virtual CD delivery following the onset of the pandemic, where staff quickly identified and shared good practices. Recipients and donors alike appreciated the IMF's efforts to adapt quickly and maintain CD engagement during the pandemic, even as they expressed concerns about the downsides of

²⁶ This section draws mainly on Enoch (2022).

²⁷ Also see the section in this chapter on Funding, and Lamdany (2022).

²⁸ In particular, Nigeria and Uganda (Legg and Sembene, 2022), Georgia, Saudi Arabia, and Somalia (Chopra, 2022), and Cambodia (Citrin and Legg, 2022).

FIGURE 11. TRAINING PARTICIPANT WEEKS BY MODALITIES, 2012–2021
(In participant weeks)



Sources: IMF, Participant and Applicant Tracking System (PATS) data; IEO staff calculations.

Note: Data for CY2021 cover the period January 1 until June 30. Online training is defined as asynchronous web-based courses that can be taken independently, while virtual training refers to synchronous web-based training in which the trainer and participants are present at the same time (e.g., live webinars).

virtual engagement (Box 8).²⁹ Staff have begun identifying the lessons from the pandemic for the future delivery of CD. The emerging consensus is that remote CD provides several important benefits, mostly in the form of complementing traditional CD delivery, but it cannot substitute for in-country and face-to-face interactions (IMF, 2022d).

The Fund has also significantly improved its focus on implementation and follow-up. During the evaluation period, the increased use of medium-term oriented, programmatic CD was underpinned by increased use of

diagnostic frameworks, in part as a result of encouragement from external donors. The steady extension of the RBM approach and implementation of CDMAP has helped the Fund to better plan for implementation activities and to identify when and where follow-up is required. The growth of RCDCs has also enhanced the Fund's capacity to identify and act on the need for follow-up, by improving the quality of relationships with recipient authorities and awareness of progress and conditions on the ground. A good example is RCDC support for more consistent CD follow-up in Georgia, reducing the burden on the AD (Chopra, 2022).

²⁹ Almost all (83 percent) of CD recipients who responded to the IEO survey said that CD had been adapted adequately to the pandemic; only 3 percent said it had been poorly adapted. Of those who felt the IMF had responded adequately, around 40 percent said CD delivery should return to the way it was prior to the pandemic while 60 percent felt that some of the adaptations should be retained after the pandemic (Pedraglio and Stedman, 2022).

BOX 8. CD DELIVERY AND THE COVID-19 PANDEMIC

The IMF responded remarkably swiftly to the sudden changes to CD delivery modalities required by the COVID-19 pandemic. Delivery of CD (and the Fund's other engagement with countries) moved to almost exclusively virtual formats very quickly as mission travel was strictly curtailed. Broad country coverage was maintained and the volume of activity fell only marginally in FY2021 compared to FY2020. During FY2021, CD was delivered to 160 IMF member countries; all 83 countries receiving emergency financing also received CD support. The relative strengths of Regional Capacity Development Centers (RCDCs) in delivery and coordination were appropriately utilized. They introduced new activities, such as delivery of COVID policy notes through regional webinars, and utilized or developed communities of practice, including with other RCDCs, to align priorities and key messages.

Our case studies suggest that CD delivery was adapted to COVID-19 about as well as it could have been, and indeed identified some advantages of virtual delivery:

- ▶ Virtual working enabled more flexibility. Staff or experts whom it might not have been worthwhile to bring along for an entire in-person mission could be included in particular meetings. On the recipients' side, senior staff could be brought into key meetings, so providing early endorsement or questioning of a mission's proposals and showing commitment to proposed actions to their technical staff. In some cases, the authorities noted that remote delivery heightened focus and allowed CD interventions to be reframed around specific questions rather than as part of broad mission-based projects, which would have strained authorities' capacity.
- ▶ Virtual working also helped the integration of RCDC staff and long-term experts (LTXs) with capacity development department (CDD) and area department (AD) counterparts at headquarters (HQ). This benefited the RCDC staff through acquiring a deeper understanding of HQ's needs and priorities and brought the HQ staff added insights from the RCDC staff's country knowledge.
- ▶ IMF staff and some country officials recognized that the pandemic had increased cost-effectiveness of some aspects of CD delivery: expert advice had been mobilized in an inexpensive manner and more quickly to address issues as they arose, thanks to the elimination of the time and costs of travel.
- ▶ Greater use of virtual communication meant that a richer mix of participants could be brought together. LTXs were on occasion able to convey their advice and expertise to audiences of up to 250 people.

But our case studies also confirmed some *major challenges and constraints with virtual delivery*:

- ▶ Adaptation to virtual delivery was, unsurprisingly, more challenging in fragile states and low-income countries, where connectivity was less reliable.
- ▶ The pandemic made some aspects of CD more difficult, if not infeasible. Some case studies found that the effectiveness of LTXs was significantly reduced as highly valuable informal contacts ceased and counterparts became reluctant to convey critical confidential information remotely.
- ▶ Working across big time-zone differences, especially over longer periods, put particular strain on IMF CD experts. Many staff found that CD missions took longer than usual, and difficulties fully divesting from their "day jobs" while they were still physically working in the DC area meant that many became exhausted.
- ▶ IMF staff and other CD providers noted that virtual missions made it harder to fully engage some of their authority counterparts (compounded by the pressures related to the pandemic), resulting in delays during and between meetings.
- ▶ There was widespread consensus among all providers and authorities that starting up new projects had proven to be difficult. Virtual delivery presented challenges to developing new relationships between Fund CD experts and their counterparts.
- ▶ Highly customized training could not be delivered as well as in a remote setting. For example, Bank of Indonesia officials felt that workshops involving sophisticated model simulations needed to be held in Jakarta to be effective.

Source: IEO.

While the overall message on quality and delivery is very positive, there is room for improvement in several respects.

First, related to the experience with delivery, there are a few issues with tailoring, technical quality, and delivery modalities. Many recipients indicated that they would still like more tailoring of CD design.³⁰ There is scope for the Fund to engage more systematically with recipient countries in the design and monitoring of CD delivery, including by engaging them in the RBM process, and routinely sharing terms of references, in line with other CD providers. This could help to enhance CD ownership on the part of recipients. Regarding technical quality, we identified some issues that need attention, such as quality assurance in new priority areas of CD, and ensuring that backstoppers, who fulfill an important quality control function, continue to be recognized and receive sufficient resources, while still striking the right balance between best practice and fit-for-purpose TA. CDDs commented that the choice of delivery modality for some CD areas—in particular LTX support and whether that is based in the country or provided via the RCDC—depends on the availability of financing as much as technical appropriateness. Internal IMF CD resources are intended to fill any gaps in external funding but in practice they are stretched, sometimes limiting use of the most effective but more expensive delivery modality.

Progress in integrating CD delivery with surveillance has been uneven across and within ADs. Some case studies concluded that better AD engagement on CD had helped deepen the granularity and relevance of Fund advice on economic policies and institutional reforms in surveillance, and also helped improved the design and support the implementation of program conditionality. But practice varied among ADs. In particular, AFR and APD have taken more structured approaches (albeit from different starting points) that other ADs could learn from. IMF staff's own assessment of progress and identification of remaining issues in integration of CD and surveillance in interviews with the evaluation was admirably candid—particularly in pointing to resource pressures on AD teams and behavioral inertia on the part of some AD mission chiefs, and the

scope for greater attention to CD priorities and strategy in SPR review of surveillance/program documents of heavy users of CD.³¹

There are particular challenges to integrating CD and IMF lending programs that need further consideration and guidance. The recent IEO Evaluation of Growth and Adjustment in IMF Programs (IEO, 2021) found that CD was not associated with more successful implementation of structural conditionality, raising concerns about how effectively CD is integrated with program implementation and monitoring. Our case studies suggest that the integration of CD delivery with AD-led program work has generally been a focus of attention and was especially effective where country ownership of the program was strong. But in some countries program-driven timetables put undue pressure on CD reforms and overstretched implementation capacity, leading to either missed structural benchmarks or reversals once programs ended—see, for example, the studies of Moldova and Ukraine in Everaert (2022), and Sri Lanka (Citrin and Legg, 2022). With Sri Lanka, the problem seems to have been related to insufficient involvement of CDD staff when the program was agreed, rather than poor design of the CD itself. The Moldova and Senegal case studies (Everaert, 2022; and Legg and Sembene, 2022, respectively) found that programs undermined recipient ownership of CD and compromised the role of CD experts as trusted advisors. Given this, the 2021 Operational Guidelines for Integrating Capacity Development with Surveillance and Lending could have provided more practical guidance on the particular challenges for integrating CD and programs.

It is not clear whether the Fund has found the optimal balance between follow-up support and encouraging recipients to take full responsibility for implementation. Recipient country views were mixed about the adequacy of follow-up: survey responses indicate a high level of satisfaction with follow-up, but in many of our country case studies the authorities clearly indicated a desire for more. On the other hand, staff were concerned that extensive follow-up and implementation support, for example, by deploying a full-time expert, could reduce incentives for

³⁰ See, in particular, the case studies of Georgia and Saudi Arabia (Chopra, 2022), Liberia (Legg and Sembene, 2022), Indonesia (Citrin and Legg, 2022), and Ukraine (Everaert, 2022).

³¹ In mid-2020, IMF staff conducted an internal review of experience with a structured exercise that aimed to learn from and mainstream emerging good practice on integration between CD and surveillance, as a follow-up to the 2018 CD review.

the country to develop the needed capabilities. Steering the right path between support and encouraging autonomy is difficult and will always require the application of professional judgement in particular cases, but it is also a strategic choice for the Fund's approach to CD and would benefit from more systematic analysis.

The role of RCDCs is highly valued but also faces some challenges. These centers and the CD they deliver were widely appreciated not just by recipients but also by donors. RCDCs can facilitate, *inter alia*, greater appreciation of local circumstances and needs, greater continuity of interaction, and regional synergies, including peer-to-peer (PTP) learning. Further, the increasing footprint of RCDCs has fundamentally changed how the Fund conducts its CD, by bringing recipients into a governance role and providing a platform for recipients and donors to work actively together to develop work programs well-tailored to country needs. But RCDCs have developed opportunistically and faced inconsistencies in financing, leading to uneven geographical coverage, some distortions to allocations (see the section in this chapter on Funding), and uneven follow-up to initial CD delivery.³² Some external funders of RCDCs raised concerns about financing "core" CD operational expenditure rather than specific CD initiatives, with the risk that they might reduce funding for RCDCs as a result. In interviews, most staff felt that the three-way relationships between RCDCs, ADs, and CDDs have generally worked well but with some strains and there would be merit in looking again at RCDC governance structures to clarify responsibilities and appropriate lines of communication among the different actors.

Delivery can also be enhanced by further integration of TA and training. The move to integrate TA and training since the 2013 CD Review has been an important and

largely successful innovation, but its implementation has not been sufficiently ambitious. Not all departments nor RCDCs provide training and TA in an integrated way. The fact that training is largely provided through separate and not geographically coincident RCDCs makes it difficult for them to fully integrate TA and training programs.

Delivery would also benefit from generating and using better evidence on the relative cost-effectiveness of different modalities, and more systematic identification and dissemination of best practice. As discussed in the section in this chapter on Effectiveness, Impact, and Costs, the IMF has not systematically analyzed the relative cost-effectiveness of different delivery modalities, such as the deployment of LTXs, and how this depends on various contextual factors. With the roll-out of CDMAP, consistent data on the modalities used in each CD project should become available that can subsequently be used to complement anecdotal evidence and tacit knowledge in CDDs on the relative effectiveness of different modalities in different circumstances. We also identified areas of good practice, for example, relating to PTP learning in the cases of Liberia³³ and Senegal,³⁴ which could be disseminated more systematically, but responsibility and mechanisms for such dissemination within HQ are not clearly established.

An enhanced understanding of the pros and cons of remote delivery should inform a wider strategic review of the Fund's CD delivery model. It is a welcome development to see that CDDs have begun to identify the lessons from the pandemic to inform the best combinations of remote and in-person delivery, in order to build on the potential benefits in terms of flexibility, coordination and cost-efficiency of remote delivery while recognizing the high value of in-person engagement.³⁵ Ongoing review of the delivery model would also benefit from more systematic

³² For example, Ter-Minassian (2022) notes that lack of coverage by an RCDC may have contributed to lack of systematic follow-up to CD provided to Brazil and Peru.

³³ Professional attachments, involving short-term visits by officials from peer countries, played a significant role in CD delivery in Liberia; this delivery mode was viewed by staff and the authorities as being better value for money than regional workshops, the other main PTP modality (Legg and Sembene, 2022).

³⁴ In Senegal, PTP learning was methodically used by staff, including by FAD and STA, and the FY2017 CSN recommended that back-to-office reports include an analysis on key obstacles to reform, which would lay the foundation for mobilizing peer support to help address political economy constraints (Legg and Sembene, 2022).

³⁵ For example, De Lannoy (2022b) notes that a consensus has emerged among country officials, IMF staff, and other training providers, that in-person training is the preferred modality for more advanced, specialized, and/or customized or tailored topics, in low-capacity situations (e.g., fragile states) where adaptability and real-time support can be key for success, and for PTP learning.

gathering and analysis of data on the cost-effectiveness of different delivery modalities and on the trade-off between breadth and depth in CD delivery. Staff are aware of these downsides of remote CD delivery, as well as the potential benefits in terms of flexibility, coordination, and cost-efficiency.

WORKING WITH PARTNERS³⁶

Partnerships

The IMF recognizes that working effectively with partners has important benefits for CD. The 2019 statement on CD Policies and Practices emphasizes that thematic partnerships and country coordination can help broaden the scope of CD a country receives into areas that complement the Fund's core CD areas; improve the quality and effectiveness of IMF CD, by complementing Fund expertise and advice with other skills that may be vital to CD success, such as leadership and change management skills; and enhance efficiency and sustained impact (IMF, 2019c). This statement also notes that coordination and communication can enable donors to IMF CD and other CD providers to integrate the results of IMF CD with their own programming and resource allocation more directly, to the benefit of recipients.

There are three main ways in which the IMF works with partners on CD: financial partnerships through which donors contribute to the IMF to scale up its CD work (also discussed in the section in this chapter on Funding); country-focused coordination, from HQ, RCDCs, or in-country; and joint thematic (cross-country) work that leverages the expertise of other CD providers with complementary skills.

External funding partnerships have facilitated and encouraged significant improvements in the Fund's CD model, in addition to enabling the expansion of CD. As discussed above, RCDCs have brought about a fundamental change in the nature of how the Fund conducts its

CD, by bringing recipients into oversight arrangements, by working actively with both recipients and donors to develop work programs, and by enhancing tailored CD design, implementation, and follow-up. Donors were also strong advocates of the Fund adopting RBM and a more programmatic approach generally. This has helped make Fund CD more results-orientated, brought more focus on implementation and follow-up, and instilled more rigor and consistency in CD management.

In-country coordination of CD activities with partners was good in some cases but uneven, reflecting inconsistent emphasis, guidance, and support by managers. There were several cases of strong in-country coordination, in which the AD mission chief, RCDC, and/or AD resident representative made coordination a priority.³⁷ However, in many cases, in-country coordination was limited to basic information sharing and avoiding duplication of activities, and was rarely strategic or more deeply collaborative.³⁸ Part of the reason for the inconsistent experience seems to be that practical guidance for AD staff is lacking and there is little sign of senior management focusing on this issue. In particular, we found few cases of the Fund actively encouraging and supporting the authorities in leading and coordinating CD efforts among providers, and little or no guidance on how to do this. At the strategic level, it suggests the Fund needs to clarify its approach on when, where, and how the Fund will coordinate country-focused CD.

Collaboration with partners and other providers to leverage the knowledge of other institutions on topics where the Fund may not have expertise has been strong in some areas, but in other areas is still developing. There were clear successes in creating and applying shared diagnostic tools and databases linked to the Fund's core CD topics, in particular in tax administration and PFM. In CD topics outside the Fund's core or traditional expertise, such as climate change, approaches to collaboration are still developing (see IEO, 2020; IMF, 2021f). Otherwise, as the IEO's evaluation of Bank-Fund collaboration points out, the goals of formalized arrangements have usually been limited to exchanging information and avoiding duplication. The

³⁶ This section draws on Radelet (2022).

³⁷ See in particular the case studies of Georgia and Somalia (Chopra, 2022), Sri Lanka (Citrin and Legg, 2022), and Ukraine (Everaert, 2022).

³⁸ For example, Legg and Sembene (2022) note that in Nigeria and Uganda, CD partners expressed concerns that information sharing by the Fund is not always adequate.

Fund needs to decide strategically with whom, when, and how it wants to prioritize its efforts to enhance collaboration on these topics.

Publication and Dissemination

The IMF achieved some success in enhancing the dissemination of useful material related to lesson from its CD work and the availability of CD information available to partners. Publication of 88 COVID Notes in 2020 was a major achievement and contribution to sharing best practices in a time of crisis (Table 1). In addition, the new Partners Connect interface with donors has helped provide financial partners more information and data on the CD efforts to which they contribute.

However, progress on management's long-standing stated aim to shift the balance toward more dissemination of CD during the evaluation period was modest. Staff estimate that published TA reports represented around 7 percent of reports that were uploaded in the Fund's Institutional Repository during 2018–2020; the actual publication rate is probably lower, since (according to our interviews) not all TA reports that should be placed to the repository actually

are deposited. By comparison, staff reports for AIV consultations or the use of Fund resources have a publication rate of around 96 percent (IMF, 2022a). For our 19 country studies, we identified all TA reports produced over the period 2012–2020 and found that the proportion of those published ranged between zero and 21 percent, with an average across all 19 countries of 5.4 percent.³⁹

Moreover, coverage of CD issues in AIV and program documents was highly variable but generally not substantive, even for major CD recipient countries (Figure 12). Thus, such documents did not help address the gap in information.

The limited progress reflected inherent constraints within the IMF's past policies on dissemination and publication as well as some broader issues. IMF policies encourage publication but require consent from the CD recipient agency in an effort to balance the benefits of dissemination with the IMF's obligations to manage confidentiality concerns. As a matter of IMF policy, obtaining consent from the

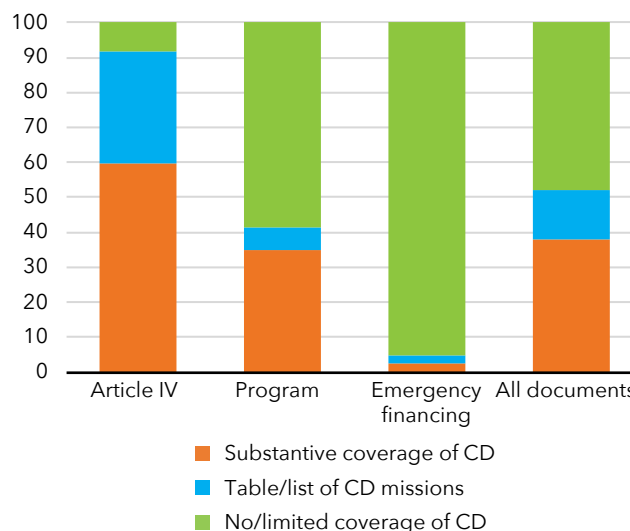
TABLE 1. NUMBER OF SELECTED MATERIALS PUBLISHED

CAPACITY DEVELOPMENT MATERIALS	2016	2017	2018	2019	2020
TA reports	22	37	61	65	61
How-To notes	5	2	4	4	3
Technical notes and manuals	6	9	4	4	2
COVID Notes	-	-	-	-	88
Staff Reports					
Article IV	125	126	120	128	45
Selected Issues papers	84	92	81	70	25
FSAP technical notes	41	48	25	38	49
Other staff reports	122	106	93	100	145

Source: IEO staff calculations.

FIGURE 12. COVERAGE OF CAPACITY DEVELOPMENT IN COUNTRY DOCUMENTS FOR HEAVY CD USERS, BY DOCUMENT TYPE, 2018–2021

(In percent of total document type)



Sources: IEO staff analysis of country documents for the 50 largest CD users in FY2019. See De Lannoy (2022a) for further details.

³⁹ Lack of publication does not rule out dissemination of CD outputs to partners and interested official partners, but data on dissemination is not available.

authorities requires explicit agreement; for both IMF staff and authorities, it is easier to not publish, especially if they do not see clear benefits in publication. In addition, some departments do not think the investment of time in bringing TA reports up to the IMF's high standard for publication is a good use of scarce resources. IMF staff continue to be concerned that the possibility of publication might reduce the candor of advice and recommendations as well as threaten confidentiality. It is, however, worth noting that similar arguments were raised when the IMF began to publish AIV and program documents and were ultimately seen to have limited merit.

This evaluation found conflicting views on the adequacy of the Fund's dissemination of CD reports and publication of CD information more broadly. Survey responses suggest CD recipients (and donors, though substantively less so) believed the IMF has sufficiently disseminated knowledge and information from its CD activities across the membership in general.⁴⁰ However, donors in interviews expressed frustration that, while there had been some improvement, they were still not receiving all of the TA reports that should have been made available to them. The IEO's evaluation of Bank-Fund collaboration also found that "(t)he Bank's ability to work with the Fund is in turn constrained by Fund staff's caution in sharing working documents and some TA reports. In the survey of Bank staff, over 60 percent of respondents indicated that the IMF never or rarely shared key country documents" (IEO, 2020).

The new policy and guidance introduced in FY2022 are intended to better balance the costs and benefits of greater dissemination of CD reports and knowledge (IMF, 2022a). The changes include broadening the scope of the policy to include training material and other forms of CD output in addition to TA advice; moving toward the default publication of high-level summaries of certain "strategic" final CD outputs on a 20-day nonobjection basis; simplifying the publication process for final CD outputs by eliminating post-transmittal corrections and deletions; and

reducing the timeline for nonobjection for disseminating TA reports and other CD information to financing partners and the Board from 60 to 30 days (IMF, 2022a). However, it is obviously too early to assess how much practical impact these reforms will have on dissemination and what resources are needed and available to implement them.

MONITORING AND EVALUATION⁴¹

The IMF's monitoring and evaluation (M&E) system was considerably extended and enhanced during the evaluation period. The system is now composed of the following key elements: an RBM framework embedded within a new monitoring and management tool (CDMAP) to plan and monitor the inputs, outputs, and outcomes of CD (see Box 3); final project assessment reports prepared by the CDD project teams; evaluations of externally funded CD (primarily at the level of RCDCs and Trust Funds) as mandated by donors and conducted by external consultants; and self-evaluations by CDDs of selected CD topics and workstreams. Training activities are also subjected to a variety of evaluations and assessments. Five-yearly reviews of CD, as discussed with the Board in 2013 and 2018, provide an opportunity to reflect on the evidence provided by RBM, evaluation and stakeholder interviews, and on the M&E system itself.⁴²

Implementation of the RBM framework has been slow but has yielded some important benefits, which should increase as the coverage of RBM data becomes more complete. The importance of a greater focus on results in TA was recognized in a staff review of TA as far back as in 2002. In 2013 staff introduced a comprehensive RBM framework, including catalogues of standardized outcomes and objectives; and externally funded CD projects were required to comply with the RBM approach. The Fund's RBM system was designed for and is fully devoted to CD; this is different from most other international financial institutions where RBM systems were designed for lending projects and

⁴⁰ Among CD recipients, the share of responses agreeing or strongly agreeing was 91 percent. The share of donors agreeing and strongly agreeing was significantly lower, around 60 percent.

⁴¹ This section draws on Lamdany (2022).

⁴² In addition, the IMF also seeks feedback on the relevance and quality of CD from beneficiaries and donors during the Spring and Annual Meetings, as part of its regular dialogue, and in the context of the steering committees of regional centers; it also conducts surveys of beneficiaries.

programs and then adapted for CD within those vehicles.⁴³ In 2017, the RBM system became mandatory for all CD activities. As of end-2020, almost all (95 percent) of the 175 CD projects completed and 392 CD projects under implementation from 2013–2020 had defined milestones and outcomes, a significant improvement since the 2018 Review. Compliance with rating outcomes has been uneven but is improving, with 71 percent of completed projects (started between 2013 and 2019) having all their outcomes rated as of end2020 (Table 2). More broadly, the roll-out of RBM has fostered more-results-oriented CD, supported the shift to a more programmatic approach to design and implementation of CD projects, and improved reporting to donors, and is enabling analysis to learn how to further enhance CD strategy, design, and delivery. Provided that reporting compliance is made more consistent and that CDMAP reaches full functionality (as discussed further below), RBM should contribute to better aligning resources and administrative processes with intended results as a more complete data base on past results is accumulated.

The IMF has also introduced important improvements in its approach to ex post evaluation of CD. The adoption of a common evaluation framework (CEF) consistent with OECD standards in 2017 (IMF, 2017) encouraged more consistency and coherence in external and internal evaluations. Updates to this Framework in 2020 (IMF, 2020b)

drew on lessons from experience since its adoption and emphasized a simplified approach to evaluations to enhance focus and usability, and provided more guidance on evaluation methods, approach, and process. This process showed the determination of ICD to address uneven progress in compliance with the 2017 CEF and to emphasize learning over accountability. Following the CEF, the methods and presentation of self-evaluations undertaken by CDDs have improved, and donor-mandated evaluations are becoming more standardized and easier to read. CDDs have also recently prepared medium-term evaluation work programs, under direction from the CCB. Further, the project assessment reports undertaken on completion of each project were in general succinct, focused, and with clear lessons.

Multi-country training is evaluated using an appropriately modified version of the standard approach, with enhancements ongoing with respect to tailored country-specific training. Participants in multi-country training, along with their sponsoring agencies and employers, complete surveys to assess quality and relevance, and pre- and post-training tests are conducted to assess effectiveness, in line with best practices used by other comparable trainers. As part of the integration of training with TA, there has been a move toward integrating tailored training into country and

TABLE 2. NUMBER OF PROJECTS IN THE RESULTS-BASED MANAGEMENT DATABASE, AS OF END-2020

START YEAR	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
Cancelled				2	3	3	2		10
Completed	11	26	10	25	68	29	6		175
Under implementation		3	15	26	174	85	62	27	392
Total	11	29	25	53	245	117	70	27	577
Percentage of completed projects with all:									
Objectives rated:			50	33	36	32	22	16	23
Outcomes rated			50	33	43	80	80	72	71
Milestones rated			50	11	29	84	85	71	71

Source: IMF, CDPORT database.

Note: In 2017, the RBM system became mandatory for all CD activities. Ongoing projects started since 2013 were then retrofitted into the RBM system, which explains the jump in the number of projects.

⁴³ See Lamdany (2022).

regional-based TA projects, which should lead to training that is more results oriented.

The five-yearly reviews of CD strategy have included elements of self-evaluation of Fund performance at an institutional level and have facilitated lesson learning. The two most recent reviews, in 2013 and 2018, conducted extensive consultations with recipients, partners, and donors on the quality and utilization of CD products. These reviews provided the opportunity to examine the overall CD program with some time perspective and pointed at enduring weaknesses in the system, such as the implementation of RBM and the need for uniform standards of evaluation.

While these are important positive developments, there remains considerable room for improvement in the Fund's M&E system, including greater consistency in implementation and fuller utilization of RBM, further improvements to CDMAP, and a more thorough strategic approach to evaluation.

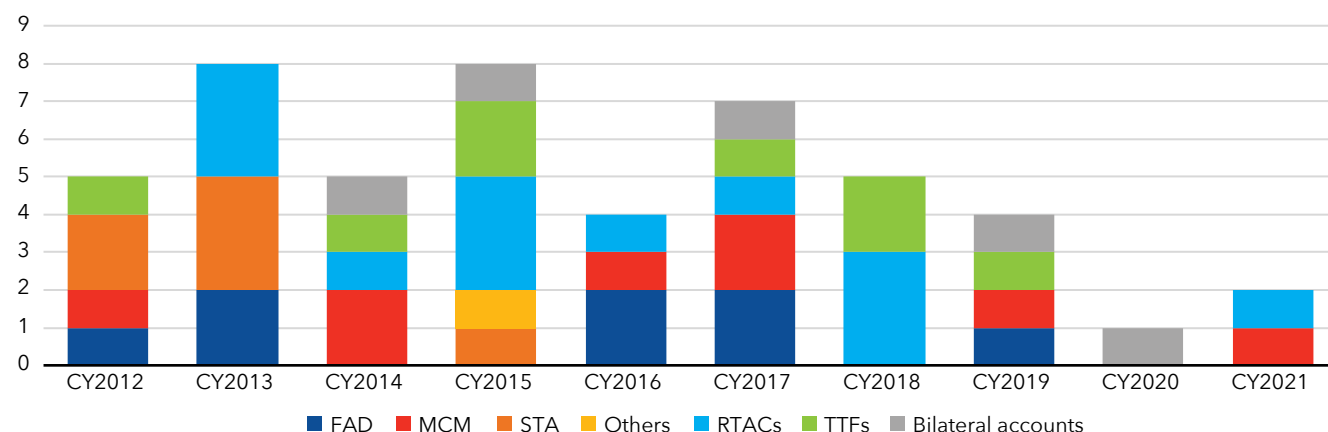
Regarding the application of RBM, our interviews with recipient authorities and IMF staff indicated that the authorities are not consistently consulted on the design of CD activities or the setting and rating of outcome indicators and milestones, despite the importance of these practices to ensuring sufficient tailoring and enhancing ownership. Moreover, compliance with the RBM framework

requirement to assess risks for each project at its outset has been limited, so that it is not yet possible to systematically analyze the relationships between ex ante risk assessments and CD prioritization, management, and results, nor to use this information to underpin more informed assessments of the achievements of CD at portfolio, country, and IMF-wide levels. There also needs to be greater consideration on how RBM data will be used in prioritization decisions and in project design.

User experience of CDMAP remains challenging. The Fund seems to have learned lessons from its experience with CD PORT and put in place a robust change management program to increase the chances that inertia is overcome and all staff working on CD engage fully with CDMAP. But while CDMAP users acknowledged these efforts, we also heard strong views from many staff that the still-heavy data demands of CDMAP and glitches in functionality have made switching to the new system difficult and its use burdensome. IEO did not attempt a detailed assessment of the validity of these views but they suggest the need for a full and independent review of CDMAP, for example, as part of the 2023 CD Strategy Review.

While individual evaluations by the CDDs can be of good quality, the overall benefits of evaluations are not fully realized. The extent and number of topical evaluations has varied widely across the CDDs, and the total number of such evaluations has dipped considerably in

FIGURE 13. NUMBER OF CAPACITY DEVELOPMENT INTERNAL AND EXTERNAL EVALUATIONS, 2012–2021
(Number of evaluations)



Source: IEO staff calculations.

Note: Internal evaluations: FAD, MCM, STA, and other CD departments; external evaluations: RTACs, Thematic Trust Funds (TTFs), and bilateral accounts.

recent years, particularly in the face of resource pressures during the pandemic (Figure 13). The CCB has played a role in bringing together these plans, but up to now does not seem to have developed an overall strategic approach to guide CDDs in preparing their individual evaluation plans. Meanwhile, external evaluations have still tended to be more focused on process and compliance with donor requirements than broader lessons. Over both types of evaluations, the extent of dissemination and learning from the evaluation results seems to be quite limited, with little progress to date in using findings and lessons from M&E in undertaking CD prioritization, the design of activities, and the choice of delivery modalities.

Further, there are still gaps in the M&E system. There are no standards or processes to assess longer-term CD results at the country level in the context of the Fund's overall engagement with a member country, and no measurement of progress against CD objectives at the level of organizations in recipient countries. There is also no framework for assessing the IMF-wide synergies between CD and surveillance and lending.

A more unified evaluation strategy could bring greater focus to the selection of topics for evaluation, and how evaluations and project assessments are to be used in the prioritization and design of future CD. Given that very few CDD self-evaluations are produced, it is important that CDDs be strategic in topic selection, and that lessons be disseminated widely. There is also room for externally mandated evaluation of RCDCs and trust funds to become easier to read and focused on issues of wider applicability. Project assessment reports could be put to greater use as building blocks for higher level evaluations and would also bring greater value if they included lessons learned with broad applicability and comments from the relevant authorities.

The outputs from such an evaluation strategy could be combined with other evidence to inform a broader

research agenda to understand which CD topical areas, or types of CD interventions, are most impactful in terms of strengthening institutions. This gap was highlighted by a staff background note for the 2013 CD Strategy, and contrasts with the significant empirical work by Fund staff to demonstrate the importance of institutions for growth. Staff have begun to analyze RBM data to examine the correlates of project outcome ratings (Bassanetti, 2021) and correlations between CD and tax revenues using cross-country, time-series data (Chami, Darkey and Williams, 2021) but these are isolated examples. The approach of the US Millennium Challenge Corporation to synthesizing and communicating evidence on effectiveness and impact provides a model for the Fund to consider (MCC, 2022).

EFFECTIVENESS, IMPACT, AND COSTS⁴⁴

This section first presents and assesses evidence on the effectiveness and impact of IMF CD from across the evaluation. “Effectiveness” refers to the extent that CD projects achieve their intended outcomes and objectives, as set out in the RBM logframe, whereas “impact” refers to broader and longer-term results, relating to the extent to which CD has enhanced institutional capacity and macroeconomic performance.⁴⁵ The section then discusses the available evidence on the costs of IMF CD, using some simple indicators of cost-efficiency and cost-effectiveness.

Effectiveness and Impact of IMF CD

As discussed above, assessments of the effectiveness and impact of IMF CD—by recipients, donors, and the membership more generally—continue to be very positive, in absolute and relative terms. In the IEO survey for this evaluation, of the respondents from countries receiving significant amounts of CD over the evaluation period,⁴⁶ 93 percent agreed or strongly agreed that IMF CD projects were effective in achieving their stated near-term objectives, while 90 percent agreed or strongly agreed that IMF

⁴⁴ This section draws on Lamdany (2022) and Jensen and Kell (2022).

⁴⁵ The Fund's Updated CEF (IMF, 2020b) has the same definition for effectiveness but defines impact as “assessed on goals that are (a) higher-level than RBM objectives, such as the Fund's mandate of macro and financial stability in the member country; and/or (b) based on Fund priorities of inclusive growth (inequality, gender, financial inclusion) and climate change in the member country.” It distinguishes this from “sustainability,” which assesses “the continuation of the actual or projected net benefits of CD (i.e., positive effects attributed to CD under effectiveness and impact) over the medium and long term, after the CD is completed.”

⁴⁶ Cumulative CD of three full-time equivalents or more during 2012–2020; see Pedraglio and Stedman (2022).

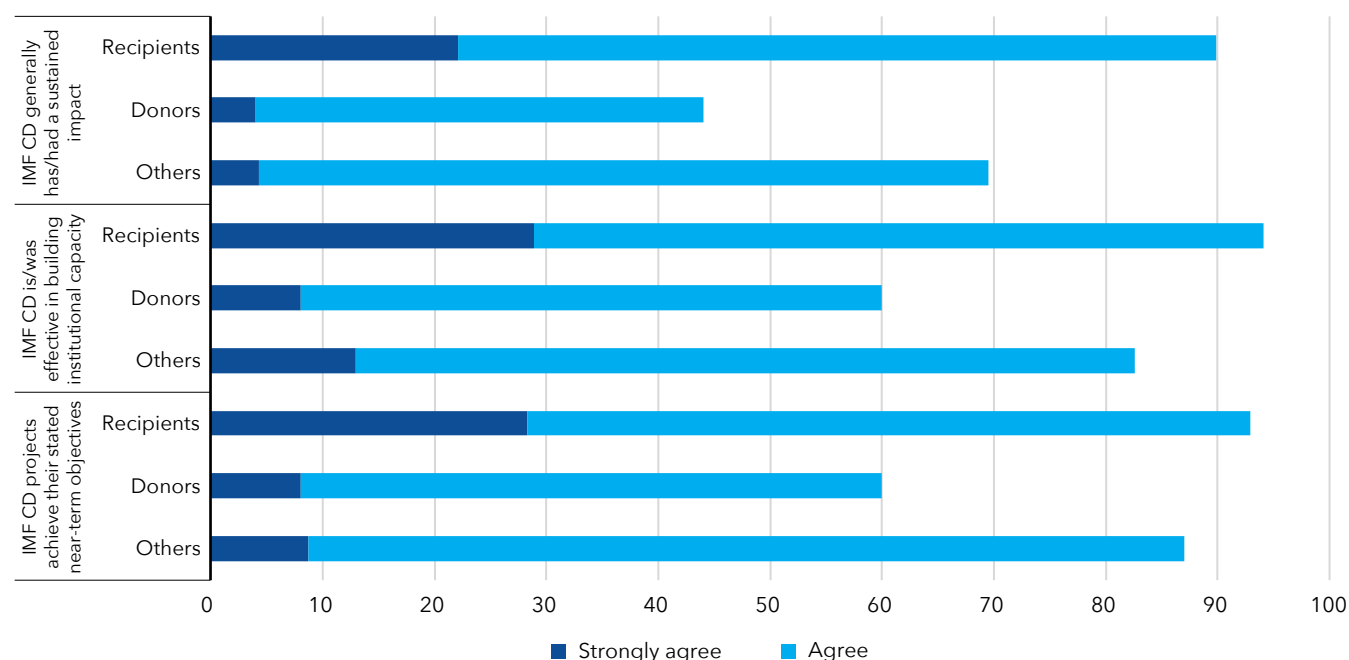
CD had a sustained impact on longer-term institutional development (Figure 14). CD recipients who responded rated the value added of CD higher than that of IMF surveillance or lending (though this was not the case for respondents from other IMF member countries).⁴⁷ All 19 country case studies found that recipient authorities regarded IMF CD very highly. Fund TA and training is sought even by high-capacity countries—an indication of its reputation and quality. Donor views in our survey were not quite as positive about the effectiveness and impact of IMF CD, but in interviews all donors said that they saw IMF as best in class in its areas of core expertise.

Supporting evidence comes from independent surveys of government officials in low- and middle-income countries conducted by AidData. These have found that the IMF was generally regarded as the most influential development partner, and one of the most helpful. While the survey questions applied to the Fund’s engagement in general (Custer and others, 2015; 2018; 2021), perceptions of the IMF generally appeared to be more positive in countries

with more intensive CD engagement, although the results were not statistically significant. Further, responses to a question introduced in the 2020 AidData survey indicated that more intensive CD engagement was positively associated with more positive perceptions of the Fund’s influence, particularly among program countries (Pedraglio and Stedman, 2022).

While objective, rigorous assessment of CD effectiveness is difficult, taken together the evidence collected by this evaluation suggests that, overall, IMF CD has supported member countries to build stronger institutions and skills to formulate and implement sound macroeconomic and financial policies. Assessing effectiveness of CD is difficult, and evaluating longer-term, broader impact even more so. Building public sector institutional and human capacity is a long-term undertaking, with progress not straightforward to measure, and very much dependent on the wider political and economic context, with many factors outside the control of the CD provider. Thus, identifying the specific contribution of CD to intended project outcomes,

FIGURE 14. IEO SURVEY RESULTS ON CAPACITY DEVELOPMENT EFFECTIVENESS AND IMPACT
(In percent)



Source: Pedraglio and Stedman (2022).

Note: “Others” refers to countries that may have been CD recipients or donors but at lower levels.

⁴⁷ See Pedraglio and Stedman (2022).

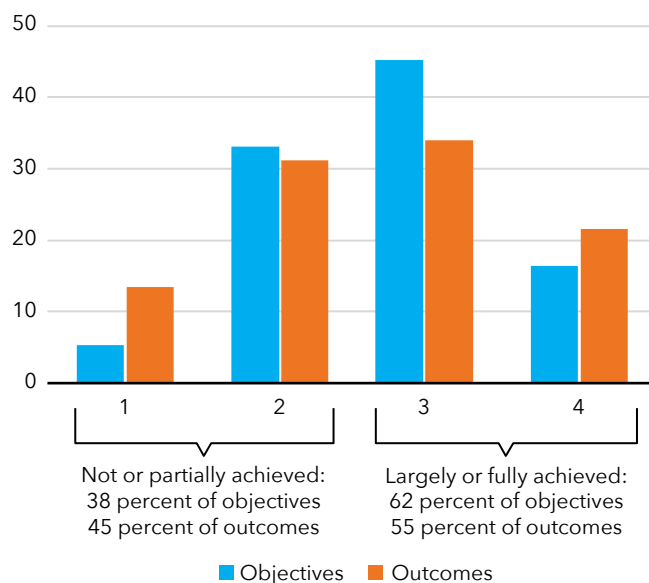
let alone wider institutional capability and macroeconomic performance, is very challenging. We therefore triangulate evidence from different sources: RBM, evaluations, and case studies prepared by the IEO. Of these, the case studies proved to be the most useful source of evidence.

Evidence from RBM is encouraging but still quite limited. RBM data shows that more than 55 percent of the CD projects were rated as having largely satisfactory outcomes and progress toward meeting their objectives (Figure 15). At this point, the historical database is too small and incomplete for a robust analysis of how the effectiveness of CD is evolving over time.⁴⁸ The low number of completed projects with outcome ratings also prohibits robust conclusions about differences in average ratings across CDDs, beneficiary countries, workstreams, and between projects managed by HQ or regional center staff. Furthermore, the RBM system is not designed to assess effectiveness or impact after the formal end-point of the CD project. Notwithstanding these limitations, it is interesting that the narrative of evaluations and IEO country studies arguably suggests a higher level of achievement than the ratings in Figure 15.⁴⁹

In general, neither external nor internal evaluations provide much evidence on the longer-term and broader impact of CD. An IEO review of 10 external evaluations from 2017–2021 found that most, but not all, assessed impact (and sustainability), based mainly on interviews and some quantitative indicators. But the quality of these evaluations was mixed, and most did not have the information needed to properly assess impact or sustainability. The coverage of effectiveness and impact in the eight internal evaluations reviewed was more limited, as their main goal was to draw lessons on how to improve IMF CD. Both external and internal evaluations included examples of discernible and significant impact of IMF CD, but this was not a major focus of the evaluations and the selection of topics was not designed to provide a representative picture of impact.

Turning to the country case studies, these provide considerable evidence that implementation of CD generally

FIGURE 15. RESULTS-BASED MANAGEMENT OBJECTIVE AND OUTCOME RATINGS FOR COMPLETED TECHNICAL ASSISTANCE (2013–2020; frequency distribution, in percent)



Sources: IMF, RBM; IEO staff calculations.

led to the intended outcomes across a broad range of circumstances and challenges (Box 9). Our 19 country case studies were selected to represent a mix of FCS, low-, and middle-income countries and some advanced economies. Our case studies of FCS (Somalia, Liberia, and the Democratic Republic of the Congo) found a range of experience in terms of relevance, coherence, and effectiveness, but some major achievements considering their context. This points to the importance of ensuring that the expectations and assessment standards of the effectiveness of CD are calibrated to the different country and agency circumstances. This is reflected in the design of the Fund's RBM system and highlighted in the Fund's recent FCS Strategy (IMF, 2022c), but needs to be kept under review in the light of evidence on progress against objectives for CD in different country contexts, and especially in new areas of CD.⁵⁰

⁴⁸ Staff have begun to use the existing RBM data to analyze the correlates of CD effectiveness (see Bassanetti, 2021).

⁴⁹ This conclusion also generally holds for a country-by-country breakdown of the incomplete RBM results that are available. However, since such information is not publicly available, it has not been provided in the country case study background papers.

⁵⁰ This is not only relevant to FCS; for recipients with higher levels of existing capacity, CD project objectives need to be sufficiently ambitious.

Our case study evidence on longer-term impact is more mixed: some report instances in which the outcomes of CD were sustained, some in which there was little or no longer-term impact, and some in which impact was unclear (see Box 9). This evaluation faced the expected methodological and resource challenges of robustly identifying and attributing the broader and longer-term impacts of IMF CD. Nonetheless, the assessments of impact in some of our case studies offer insights on the nature and sources of impact of Fund CD. For example, Ter-Minassian (2022) finds that the authorities of the two advanced emerging market economies she reviewed (Brazil and Peru) tend to view the Fund more as a convener of, and contributor to, PTP learning, than as a capacity-builder for their respective institutions. Everaert (2022) identifies common underlying barriers to sustained impact across different areas of CD in two of the European case studies (Moldova and Ukraine), raising the question of whether the Fund's approach should have been more holistic (for example, to target key judicial reforms). The contrasting experiences of Sri Lanka and Albania (where CD impact was not generally sustained beyond the IMF lending program) and Georgia and Jamaica (where it was) illustrate the importance of assessing CD beyond the timeframe of specific projects. This suggests value in the Fund considering a similar approach to our country case studies to assess the longer-term impacts of its CD, and of the holistic impact of all its interventions (CD, surveillance, and programs) at the level of member countries.

Our country studies confirm the criticality of ownership for the success of IMF CD. In some cases (for example,

Georgia, Jamaica, and Saudi Arabia), strong and broadly based political commitment to reform underpinned the success of CD in multiple areas; other cases illustrate how CD projects that are less politically sensitive can make progress provided there is ownership at technocratic levels (for example, monetary and financial sector policies in Albania, and tax administration in Cambodia); whereas other country case studies found instances of more fundamental reforms—for example, to improve the efficiency and equity of the tax system in Cambodia, and on financial supervision and tax policy in Indonesia—where lack of consistent ownership hampered effective implementation.

As discussed in the section in this chapter on Delivery, several case studies illustrate the complex relationship between country ownership, the effectiveness of CD projects, and IMF programs. For example, comparing the experiences of Georgia and Sri Lanka—both high-intensity CD users with IMF-supported programs for most of the evaluation period—shows the limitations of relying on conditionality to foster ownership and hence effectiveness of CD. Both countries made progress on CD recommendations during the program, but their experiences diverged as soon as their programs were completed: underlying ownership of the reform process in Georgia meant the country continued to implement the agreed CD plans, whereas Sri Lanka backtracked on those issues on which it had no ownership. IEO survey results echoed the concern about the link of CD and conditionality: 57 percent of respondent CD recipients indicated that integration of CD with programs risks an undesirable expansion of IMF conditionality.⁵¹

⁵¹ See Pedraglio and Stedman (2022).

BOX 9. ASSESSMENTS OF EFFECTIVENESS AND IMPACT FROM SELECTED COUNTRY CASE STUDIES

In **Albania**, IMF CD was largely effective in achieving its objectives, with counterpart capacity the main constraining factor. The impact of IMF CD was generally satisfactory in central banking and the financial sector but much less so in the area of public finances. The IMF succeeded in tackling governance problems in the financial system but did not manage to overcome excessive politicization of decisions in the fiscal area, which reflected to some extent broader rule of law and corruption issues.

In **Brazil**, officials were appreciative of the relevance, timeliness, and technical quality of the limited IMF CD that they received and indicated that it had an impact on their policies. Preliminary indications suggest that CD in revenue administration has been particularly effective, but there are areas where limited progress has been made so far, such as reforming the framework of intergovernmental fiscal relations, which is a politically sensitive issue, and where the Fund's technical advice cannot be the only consideration.

China has high human and institutional capacity but has continued to request IMF CD because it appreciates its technical quality and international perspective. It is difficult to assess the outcome and impact of CD to China because it is often requested as one of several inputs for formulating the authorities' plans. Still there have been instances of CD recommendations that were implemented and other occasions when the authorities indicated that Fund CD had significant influence on their plans by learning about best practices elsewhere.

The Democratic Republic of the Congo (DRC) was a high-intensity user of IMF CD but with large fluctuations and with very limited results. DRC is a fragile state that did not have a program engagement for most of the evaluation period and had long disruptions in surveillance and CD due to political instability and security considerations. At times, however, it was one of the largest CD recipients, mostly externally funded, to support capacity building for PFM and revenue administration, particularly related to natural resources management, but with little payoff.

In **Georgia**, CD was highly effective and had a lasting impact on the economic management and performance of the country. CD was well integrated into the Fund-supported programs in place for most of the period. The authorities were eager to receive IMF CD, which they considered superior to that of other TA providers, and engaged in the activities, owned the recommendations, and were committed to their implementation.

In **Indonesia**, a surveillance-only country during the evaluation period and a moderate CD user, IMF CD was generally seen as of high quality and well-tailored to country circumstances. However, outcomes and impact have been mixed. Because of a complicated legacy relationship, Fund staff has been receptive to Indonesia's requests, even in areas where past recommendations had not been implemented.

Jamaica was a heavy user of IMF CD and an example of where effectiveness was closely linked to program implementation. Until a decade ago, Jamaica had a poor record in implementing Fund-supported programs and CD. Since then, the record of effectiveness and impact of CD improved as the design of CD was driven by a shared understanding by the authorities and Fund staff of priorities to ensure a successful implementation of Fund-supported programs. CD contributed significantly to the successful implementation of fiscal rules, and tax policy reforms and strengthened revenue administration institutions and procedures.

IMF CD in **Moldova** was broadly effective on technical matters (e.g., monetary policy frameworks, central bank and bank governance, statistics) and on crisis resolution, but less so on broader policy and institutional reforms, leaving its impact and sustainability in doubt. Limits to absorptive capacity were one of the most binding constraints on effectiveness of CD delivery but were addressed only in piecemeal fashion. The IMF also failed to address broader issues common across the public sector, such as HR policies, staff motivation and retention, and remuneration. As a result, much of the capacity that was built during IMF CD delivery dissipated over time, leading to the need for repeat delivery of CD.

Sri Lanka was a high-intensity CD user with moderate effectiveness; CD design was closely integrated with the Fund programs that were in place for much of the period. While CD was effective in some areas, in others, results were mixed; commitment to reforms, which was linked to program conditionality, dissipated with the termination of the program and personnel changes.

Ownership largely depends on political and social factors outside the Fund's control, but there is scope for the Fund to do more to enhance ownership of CD work. In particular:

- ▶ Unlike some other CD providers, the Fund does not require recipient authorities to sign off on terms of reference for CD engagements, or explicitly commit how they will support and work with IMF CD experts.
- ▶ More generally, the Fund could more systematically involve CD recipients in the design, implementation, and monitoring of projects, and in the development of country strategies for CD.
- ▶ The Fund could do more to systematically assess country ownership in its various dimensions (e.g., at the political, senior civil service, and technical levels) and analyze the evidence on the factors that influence and signal ownership.⁵²
- ▶ As illustrated in some of the case studies (Indonesia, Moldova, and Sri Lanka), more concerted outreach to a wide range of stakeholders such as parliamentarians and government departments besides the ministry of finance could improve the chances of traction of CD in more politically sensitive areas.
- ▶ While underlying obstacles to ownership—such as weaknesses in rule of law, entrenched anti-reform interests, and high public sector turnover—cannot be addressed exclusively within the IMF CD toolkit, a more holistic approach to the issues surrounding governance might have been more effective than the institution-by-institution approach that the Fund adopted in Moldova and Ukraine (Everaert, 2022).

The evaluation evidence confirms that absorptive capacity can be a key constraint on the effectiveness of CD, and more generally that tailoring of design and delivery to country circumstances is crucial for CD effectiveness. This is particularly important for fragile states, where calibrating

the pace, volume, and ambition of CD to be consistent with domestic capacity leads to better outcomes. We find some quantitative evidence from RBM results suggesting that CD engagement through RCDCs and resident advisors is important for effectiveness,⁵³ while our case studies also suggest the importance for effectiveness of continuity of Fund CD experts.

Costs and Cost-Effectiveness

The Fund publishes comprehensive and robust data on the costs of its CD at aggregate levels. CD cost information at the aggregate level has been routinely shared with the Board through annual MTB reports. The usefulness of this information has improved as the Fund has invested in systems and processes for generating comprehensive and robust data on the costs of its CD, including associated indirect or overhead costs. Direct CD costs are also broken down between high-level activities (e.g., delivery versus management and administration versus CD analytics and development) and types of input (e.g., personnel, travel, and other costs). This is important information for the Board's oversight roles.

However, cost data at more granular levels has not yet been readily or widely available. More granular information has been available for externally funded CD though this has not been shared with the Board; detailed cost data is now being generated within CDMAP for all CD. Detailed cost data has been shared with some donors, as required to justify the draw-down of their funds. However, it has not been more widely available, including to the IMF Board. This could have added to the perception of some partners, reported in interviews, that the Fund was not sufficiently transparent about the costs of its CD, and may have fueled the notion that the IMF's CD is more costly than that of other providers.

The key drivers of IMF CD costs are a series of Board-approved policies covering salaries, benefits, allowances, and travel and decisions about the design of CD projects. CD project design, and size and mix of project teams, are the responsibility of CDDs. Where external funding is

⁵² The 2018 Review of Program Design and Conditionality included a chapter discussing the determinants and correlates of country ownership of IMF programs (IMF, 2019b) but IEO could not find similar analysis by staff in the context of CD.

⁵³ See Bassanetti (2021), Lamdany (2022), and the IEO's country case studies.

available, and a programmatic approach is being applied, project design tends to follow standard patterns, though sometimes the cost implications of different mixes of staff are considered, reflecting the availability of funding. For projects where external funding is not available, staffing decisions have been mainly driven by matching available staff against the requirements of the project, especially in terms of the complexity of the request; little explicit attention has been paid to the dollar cost of different staffing mixes and delivery modalities.

On the basis of the limited data available on the costs of CD provided by other organizations, we conclude that Fund CD is relatively expensive, but not greatly out of line. Some donors expressed concerns that IMF CD was expensive relative to that of other providers, though they also recognized that this should be weighed against the high quality and value of IMF CD relative to that of other providers. They acknowledged that this perception was based more on anecdotal evidence than on data but noted that it was also fed by the difficulty in getting a sense of the total cost of individual IMF CD projects and activities. Our comparison of personnel and travel costs for CD funded or delivered by six other multilateral and bilateral development bodies suggested that the Fund is generally the most expensive but not by a large margin, and this analysis was not able to adjust for the quality and effectiveness of the CD being compared (Jensen and Kell, 2022).

Data on the costs of CD projects can be combined with RBM data on project outputs and outcomes to derive basic indicators of the cost efficiency and cost effectiveness of IMF CD, respectively. While these metrics need to be interpreted carefully, they can be helpful for internal management and external accountability. The Fund has provided to one external donor indicators of the cost-efficiency and cost-effectiveness of CD provided through vehicles that the donor funded. The donor saw value in these metrics, despite their limitations, as a complement to other evidence on the results of their financial contribution and reporting domestic oversight institutions.⁵⁴

The IEO was able to generate such information, showing average project outcome ratings and cost estimates by CD workstreams, for 160 completed projects (Table 3). There are possible downsides in using such metrics for decision-making, as they could distort the focus of CD topics, the setting of objectives, and internal assessment of progress. But they can also be helpful for internal management: ADs might be better placed to prioritize CD requests if they had better information on the costs and track record of different types of CD project; for CDDs, metrics could suggest questions to better understand apparent major differences in cost effectiveness between CD projects within workstreams and possibly also between CD workstreams; for the CCB, they could inform strategic choices about the Fund's delivery model.

There would be considerable benefit for the Fund to prepare and disclose cost data more systematically and develop useful cost-efficiency and cost-effectiveness metrics. Compared with information available from other international financial institutions providing CD, the Fund appears to be at the forefront of developing and analyzing metrics for the cost-efficiency and cost-effectiveness of its CD, though it falls behind some other CD agencies such as the US Millennium Challenge Corporation and the UK's aid agency. The hesitation to compile and share this information with other donors or the Board represents a missed opportunity to enhance external transparency and to strengthen the response to the Board's request, following the 2018 CD Review, for more attention to the cost efficiency of different modalities of CD delivery. IMF CD is very much a premium CD product—with a strong reputation, backed by evidence—for which a relative high cost can be justified. Greater transparency, internally and externally, with regard to CD costs, and their relationship to outputs and outcomes, will bring positive effects in terms of efficiency and accountability. Moreover, the Fund's investment in RBM and CDMAP presents an excellent opportunity to enhance the coverage, quality, and transparency of IMF data on CD costs and effectiveness at granular levels.

⁵⁴ See Jensen and Kell (2022) for further details.

TABLE 3. AVERAGE OUTCOME RATING AND COST OF CAPACITY DEVELOPMENT PROJECTS GROUPED BY WORKSTREAM

WORKSTREAM	CD DEPARTMENT	NUMBER OF PROJECTS	AVERAGE COST PER PROJECT ¹	AVERAGE OUTCOME RATING
Enhanced Department Transparency of Macroeconomic and Financial Statistics for Decision making	STA	2	221.8	3.75
Financial and Fiscal Law Reform	LEG	11	44.3	3.13
Central Bank Operations	MCM	11	237.8	2.91
AML/CFT	LEG	23	178.1	2.89
Strengthen Macroeconomic and Financial Statistics Compilation and Dissemination	STA	12	484.6	2.85
Legal Country Unit	LEG	3	183.4	2.82
Tax Policy	FAD	4	605.5	2.72
Debt Management	FAD	17	94.3	2.61
Revenue Administration	FAD	17	785.8	2.59
Monetary, Exchange Rate, and Capital Account Policies	MCM	1	1,009.9	2.34
Public Financial Management	FAD	18	771.8	2.33
Financial Supervision and Regulation	MCM	14	361.3	2.31
Monetary and Macroprudential Policy	MCM	8	122.2	2.12
Systemic Risk Analysis	MCM	10	201.2	1.97
Financial Crisis Management	MCM	9	129.5	1.50
All Projects		160	346.9	2.50

Sources: IEO analysis of RBM and TIMS data.

¹ Based on data on staff time inputs; excluding other project costs.

FUNDING⁵⁵

The dual funding model for CD was clearly effective overall for the IMF and its membership during the evaluation period, with external financing instrumental in allowing the Fund to increase CD to its members in the context of a flat real budget constraint. As the funding model developed, with external financing expanding and the delivery of IMF CD itself evolving, the IMF acted pragmatically to find ways to meet country needs, including by creating new funding vehicles that could attract donor resources. And as discussed above, external funding partnerships have facilitated and encouraged significant improvements in the Fund's CD model, including a more programmatic approach and the expansion of RCDC coverage.

Stakeholders were broadly positive about the funding model. Recipients were appreciative of the availability of CD, although there were some instances of shortfalls or cases in which the delivery modality was determined by funding source rather than authority preference. Donors valued the opportunity to finance IMF CD to support their own priorities, leveraging the IMF's expertise and influence. These partners also saw advantages to the dual reliance on internal and external resources, as the fact that the IMF put its own resources behind its CD helped build and maintain confidence in the product.

Implementation of the model reflected careful attention to the balance between internal and external funding. Even as the IMF consciously sought to increase the contribution

⁵⁵ This section draws on Stedman (2022a).

of external resources after 2008, the institution recognized the importance of continuing to finance a substantial part of IMF CD with its own resources. In part, this acknowledged the public good element of CD, the importance of integrating it with other IMF activities, and the need to maintain “skin in the game” to sustain quality and external confidence in its CD, as well as the potential risk involved in excessive reliance on funding from outside sources. IMF policies accordingly lay out specific roles and purposes for internal and external funding, with the two complementing each other rather than serving as substitutes. The balance between internal and external funding is determined each year as part of the MTB.

The MTB discussed by the Board in 2019 included a ceiling that leveled off externally financed CD, even as demand from member countries for IMF CD continued to exceed supply. This change was explained in the document and approved though not discussed in detail in the Board. It reflected a desire to maintain an equilibrium between CD and other IMF activities; preserve the continued high quality and value of CD by limiting CD supply to be consistent with the Fund’s institutional capacity; mitigate the risks of relying on external funding; contain the knock-on effect of indirect costs that were not recovered from external partners; and leave space for modernization of CD processes and systems (IMF, 2019a).

The Fund has taken steps to mitigate risks and uncertainties involved with external financing.

- ▶ Alignment between the priorities of the IMF and external funders is underpinned by a policy that allows external funding to be accepted only when donor interests are consistent with Fund priorities and objectives. 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. And these pressures surfaced during interviews, when some donors expressed concern that the Fund was showing insufficient commitment to delivering in areas that the donors

viewed as priorities—e.g., gender, financial inclusions, and climate.

- ▶ To reduce uncertainties over the sustainability of external funding, the Fund has taken steps to diversify the donor base; promote multi-partner and umbrella agreements that would increase funding security, flexibility, and integration across vehicles; and strengthen external engagement and communications to enhance CD visibility (IMF, 2018c). These efforts saw some progress during the evaluation period. In particular, the role of multi-partner vehicles increased from less than half in FY2011 to two-thirds of external financing in FY2021. There was also some diversification of donors, although most progress was made on this front immediately prior to the evaluation period.

These steps came on top of the Fund’s long-standing practice of prefunding CD activities, thereby creating a buffer against sudden shocks to the flow of resources. However, the IEO’s case studies still identified some concerns about sustainability of CD work because of uncertainty related to external financing, such as in Somalia (Chopra, 2022) and RCDCs.

The institution took proactive steps to meet potential funding challenges posed by the COVID-19 crisis by launching a new vehicle to seek donor funding to support shifting CD needs. In response to pandemic-related concerns about potential funding gaps, as well as the shifting needs for CD, IMF staff developed a vehicle to attract new and more flexible external resources. The resulting COVID-19 Initiative launched in the third quarter of 2020 aimed to raise US\$100 million to help “ensure that IMF staff can deliver CD support quickly and where it is needed most”—in particular, to help countries manage their economies through the crisis and help them get “back on track towards the Sustainable Development Goals” (IMF, 2021i). Fundraising was undertaken based on a list of general priorities and examples of potential CD projects, with the goal of preserving flexibility and avoiding detailed earmarking by individual donors. As of December 2021, declared support from donors amounted to US\$39.9 million of the US\$100 million target (IMF, 2021i).

External funding more generally has been sustained during the difficult pandemic period, though with shortfalls for some types of CD. In February 2022, multi-year resources in hand (i.e., cumulative prefunding) had risen to about US\$440 million, up from about US\$240–250 million before the COVID-19 crisis; this compares to annual drawdowns from the account that peaked at slightly less than US\$180 million in FY2019. The recent increase in these buffer resources is a result of reduced overall spending on CD (principally on travel) since the pandemic. Such resources are not entirely fungible, so the IMF does not have the flexibility to move resources across different purposes. There have been very few instances in which a lack of funds impeded implementation of planned CD programs, such as when shortfalls in funding slowed the start of a new phase for RCDCs (e.g., the Central America, Panama and the Dominican Republic Technical Assistance Center, CAPTAC-DR).

The recently agreed budget augmentation allows for increased overall spending on CD, as well as raising the share of total IMF spending devoted to CD, while maintaining the current balance between internal and external CD. About one-quarter of the recently agreed budget augmentation will go to CD, providing about US\$17 million over the three-year augmentation period. These resources will go to CD focused on FCS, including to enhance the stability of RCDCs serving those countries, as well as on climate change and digital money (IMF, 2021g). The preliminary FY2023–2025 MTB also raised the ceiling for externally financed CD, as a complement to the increase in internal resources for CD (IMF, 2022b). A new carry-forward mechanism for externally financed expenditures that was proposed as part of the FY2023–2025 medium-term budget will help on the margin by providing additional flexibility as the IMF seeks to respond to post-pandemic demands for CD, the timing of which is difficult to predict.

Nonetheless, pressures on the CD budget and challenges in what to prioritize are likely to come to the fore as CD demand ramps up again. Demand for CD is expected to increase as delivery constraints ease—in traditional/core areas for IMF CD as well as in emerging areas such

as climate change and digital money. A source of concern is the disconnect between the interests of donors and recipients in CD topics emerging in the IEO survey: while fiscal policy was among the top three priorities for both cohorts, climate change was the top priority for donors but only ranked eighth by recipients, and financial sector and statistics were ranked first and second respectively by recipients but fifth and eighth respectively by donors (Pedraglio and Stedman, 2022). While this suggests that there may be potential to raise additional donor resources for climate change CD, it also highlights the challenges of ensuring sufficient resources to respond to the full range of CD needs in member countries, including in the traditional core areas. The recent budget augmentation focuses on targeted areas, without increasing resources for potential surges in demand in core areas, pointing to potential for pressure on existing internal resources to fund CD on these topics.

Future funding prospects depend importantly on effective engagement with donors, as well as the donors' own priorities and access to resources. Donors indicated in the IEO survey that their decisions to Fund CD were affected by a variety of factors, led by the IMF's leadership and expertise in subject areas that the donor wished to support, its alignment with their institutional objectives, and the IMF's record of high-quality and effective CD activities (Pedraglio and Stedman, 2022). While donors were generally positive in interviews about the IMF's engagement with them, expressing appreciation for efforts to understand their needs and perspectives, some expressed concern about value for money and reporting on effectiveness/impact, as well as confusion from a proliferation of IMF fundraising and apparent lack of coordination across CD and other IMF fundraising efforts, such as for debt relief.⁵⁶

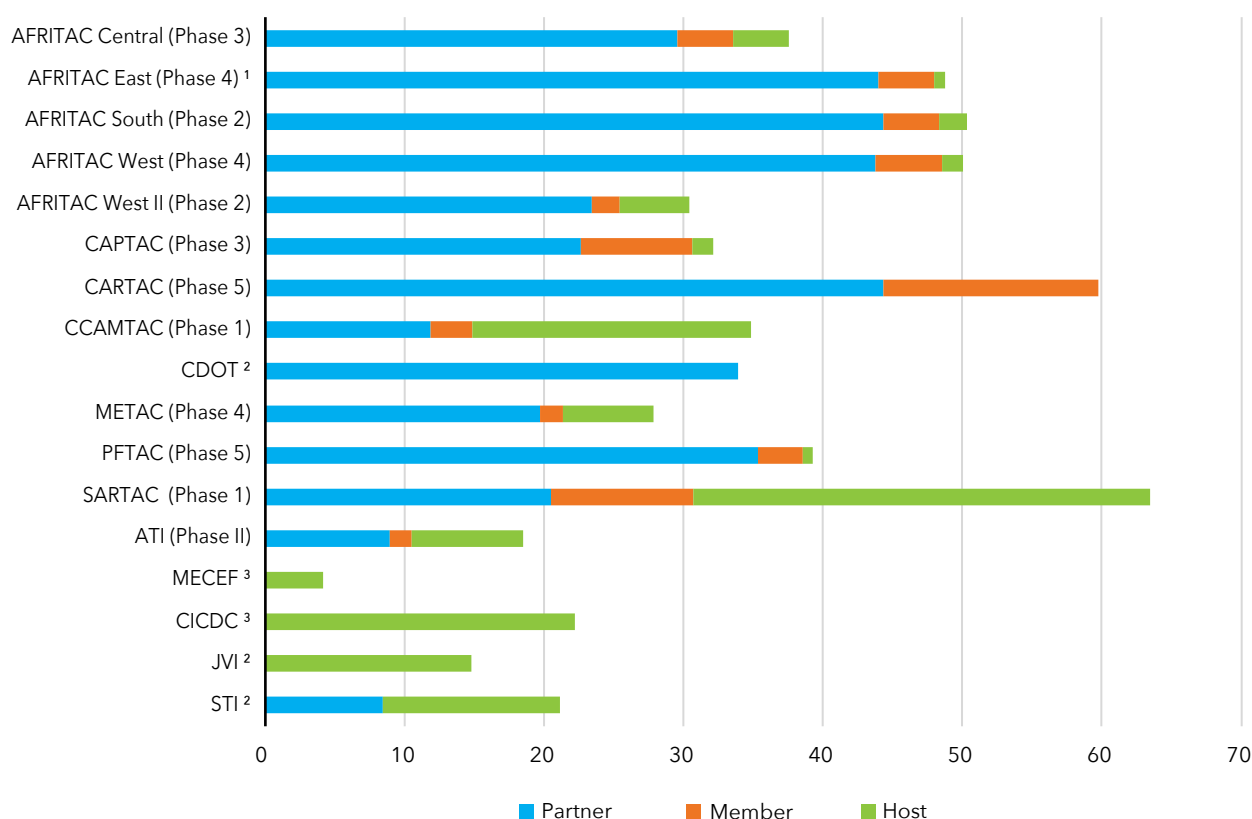
At a more structural level, inconsistencies in the availability of external financing across regions and countries, as well as some rigidities in external as well as internal resources (discussed in the section in this chapter on Prioritization and Allocation), posed some issues during the evaluation period. The tensions in the funding model encouraged the IMF to carefully adjust its decision-making process to maintain the right balance across priorities and to enhance its accountability and transparency, but the organic

⁵⁶ The IMF's Office of Risk Management (ORM) also identified donor fatigue from multiple IMF financing requests as a newly emerged priority risk for the institution in its June 2021 update (IMF, 2021d).

evolution of the model affected its strategic coherence. Moreover, the vision of complementarity between internal and external resources, in which the former would fill gaps in availability of the latter, has become more challenging to implement as competition for internal resources has increased. The contribution of external financing to rigidities in CD prioritization and the availability of delivery modalities was discussed in the sections in this chapter on Prioritization and Allocation and on Delivery.

A particular challenge relates to the sustained financing of the full spectrum of RCDCs. The level of funding and balance of funding sources for RCDCs varies widely (Figure 16). IEO analysis found that differences were not accounted for by member country income level program status (Figure 17). As discussed in the section in this chapter on Delivery, this unevenness in funding for RTACs, as well as gaps in their coverage, calls for particular attention.

FIGURE 16. EXTERNAL FUNDING COMMITMENTS TO REGIONAL CAPACITY DEVELOPMENT CENTERS, CURRENT MULTI-YEAR PHASE
(In USD millions)



Sources: IMF staff calculations; IEO calculations.

Note: Partner refers to donors who do not receive CD from the center; member refers to countries that receive CD from the center; and host refers to the country in which the center is located.

¹ AFRITAC East Phase 5 had not yet begun as of July 2020, and only partner commitment information was available; thus Phase 4 information was used for comparison.

² CDOT, JVI, and STI are not set up in phases. We assumed a hypothetical five-year phase during 2017–22 for CDOT and STI to compare with other RCDCs; for JVI, we assumed a hypothetical four-year phase during 2019–22. For CDOT, all partner contributions are funded through bilateral projects out of the JSA over FY2017–21. For JVI and STI, host country funds are not channeled through the IMF; amounts shown for hosts are paid or contributed directly to the respective centers. For STI, all partner contributions are funded out of bilateral projects from the JSA and Australia during FY2017–21.

³ MECEF and CICDC amounts show their latest respective phases during the evaluation period along with their host related signed agreements (Kuwait and China).

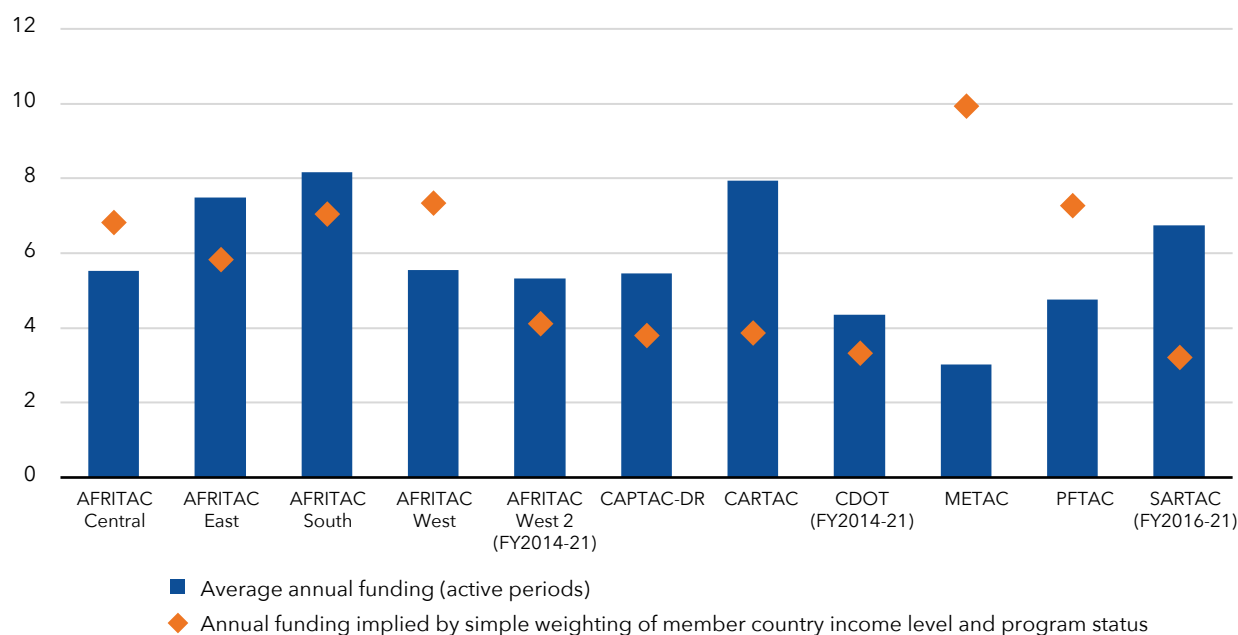
In addition, external financing remains concentrated, and the potential to further diversify sources and increase the flexibility of donor resources appears limited. In FY2021, 60 percent of external resources were provided by the top five donors and 75 percent by the top ten—a moderate improvement from 71 percent and 88 percent, respectively, in FY2012. Uncertainty about the future availability of donor resources reflects national budget constraints related to the pandemic and other recent emergency needs as well as broader pressures on budgets, even though those funding risks did not materialize in the near term as feared. The scope for increasing the flexibility of external funding is constrained by the desire of some major donors to preserve or even increase their own flexibility to target their resources, and to find ways to convey and increase the visibility of their own impact, distinct from that of other donors or even the IMF. The absence of enthusiasm for the new, more flexible approach to funding IMF CD tested via the COVID-19 Initiative suggests a limited appetite for building on this approach to increase the IMF’s flexibility and the agility of its funding model.

Given the risks and uncertainties involved with external funding over the medium to long term, it would seem

prudent for the Fund both to continue to monitor developments and fine-tune the existing model and to consider options for reinforcing the funding model. IMF staff has done this periodically, including by exploring options to enhance the flexibility and sustainability of external financing and its alignment with Fund priorities. Possible alternative approaches that would be less reliant on donors include expanding the policy on contributions by recipients or creating a dedicated fund from internal resources to finance a portion of CD. It must be recognized that such approaches would bring considerable risks and costs, but these need to be weighed against the risks and uncertainties involved in the current CD funding model.

- ▶ Expanding contributions by recipients has been tried in the past, for instance in 2008 when a charging policy was adopted but was rescinded before it took effect due to the global financial crisis and related developments. The 2008 policy required a contribution from recipient countries on a sliding scale based on income level unless they were engaged in an IMF program or CD was financed by external donors. A targeted approach could, for instance involve asking

FIGURE 17. EXTERNAL FUNDING OF REGIONAL TECHNICAL ASSISTANCE CENTERS ACTIVITIES, AVERAGE ANNUAL FY2012–2021 AND IMPLIED ANNUAL
(In USD millions)



Sources: IMF CDIMS data; IEO staff calculations.

upper-middle-income countries to self-finance half the cost of CD they receive from the IMF that is not funded by donors.⁵⁷ Such an initiative could raise significant resources but would also bring considerable administration costs and potential complications, for both the IMF and recipients. Further, pursuing expanded charges would require protecting against other risks related to “self-financing” of CD, such as questions about equal treatment of member countries, the impact on demand, and the potential for misalignments in incentives and priorities in the design and implementation of CD.⁵⁸

- ▶ Another possibility would be to consider creating an internal funding mechanism to manage risks related to fluctuations in the availability of external resources or the demand for CD. The challenge would be to identify a source of funds for such a mechanism; donors are unlikely to be interested in providing resources for future but unspecified needs. The IMF could look at setting aside a portion of its own resources during periods of high operational income, but this would compete with the objective of increasing precautionary balances.⁵⁹ Further, establishment of such a mechanism would need to be reconciled with the general principle adopted as part of the New Income Policy in 2008 that nonlending income should finance nonlending operations (such as surveillance and CD), in order to avoid having borrowing countries disproportionately finance the IMF’s nonlending mandates (IMF, 2007).

- ▶ The IMF also has the option to devote increased resources from the administrative budget to CD. Although CD received considerable additional internal funding as part of the 2022 budget augmentation, as discussed above, these resources were earmarked for specific needs and thus will do little to provide additional flexibility in channeling CD resources or filling gaps in funding more generally. Increasing the IMF’s own resources for CD would require either a further targeted augmentation of overall resources, or a material shift away from other core activities—and thus represents a strategic decision for the membership.

HUMAN RESOURCES⁶⁰

Assessed against whether it is deploying high-quality expertise for CD delivery, the IMF measures up well. Widespread satisfaction with the quality of CD in itself provides strong evidence of the quality and dedication of those delivering CD. The IMF’s strong record is likely facilitated by its in-house rather than out-sourced model for tapping expertise, along with careful backstopping from HQ.

The IMF has adapted its approach to staffing to reflect the unique character of CD work. This includes relying on a combination of contractual employees in the field and at headquarters, in addition to staff, in order to allow for more flexibility and nimbleness in adjusting expertise to meet countries’ CD needs and to reflect uncertainties related to funding from external resources. HQ-based staff and consultants accounted for about 56 percent of IMF spending on CD delivery (including design and backstopping) during the evaluation period, with LTX accounting for 24 percent and STX 20 percent (Figure 18); these shares were relatively steady over the evaluation

⁵⁷ For instance, having upper-middle-income countries self-finance half the expenses involved in the internally funded CD they received from FY2012–2021 (excluding CD related to an IMF program) would have offset about 10 percent of the direct delivery cost of internally funded CD during this same period (Stedman, 2022a).

⁵⁸ For example, the potential for conflicts of interest related to recipient countries’ role in selection of experts and establishment of timetables, as well as potential conflicts related to the role of IMF mission chiefs and departments in recommending CD for which countries would then have to reimburse the IMF.

⁵⁹ Precautionary balances are accumulated by the IMF each year from operational income in order to strengthen the institution’s balance sheet, help to ensure the value of members’ reserve positions at the Fund, and safeguard the IMF’s financing mechanism.

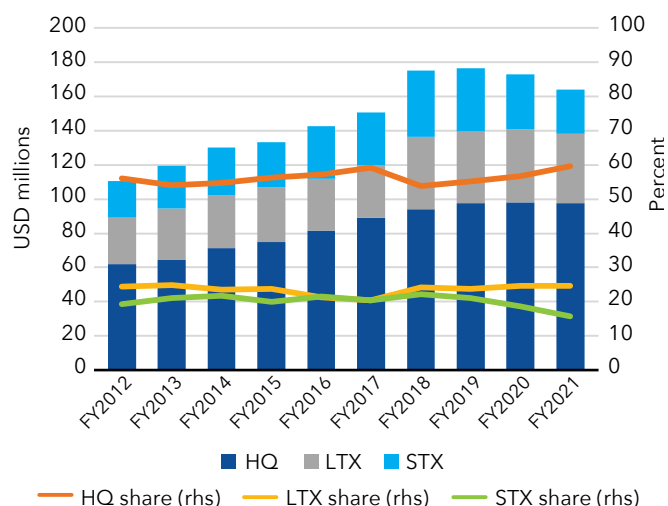
⁶⁰ This section draws on Stedman (2022b).

period until the COVID-19 crisis.⁶¹ The IMF has also built a cadre of “specialist economists” (SEs) with specific skills and experience required for CD delivery, which often fall outside the skill set of the IMF’s cadre of fungible macro-economists (FMs). These specialists made up almost half of CDD economists on term and open-ended staff appointments (Figure 19) but faced limited career opportunities, as the bulk of senior positions in the Fund are filled with FMs.⁶²

Despite the undoubted overall strengths of its expertise, interviews and case studies identified some concerns, pointing to a need to consider some further fine-tuning of the HR model for staffing CD work. For example, there are concerns that high turnover hampers continuity and follow-up in CD delivery, about the IMF’s ability to deploy the best experts, and about gaps in the availability of particular expertise. To respond to such concerns, there are ways in which the IMF could strengthen its ability to attract and nurture internal expertise and/or better leverage expertise from other organizations.

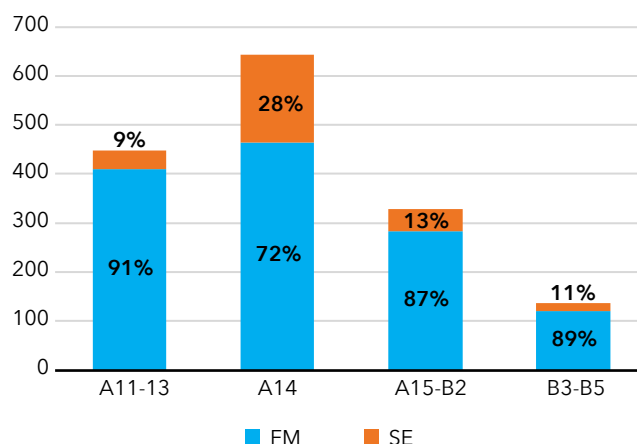
Availability of expertise was seen as a particular issue in new and emerging areas for IMF CD, such as digital money and climate issues. Attracting experts in these areas, some of whom are in very high demand given the priority attached to their expertise and experience in circles well beyond the IMF, depends on offering not just interesting work but also attractive terms and prospects. The IMF already engages in some joint missions with other institutions such as the World Bank, which can provide a way to cross-fertilize experience and draw on expertise not typically available at the IMF. There is also a strategic question as to whether the Fund should access and leverage specialist skills in helping recipient institutions implement and sustain organizational change, and there is scope for the Fund to explore partnerships with organizations providing executive education programs in change leadership skills.

FIGURE 18. PERSONNEL SPENDING ON CAPACITY DEVELOPMENT DELIVERY BY EMPLOYEE TYPE



Sources: IMF, ACES; IEO staff calculations.
Note: HQ = headquarters; LTX = long-term expert; STX = short-term expert.

FIGURE 19. SPECIALIST ECONOMISTS AND FUNGIBLE MACROECONOMISTS ON STAFF, BY GRADE, FY2021
(Number of economists on staff)



Sources: IMF, Peoplesoft; IEO staff calculations.

⁶¹ Although reforms to the IMF’s “Categories of Employment” policy (COE; IMF, 2014b) allowed CDDs to hire expertise on a contractual basis in more cases than in other parts of the IMF, the share of CDD professional employees on open-ended appointments increased from about 45 percent in FY2012 to 52 percent in FY2020.

⁶² About two-thirds of SEs are in the middle of the career ladder (A14), with only 20 percent above that and about 10 percent below, as might be expected given that they are hired at mid-career to provide technical expertise acquired in earlier parts of their career. This compares to a distribution of about one-third of FMs in each of the lower (A11–A13), middle (A14), and upper grade groups (A15–B5).

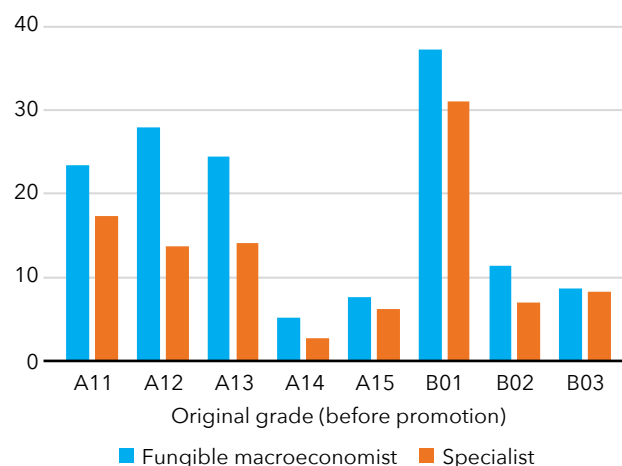
The constellation and characteristics of appointment types and expertise promotes flexibility but can work against the IMF's efforts to build and maintain expertise, as well as continuity of engagement. While a new expert may bring fresher skills, they would require time and training to fully substitute for an expert who is highly familiar with the IMF, the country, and past or ongoing CD. Indeed, one of the strongest findings from case studies and CDD interviews is the benefit of continuity of assignments, since it takes time to build trust and to acquire knowledge of country circumstances and political realities. Yet the practicalities of HR policies, combined with the need to match funding streams, have allowed or even encouraged departments to rely on employees with shorter horizons, including hiring contractual employees, even when they see a permanent need, because of constraints in budgeted funding or positions.

While IMF policy calls for contractual hires to do work that is temporary or does not require deep institutional knowledge, in the case of CD contractual employees are deployed to undertake work that is externally funded, even if it is not temporary and requires deep expertise. Greater flexibility for CDDs was explicitly allowed by the "Categories of Employment" policy (COE) introduced in 2014 (IMF, 2014b), given the need for flexibility of expertise and matching of financing. The question is whether policies about appointment terms and contract renewals appropriately balance the need for both flexibility and continuity of expertise and engagement, as well as the important goal of fairness advanced by the COE.

Some attention is needed to policies for employees in the field and could be taken up by HRD's upcoming review of the model for field-based employment. This includes the appropriate treatment of LTXs engaged for multiple assignments, as well as further diversification of STXs employed for CD delivery and cultivation of local talent to help facilitate this process.

The limited career opportunities for SEs on staff who are so fundamental to CD work create risks that the IMF may not be able to sustain the high level of expertise needed to

FIGURE 20. PROMOTIONS BY ECONOMIST TYPE, AVERAGE BY ORIGINAL GRADE, FY2012–2021
(In average share promoted per year)



Sources: IMF Peoplesoft; IEO staff calculations.

deliver CD. SEs can generally only fill positions in their area of specialty, generally in departments involved in CD delivery—in contrast to FM, who make up the majority of Fund staff.⁶³ While SEs can pursue FM status, and thereby expand the potential career opportunities in the IMF, their ability to do so can be constrained by their narrow functions and limited ability to gain broader experience in the institution. Some SEs have moved successfully across CDDs and also risen into management ranks. However, many SEs are hired by and generally remain in CD divisions, sometimes the same one, their entire time at the IMF. The rate of promotion is lower (Figure 20), turnover is higher, and tenure is shorter for SEs than for FMs, and a higher share are on fixed-term rather than open-ended appointments (Stedman, 2022b).⁶⁴ Higher turnover among SEs at least in part reflects the fact that most are hired at mid-career for their expertise, so that they reach retirement sooner than FMs who start their IMF career earlier; specialist expertise may also make SEs more mobile beyond the IMF. While higher turnover for SEs may be consistent with the goals of flexibility in expertise, it can also undermine the development and maintenance of this expertise.

⁶³ The SE category includes financial sector experts.

⁶⁴ Data for FMs includes staff who joined the IMF as part of the economist program and those who joined at mid-career. According to IMF staff, the experience of the latter with respect to promotions is more analogous to that of SEs, including because of the value placed on experience within the IMF.

The IMF has begun work to enhance the career path of SEs, but progress to date has been limited. One initiative has been to develop an “expert track” to increase opportunities for promotion as well as mobility as part of the follow-up on the IEO evaluation of IMF Financial Surveillance (IEO, 2019). However, progress in developing and launching this initiative has been slow thus far (IMF, 2021h).

More broadly, strategic and cultural issues related to CD work have not yet been fully tackled. The IMF has taken a number of steps during the evaluation period to enhance the employment terms and other incentives for CD work. However, the practicalities of matching resources and appointment types, as well as preserving flexibility for evolving needs, dominates management of HR issues

related to CD. The 2018 CD review described the challenges to career development and mobility for staff providing CD as critical and pledged that they would be attended to in the HR Strategy being launched at that time, but progress has been limited thus far. Workforce planning has thus far focused on individual specialty areas separately without looking at these together to discern what might be learned more broadly about developing and retaining needed skills and expertise. Further, perceptions reported in the IEO survey and interviews suggest that staff working on CD issues are not “valued on equal footing with those contributing to other core activities,” suggesting that this issue, highlighted as critical by the 2018 CD review, has not been sufficiently addressed.

4

SUMMARY OF KEY FINDINGS

This chapter summarizes the key findings laid out in Chapter 3, grouping them under three headings: (i) those relating to progress against the five key Board-endorsed priorities from the 2018 capacity development (CD) Review, as set out in Box 4; (ii) progress against three other priorities identified by the Board following the 2018 CD Review, namely, the external funding model, human resources (HR) practices, and the Board's role in CD; and (iii) four other key issues examined by the evaluation, namely, institutional objectives and strategy; quality; effectiveness and impact; and the response to and lessons from the pandemic.

PROGRESS AGAINST THE FIVE KEY BOARD-ENDORSED PRIORITIES FROM THE 2018 CD REVIEW

1. ROLES AND RESPONSIBILITIES	
Country-Centered Approach	<p>The evidence from this evaluation supports the view of IMF staff that country ownership and tailoring of CD are critical to the success of CD. The Fund has made good progress in ensuring that CD is provided in the areas that recipients need and want, including by enhancing the role of its area departments (ADs) in working with country authorities to identify and clarify their CD priorities.</p> <p>However, there is scope for the Fund to do more to enhance ownership of CD, by more systematically involving CD recipients in the design, implementation, and monitoring of projects, and in the development of country strategies for CD, and by considering whether holistic approaches to underlying obstacles may be required. The Fund could also do more to systematically assess country ownership and analyze the evidence on the factors that influence and signal ownership.</p>
Integration with Surveillance and Programs	<p>Since the 2018 CD Review, the integration of CD with surveillance has been enhanced. However, practice remains uneven between and within ADs, as reflected for example in the patchy coverage and variable quality of Country Strategy Notes (CSNs). Challenges remain in terms of resource pressures on AD teams, behavioral inertia on the part of some AD mission chiefs, and coverage of CD in staff reports.</p> <p>IMF staff have also addressed the integration of CD and programs, but important strategic and operational questions remain. The inclusion of CD recommendations in program conditionality risks unrealistic timetables for CD and can undermine CD ownership and role of CD experts as trusted advisors. Guidance for staff contains little practical advice on how to navigate these issues.</p>

2. PRIORITIZATION AND MONITORING

Prioritization	<p>The Fund strengthened its framework and processes for CD prioritization across multiple dimensions. The allocation of CD resources struck a good balance between country demands and IMF priorities, with the possible exception of fragile and conflict-affected states (FCS), where limited absorptive capacity made it challenging to achieve the intended increase in CD support. The new FCS initiative and recent budget augmentation aim to address this.</p> <p>The Fund has also shown itself to be flexible in reallocating resources in response to changing circumstances and priorities. The Fund's response to the pandemic showed particularly impressive adaptation.</p> <p>These achievements notwithstanding, prioritization could be further enhanced.</p> <ul style="list-style-type: none"> ▶ Strategic CD priorities are not clearly grounded in an integrated Fund-wide strategy covering surveillance, lending, and CD activities. ▶ It would be desirable to establish guidelines on how staff should balance considerations of recipient need, recipient preferences, likelihood of success of the CD, and the importance of evenhandedness across the Fund's membership in deciding which CD requests to prioritize; and whether/how these considerations will depend on the type of funding. ▶ The Committee on Capacity Building (CCB) should take on greater responsibility for making hard choices between country demand and IMF strategic priorities. ▶ Prioritization should be more clearly grounded in regular assessments of the relative effectiveness of different CD topics and delivery modalities in different circumstances, and clearer analysis of country track record on past CD and commitment to current CD, drawing on the evidence available from Results-Based Management (RBM) data and evaluations of Fund CD. ▶ Coverage and content of CSNs is still patchy, even among heavy CD users.
Monitoring and Evaluation	<p>The design and scope of the monitoring and evaluation (M&E) system has been substantially improved, reinforcing the shifts toward results-oriented and programmatic CD. Nonetheless, there are still important gaps and weaknesses to be addressed, in particular:</p> <ul style="list-style-type: none"> ▶ Recipient authorities should be more systematically involved in the RBM process of setting objectives and assessing progress. ▶ The Fund needs an expanded and integrated evaluation strategy that brings together the multiple evaluation tools, prioritizes top-down what to evaluate and when, enhances dissemination, and applies the results to drive change. ▶ There is only limited measurement of progress against institutional-level CD objectives. ▶ There is no systematic assessment of CD effectiveness and impact at the level of countries and their key organizations, or of the synergies between CD, surveillance, and lending; and no framework for assessing the IMF-wide synergies between CD and surveillance and lending. ▶ Little strategic thinking about how findings and lessons from M&E should contribute to CD prioritization, the design of activities and the choice of delivery modalities. ▶ Staff concerns with the usability of the Capacity Development Management and Administration Program (CDMAP) should be addressed to ensure the system works smoothly and with full compliance.

3. COUNTRY-TAILORED DELIVERY FOCUSED ON IMPLEMENTATION

Modernization and Agility	CD design is generally well adapted to country needs and preferences. The Fund has applied flexibly an extended, modernized, and better integrated range of delivery modalities. However, there is scope to make delivery more country-tailored and integrated across modalities. Peer-to-peer (PTP) learning and “twinning” attachments—which were identified in the 2013 and 2018 CD Reviews as modalities to be expanded—were highly valued yet are not widespread.
RCDCs	Regional Capacity Development Centers (RCDCs) have played an increasingly important role and are highly regarded by their member countries and many donors. However, while some RCDCs will receive additional IMF funding as part of the budget augmentation, there is room to enhance coherence in funding, governance, and country coverage, as part of a wider review of the Fund’s geographical presence through RCDCs.
Follow-Up	The Fund has enhanced its focus on follow-up, as a result of the increased use of medium-term, programmatic CD, underpinned by RBM and the increased use of diagnostic tools, which has helped the Fund to better plan for implementation activities, and identify when follow-up is required; and through more RCDC engagement with CD recipients. Nonetheless, some recipients indicated a desire for more follow-up and greater continuity, including after the formal completion of a CD project. Steering the right path between hands-on support and encouraging self-reliance is difficult and would benefit from more systematic analysis of the optimal balance between them.
Cost-Efficiency Evaluation of the Different Modalities of Delivery	The Fund’s response to the Board’s call for cost-efficiency evaluation of the different modalities of delivery IMF has been limited. Full implementation of RBM and CDMAP should enhance the evidence to make informed decisions about CD delivery modalities, a task that is particularly urgent as the IMF considers new blended in-person and virtual forms of CD delivery. It would also facilitate increasing the availability of data on cost-effectiveness that would be helpful in sustaining donor support.
Fragile States	Despite the ambition since 2019 to increase the share of CD allocated to FCS, that share has changed little between 2015 and 2021, reflecting the challenges of political ownership and limited absorptive capacity in FCS, but also financing and Fund personnel rigidities. Our three FCS case studies found that most CD yielded limited outcomes in the short-term but some major achievements given the context; one case study particularly identified CD intensity at odds with absorptive capacity. New efforts are now underway to increase CD and its effectiveness in FCS, reinforced by the budget augmentation and FCS strategy approved in 2022.

4. INTERNAL CONSULTATION AND INFORMATION SHARING

CDMAP	The objectives of CDMAP—to address gaps, inconsistencies, and asymmetries in CD information across the institution—are appropriate, but there are significant criticisms by many users, which suggests the need for a full and independent review to ensure the benefits of the Fund’s significant investment in the system are realized.
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Sharing of Best Practice	RCDCs have actively developed networks to promote the sharing of best practice, and CD staff were very active in identifying and sharing best practice relating to virtual delivery during the pandemic. But we identified areas of good practice, for example on coordination of CD providers in-country and PTP learning, that could be disseminated more systematically. Responsibility and mechanisms for this within headquarters (HQ) are not clearly established.
5. COORDINATION, COMMUNICATION AND DISSEMINATION	
Coordination	While coordination of CD activities in-country has been enhanced by RCDCs, overall it remains uneven, reflecting inconsistent emphasis, guidance, and support by managers.
Collaboration	Collaboration with partners and other providers on cross-cutting issues is mixed.
Dissemination	Progress toward more dissemination of CD information during the evaluation period was modest. The new policy and guidance introduced in 2022 was aimed at better balancing authorities' legitimate expectations of confidentiality, and the benefits of greater dissemination of CD reports and knowledge. It is too early to assess how much practical impact these reforms will have on dissemination and the resources to implement them.

PROGRESS AGAINST OTHER BOARD PRIORITIES FROM THE 2018 CD REVIEW

Strengthen the Sustainability and Fungibility of External Financing	The IMF has implemented the dual funding model for CD pragmatically, adapting it as needed and seeking ways to offset potential risks. However, concerns about the sustainability and flexibility of the funding model persist, as a substantial share of external financing continues to come primarily from a relatively small number of donors. Future external funding prospects depend importantly on donors' priorities and resource availability, as well as effective engagement with them on the IMF's part. Recent augmentation of the IMF budget envelope and more flexible carryover will help to provide more internal funding, but other avenues also need to be explored to contain funding risks.
Strengthening HR Practices and Incentives for CD Work	The IMF developed a strong cadre of experts for CD delivery. It benefited from its "in-house" rather than "out-sourced" model, as well as the range of contractual and staff appointments and SE profiles that it developed for its CD activities. However, there remained a tension between the need for flexibility, given changing CD needs and funding uncertainties, and the importance of continuity in CD engagements. There was limited progress in addressing the critical issues of career development and mobility for staff engaged in CD work, as well as the perceived value of their work, which raises concern about the sustainability of the Fund's high-level expertise in its traditional areas and its ability to develop adequate expertise in newly emerging areas.
Board Oversight	The design of the governance framework for CD provides the Board with clear and broadly appropriate oversight responsibilities, reflecting the fundamental differences to surveillance and lending. Although engagement on CD increased substantially during the evaluation period, many EDs still want more information and opportunities to effectively exercise their oversight role. The updated policies on CD dissemination clarify and broaden the range of CD information that can be provided to the Board.

FINDINGS ON OTHER KEY ISSUES

Institutional Objectives and Strategy	<p>CD strategy reviews every five years have effectively set the agenda for enhancing Fund CD, and the IMF has clearly articulated high-level objectives for CD—to strengthen institutional and human capacity, and help enhance the Fund’s dialogue with member countries. However, these reviews have largely focused on internal management of CD and have not addressed a number of important strategic questions. The IMF has also not assessed or reported progress against its high-level objectives. More broadly, the IMF has not set out an overarching strategy explaining the roles, synergies and tensions between CD, surveillance, and program work. This has made it harder for the Board to fulfill its strategic and oversight roles, for Management and staff to set priorities and allocate resources, and for internal and external stakeholders to make a coherent assessment of the impact of CD. Finally, there are gaps in organizational responsibilities for strategic issues, and some overlaps and inconsistencies in CD delivery and fundraising responsibilities across departments.</p>
Quality	<p>Fund training and TA continues to be widely regarded as being of the highest technical quality, and at the same time is becoming better tailored to recipient needs and circumstances, albeit with some exceptions. The Fund’s approach to keeping delivery in-house rather than outsourced and of careful backstopping of field work by HQ staff thus seems to be working well, ensuring consistently high technical quality.</p> <p>Nevertheless, we identified some issues to be kept under review, including providing adequate quality assurance in new priority areas of CD where Fund staff expertise is limited; ensuring that backstoppers continue to be recognized and resourced, and sufficiently adapt their positions to reflect realities “on the ground;” and the fact that quality could benefit from more transparency of Fund advice.</p>
Evidence on Effectiveness and Impact	<p>Subjective assessments of the effectiveness of IMF CD—by recipients, donors, and the membership more generally—continue to be very positive. Objective assessment of the effectiveness of CD is difficult, but overall, the evidence from RBM, CD evaluations, and IEO case studies strongly suggests that IMF CD has supported member countries to build stronger institutions and skills to formulate and implement sound macroeconomic and financial policies. Moreover, this assessment applies across a wide range of issues and country circumstances.</p> <p>The Fund does not systematically assess the longer-term and broader impact of its CD. Our case studies concluded that when the outcomes of CD were sustained, they generally contributed to the broader desired impact. There is scope for the Fund to enhance the evaluation of the holistic impact of all its interventions (CD, surveillance, and programs) at the level of member countries, and for more cross-country research into the effects of Fund CD on institutional improvement, economic growth,, and stability in member countries.</p> <p>Evidence on the effectiveness and impact of CD as well cost efficiency and cost effectiveness can and should be made more available, including to the Board, and used more consistently to strengthen CD allocation, design, and delivery.</p>

<p>Response to and Lessons from COVID-19</p>	<p>The Fund’s response to the challenges for CD caused by the pandemic has been very impressive. However, while authorities and staff agree that virtual delivery brings some benefits, it also creates challenges and is not a full substitute for in-person engagement. A wider review of the Fund’s delivery model, supported by more systematic gathering and analysis of data on the cost-effectiveness of different delivery modalities and the trade-off between breadth and depth in CD delivery, would help understand the costs and benefits of remote and in-person delivery to develop a blended approach that combines the best features of virtual and in-person delivery, tailored to country circumstances.</p> <p>The effort to introduce a new form of multi-partner vehicle via the COVID-19 Initiative with enhanced flexibility for the IMF has had limited success, raising questions about the scope to introduce greater flexibility to the existing funding model through multi-party external funding vehicles.</p>
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RECOMMENDATIONS

The evaluation offers seven broad recommendations for Board consideration (Box 10). They are aimed at further enhancing the effectiveness and impact of IMF capacity development (CD), seeking to build on the considerable progress made in strengthening CD over the evaluation period. Many could be appropriately considered in the five-year CD strategy review due in 2023. For each broad recommendation, we offer some specific suggestions for how they could be implemented. In some cases, the specific suggestions are for consideration over the medium term, as resources permit.

BOX 10. IEO RECOMMENDATIONS FOR BOARD CONSIDERATION

Recommendation 1. Further enhance the strategic framework for IMF CD to provide clearer guidance for a more intentional and transparent approach to the prioritization and allocation of IMF CD.

Recommendation 2. Further develop the Executive Board’s strategic and oversight role through increased engagement and provision of information.

Recommendation 3. Reinforce measures to promote CD ownership, along with tighter integration with surveillance and lending, tailoring to country circumstances, and closer collaboration, as key drivers of CD effectiveness.

Recommendation 4. Leverage further the advantages of Regional Capacity Development Centers and put them on a sustainable footing.

Recommendation 5. Further enhance the monitoring and evaluation (M&E) system and fully exploit it to drive improvement in CD prioritization, design, and delivery.

Recommendation 6. Consider steps to enhance the stability and flexibility of CD funding in order to sustain support for the CD needs of member countries.

Recommendation 7. Calibrate HR policies and incentives further to ensure that the IMF maintains and enhances the quality and continuity of CD expertise and that CD receives appropriate priority as an integral aspect of country engagement.

It is important to stress that for these recommendations to be truly effective there will also need to be a change in the institutional culture toward CD. While the membership considers CD as one of the three core tasks of the IMF, in practice CD is not always treated on par with surveillance and lending. This is particularly the case for Board engagement; integration of CD in the Fund’s engagement with members through surveillance and lending; and incentives for staff to work in CD. To change the broader culture and effective second-class status accorded to CD will require leadership and support from the Board, management, and senior departmental staff.

Recommendation 1. Further enhance the strategic framework for IMF CD to provide clearer guidance for a more intentional and transparent approach to the prioritization and allocation of IMF CD.

This would involve finetuning rather than overhauling the already strengthened approach put in place in recent years. Specific steps could include:

- ▶ More clearly articulating the role of IMF CD in meeting the IMF's goals; the synergies between CD, surveillance, and programs at the institutional and country levels; and the trade-offs between the objectives of, and guiding principles for, CD. Clearer articulation of priorities and tradeoffs would help guide allocation of CD resources, for example, between a country's need for capacity development and the likelihood of near-term impact from CD support, or between individual country demand and the IMF's broader strategic priorities.
- ▶ Enhancing the empirical/analytical basis for informing decisions about the allocation of CD, for instance, whether and when shorter versus longer-term (programmatic) engagements work best and how to balance the relative costs and benefits of dispersing CD widely across the membership versus deeper and more intensive engagements. Such a framework could incorporate factors including countries' track record on past CD and their commitment to current CD, drawing on the growing evidence available from Results-Based Management (RBM) data and evaluations of Fund CD; an improved assessment of CD need; and a systematic assessment of institutional capacity in heavy CD user countries.
- ▶ Strengthening the role of the Committee on Capacity Building (CCB), including to position it to provide more definitive guidance for hard choices between country demands and the IMF's strategic priorities, informed by a deepening empirical/analytical evidence base. The terms of reference for the CCB could be reviewed and updated to reflect this enhanced role.
- ▶ Clarifying departmental roles and responsibilities vis-à-vis CD, to avoid overlaps, inconsistencies, and any potential incompatibility in responsibilities.
- ▶ Ensuring that Country Strategy Notes (CSNs) are regularly produced for all heavy CD users and are more consistent in terms of scope, consideration of strategic choices, and clarity in setting objectives for Fund engagement that could be subsequently assessed. Putting in place a more systematic review process would help accomplish this.
- ▶ Over the medium term, as resources permit, consideration could be given to:
 - Extending the preparation of Country Engagement Strategies, which bring together surveillance, lending, and CD for fragile and conflict-affected states (FCS), to all heavy CD users.
 - Developing explicit guiding principles, to be discussed and endorsed by the Board, on how to balance competing considerations—of recipient countries' needs and preferences, the likelihood of success of CD activities, and the importance of evenhandedness across the Fund's membership—in deciding how to allocate CD resources and the use of internal vs. external funding.
 - Developing a holistic framework to examine the roles, synergies, and tensions across CD, surveillance, and program work in different country contexts. Convening an expert group including external stakeholders as well as internal contributors could help to consider these issues and to offer recommendations about an overarching strategy for IMF engagement across these activities.

Recommendation 2. Further develop the Executive Board's strategic and oversight role through increased engagement and provision of information.

While CD should not necessarily be on a fully equal footing with surveillance and program work in terms of the nature and modalities of Board oversight, the Board should nonetheless have more opportunity to understand progress against CD priorities and objectives and to provide strategic guidance on: (i) allocation of resources; (ii) the CD strategy and its integration with surveillance and program work in recipient countries; and (iii) external funding decisions. Actions could include:

- ▶ Introducing a formal Board meeting, based on a staff paper, to discuss progress in implementing the agreed CD strategy and priorities and how to address any new challenges, at the midpoint between CD strategy reviews, as well as upgrading the annual informal Board engagement on CD before the spring Medium-Term Budget (MTB) discussion by including an update on progress in implementing the agreed CD strategy and priorities.
- ▶ Requiring all surveillance and program country documents for heavy CD users provided to the Board to include a short but substantive discussion of the CD strategy for the subject country, how CD activities fit into that strategy and are integrated with surveillance and program activities, and how CD is providing value.
- ▶ Explaining to the Board, for example in documents seeking Board approval of new external funding vehicles, how new vehicles would contribute to the Fund's CD strategy, and how the priorities of donors and the IMF will be aligned.
- ▶ *Over the medium term*, as the evidence base matures, developing a reporting format to routinely provide more information and analysis to the Board of the results, impact, and value for money of CD activities, both at the country level and at the aggregate level, drawing on RBM, evaluations, and cost and activity data from the Capacity Development Management and Administration Program (CDMAP).

Recommendation 3. Reinforce measures to promote CD ownership, along with tighter integration with surveillance and lending, tailoring to country circumstances and closer collaboration, as key drivers of CD effectiveness.

Particular actions could include:

- ▶ Deepening engagement with recipient authorities in the development of CSNs and in the design and planning of CD projects, including the specification of objectives, outcomes, and milestones provided in RBM, and the monitoring of progress against them.
- ▶ Elaborating the guidance to staff on how to navigate challenges of CD in a program context, most importantly to ensure that CD contributes to rather than detracts from ownership.
- ▶ Clarifying the expectations of and guidance for staff, especially resident representatives, in supporting efforts by country authorities to lead and coordinate across different CD providers, underpinned by collection and dissemination of evidence on best practices more generally in coordination of CD providers.
- ▶ Over the medium term, exploring options for recipient authorities to signal their ownership, for example through requiring sign-off on terms of reference for CD projects, and commitment of own resources to working with the Fund. Staff could also explore ways to measure and assess ownership on a more systematic basis.

Recommendation 4. Leverage further the advantages of Regional Capacity Development Centers (RCDCs) and put them on a sustainable footing.

Specific steps could include:

- ▶ Clarifying the respective roles of HQ and RCDCs and strengthening the governance structure of RCDCs.

- ▶ Moving toward more coherent geographic coverage, as well as more consistent deployment of fully integrated centers and greater balance in funding across regions.
- ▶ Providing for a stronger role for internal IMF financing of RCDCs where needed to ensure a more stable source of funds for overhead costs, enabling donor resources to be focused on financing specific CD activities.
- ▶ Over the medium term, enhancing knowledge exchange across RCDCs and between centers and HQ about best practices (such as in peer-to-peer, or PTP, learning).

Recommendation 5. Further enhance the monitoring and evaluation (M&E) system, and fully exploit it to drive improvement in CD prioritization, design, and delivery.

Measures could include:

- ▶ A thorough assessment of CDMAP progress and remaining challenges, with further fine-tuning to ensure that the system is as user-friendly as possible to encourage full and effective compliance.
- ▶ Developing a more coherent institution-wide strategy for CD evaluation to be endorsed by the CCB, covering both internal and external evaluations, that guides what will be evaluated and by whom, and ensures that lessons are distilled and effectively disseminated. Such a strategy could include periodic evaluations of all the major CD workstreams, conducted by the capacity development departments (CDDs) with the Institute for Capacity Development (ICD) supporting quality control and dissemination.
- ▶ Streamlined project assessments reports prepared at the conclusion of all projects could consistently include lessons learned with broad applicability and comments from the relevant authorities, to serve as the building blocks for broader evaluations

- ▶ Over the medium term, as resources permit, consideration could be given to:
 - Exploring how more systematic use of RBM results and CDMAP data could help enhance assessment of CD effectiveness and cost effectiveness and contribute to prioritization and allocation decisions.
 - Developing a framework and processes to assess CD effectiveness and impact at the level of countries and their key institutions, as well as the synergies between CD, surveillance, and lending.
 - Undertaking a comprehensive assessment of performance and actual outcomes and impact to inform the five-yearly CD Strategy Reviews. The proposed integrated and strategic approach to evaluation would enrich the inputs on performance and outcomes for the reviews.

Recommendation 6. Consider further steps to enhance the stability and flexibility of CD funding in order to sustain support for the CD needs of member countries.

In addition to the regular efforts to monitor and finetune CD funding already in place, a deeper review of the CD funding model would seem warranted to explore options given the risks involved in relying on external funding, growing concerns about donor fatigue, and the tensions inherent in the IMF CD funding model. Options for consideration could include:

- ▶ Further enhancements in the management of the current funding model to enhance its effectiveness and efficiency, for instance by seeking greater flexibility in and consolidation of donor arrangements where appropriate.

- ▶ Exploring potential alternatives to increase funding, such as a targeted increase in contributions from some CD higher-income recipients, an internal set-aside or stabilization mechanism, or a larger contribution from internal resources via a targeted augmentation or reallocation from other activities.
- ▶ Enhancing communication and coordination across departments regarding requests to and engagement with donors, with the goal of ensuring that requests are well-aligned and prioritized, which would help mitigate donor fatigue.
- ▶ Over the medium term, consideration of the extent to which HR policies and practices related to appointment terms for employees engaged in CD are appropriately calibrated to balance the tension between flexibility and continuity in CD expertise.

Recommendation 7. Calibrate human resource (HR) policies and incentives further to ensure that the IMF maintains and enhances the quality and continuity of CD expertise and that CD receives appropriate priority as an integral aspect of country engagement.

Steps could include:

- ▶ Energizing the development and implementation of an ambitious expert track to enhance career opportunities by providing additional budgetary resources. The expert track could be calibrated to significantly increase career opportunities for specialized economists (SEs) to move into suitable roles both horizontally, including across departments, and vertically, including both advisory and managerial roles.
- ▶ Taking steps needed to complete the workforce planning and talent inventory initiatives to allow better tracking and planning of CD expertise across the Fund.
- ▶ Seeking to build on innovations introduced during the pandemic, for instance examining whether the definition of “duty station” could be adapted to allow experts in some cases to work remotely from third countries, with a view to appealing to a broader candidate pool and helping attract high-quality and diverse experts.

Budgetary Implications

In developing these recommendations, the IEO recognizes the overall budgetary constraints and the competing demands for available resources across the Fund’s activities. A number of the recommended actions are already resourced in the Fund’s MTB, including the completion of the rollout of CDMAP and the upcoming CD strategy review, which provides an appropriate venue to consider many of the suggestions made here. Nevertheless, some of the specific suggestions could imply significant increases in expenditure, although others present opportunities for efficiencies. We expect that a few would be broadly budget neutral, such as the enhancements to HR policies and practices affecting CD experts and steps to increase country ownership.

Several recommendations imply more resources being allocated to the planning, coordination and evaluation of CD, and better learning from CD experience, as opposed to operational delivery. We do not envisage a major reallocation in resources away from operational delivery, but rather anticipate that a small shift in the overall CD budget could allow significantly stepped-up attention to assessing and utilizing CD results. We believe that such an adjustment would have a substantial payoff over the medium term through better design, allocation, effectiveness, and impact of CD, which will in turn help to sustain external funding support.

The evaluation does not take a view on the appropriate overall spending envelope for CD but concludes that the Board should address the key strategic questions of the scale of CD, in absolute terms and relative to other activities, in the context of the Fund’s broader CD and institutional strategy and objectives. The upcoming CD strategy review provides an opportunity to reflect on these strategic issues, as well as consider this evaluation’s recommendations and potential resource implications.

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STATEMENT BY THE MANAGING DIRECTOR

ON THE INDEPENDENT EVALUATION OFFICE REPORT ON THE IMF AND CAPACITY DEVELOPMENT EXECUTIVE BOARD MEETING, SEPTEMBER 12, 2022

I welcome the report of the Independent Evaluation Office (IEO) on the IMF and Capacity Development (CD), which is timely and offers valuable insights and extensive analysis. The report recognizes CD as a key function of the Fund alongside surveillance and lending. The evaluation highlights the high quality of Fund CD and demonstrates that it has supported member countries in a very wide range of circumstances. I am pleased that it also recognizes the significant progress made in recent years in improving tailoring, governance, funding, and management of CD, including through the recent pandemic. I support the thrust of the IEO's key recommendations, which will further reinforce the value provided by the Fund's CD to our member countries. Implementation will largely be developed within the context of the Management Implementation Plan (MIP) for this evaluation and the forthcoming review of the Capacity Development Strategy, while considering resource constraints and prioritizing actions that best address needs, enhance CD impact for members, and help meet growing demand in the core and newly emerging areas of work.

The IEO evaluation contains a wealth of analysis and background material that will be invaluable as staff embarks on the preparation of the 2023 CD Strategy Review. The overall assessment is very positive, highlighting the achievements authorities have made with the help of Fund CD and the value they continue to place on this area of Fund work. The report also acknowledges the significant strides that have been made in improving governance and management of CD in recent years.

I am pleased that the report reaffirms the key strengths of Fund CD: its responsiveness and tailoring to members' needs; high technical quality; flexible delivery through a range of modalities; good prioritization; and adaptiveness to changing circumstances and member needs; and broad effectiveness. I note with pleasure that the IMF's response during the COVID-19 pandemic was deemed impressive, which is a testament to the quality and dedication of our staff. It is also encouraging that continued progress in the integration of CD with surveillance and lending is stressed as a critical element enhancing CD impact. I agree that greater engagement with authorities to build more ownership is of utmost importance to further advance this objective.

At the same time, the report concludes that there is a need to build on progress, and further improve the strategic context, Board engagement, funding structure, field presence, and monitoring and evaluation of CD. It also proposes strengthening human resource policies and structure. This wide-ranging agenda aligns well with our plans for the 2023 CD Strategy Review and will provide a valuable roadmap for the exercise. The review will take account of the IEO's positive assessment of Fund CD and of the wide range of reforms already in train. It will also aim to build on these efforts in the areas identified by the IEO's key recommendations while designing specific actions in a way that is most cost-effective, bearing in mind

budget constraints and work pressures on staff, the Board, and member country officials.

I support the thrust of the report's key recommendations proposed for the Board's consideration today (Executive Summary of the IEO's report). At the same time, I have some qualifications that pertain to the specific suggestions made by the IEO to implement these key recommendations. Implementation should take account of cost-benefit considerations, implementation progress of recent reforms, and feasibility. For instance, we should be careful that actions to further enhance prioritization processes and boosting the Monitoring and Evaluation system do not impose significant administrative costs without commensurate benefits, especially in the context of a flat real IMF budget. I would be particularly concerned if implementation of such steps required a significant reallocation of resources away from CD delivery at a time when demand for CD on core and transformational areas—such as climate change and digital money—is expected to rise. I note that the IEO envisages only small shifts of this nature, but as specific measures are fleshed out, we will be vigilant in ensuring this, given the importance of CD delivery to our members.

RESPONSE TO IEO RECOMMENDATIONS

The IEO makes seven key recommendations in its report. Below is my proposed response to each of these.

Recommendation 1. Further enhance the strategic framework for IMF CD to provide clearer guidance for a more intentional and transparent approach to the prioritization and allocation of IMF CD.

Possible specific short-term steps identified by IEO for future consideration at the MIP stage:

- ▶ More clearly articulating the role of CD in meeting the IMF's goals; the synergies between CD, surveillance and programs at the institutional and country levels; and the trade-offs between the objectives of, and guiding principles for CD.
- ▶ Enhancing the empirical/analytical basis for informing trade-offs in allocating CD.

- ▶ Strengthening the role of the Committee on Capacity Building (CCB) including through updating its Terms of Reference.
- ▶ Clarifying departmental roles and responsibilities vis-à-vis CD, to avoid overlaps, inconsistencies, and any potential incompatibility in responsibilities.
- ▶ Ensuring that Country Strategy Notes (CSNs) are regularly and consistently produced for all heavy users of CD.

Over the medium term, as resources permit, IEO also proposes consideration of:

- ▶ Extending Country Engagement Strategies to all heavy CD users.
- ▶ Developing explicit guiding principles on how to balance competing considerations in allocating CD resources and the use of internal vs external funding.
- ▶ Developing a holistic framework to examine the roles synergies and tensions across CD, surveillance and program work in different country contexts with input from an external expert group.

I broadly support this key recommendation with qualifications. These relate to the detail of some of the specific steps proposed, particularly with respect to the medium-term actions.

I agree with the importance of further enhancing the strategic framework for CD so as to provide more guidance for allocation decisions. We anticipate that this will be a key theme of the forthcoming CD Strategy Review. It will consider the competing considerations outlined in the evaluation based on empirical and analytical evidence and the views of a panel of external stakeholders and make recommendations for Board endorsement. The review will consider synergies and trade-offs between CD, surveillance, and program work and reflect on the overall size of CD, but it is not meant to be and cannot be an overarching framework for the entirety of Fund engagement with member states.

The CCB is an important consultative body for furthering CD prioritization, impact, and its integration with surveillance and lending. I agree that updating its Terms of Reference to ensure its continued relevance is important. We will continue to seek to strengthen the analytical basis for the CCB's deliberations, recognizing that country-specific judgment and tailoring will remain critical in resource-allocation decisions and that there are limits to the value of top-down analytical approaches.

Regional Strategy Notes (RSNs) articulate the CD strategy for regions and sub-groups within regions and are prepared by area departments in close consultation with CD-delivery departments. We will continue to rely on CSNs to drive prioritization at the country level, seeking to improve their rigor, consistency, and approaches to strengthen member country engagement and, in line with new surveillance guidance, continue to enhance the coverage of CD in country documents. However, mandating the use of Country Engagement Strategies for all heavy CD users could be costly and would best be considered following longer experience with the implementation of the Fragile and Conflict-affected States (FCS) Strategy.

Developing an umbrella framework covering CD, surveillance, and lending would be a costly exercise with uncertain benefits given the backdrop of already existing Board-endorsed policies and strategic documents both on CD and other main activities of the Fund, as well as on regional and country-specific CD strategies. CDMAP also includes tools that help country teams and departments make sure that CD delivery is consistent with Fund and departmental priorities.

Recommendation 2. Further develop the Executive Board's strategic and oversight role through increased engagement and provision of information.

Possible specific short-term steps identified by IEO for future consideration at the MIP stage:

- ▶ Introducing a formal Board midpoint review on implementation of CD Strategy and also including progress reports in annual briefings on CD priorities.

- ▶ Requiring all surveillance and program country documents for heavy CD users to include a short but substantive discussion of the CD strategy for the subject country.
- ▶ Explaining in documents seeking Board approval of new external funding vehicles how these vehicles and CD activities contribute to the Fund's CD strategy.

Over the medium term, as resources permit, IEO also proposes consideration of:

- ▶ Developing a reporting format to routinely provide more information and analysis to the Board of the results, impact, and value for money of CD activities.

I support this key recommendation. Engagement with the Board on prioritization and strategy has increased significantly in recent years with formal engagement remaining centered on the five-year CD strategy reviews. A formal mid-point progress report on the implementation of the CD strategy—similar to what is done for the Comprehensive Surveillance Strategy—could be a useful vehicle for deepening Board engagement.

Strengthening the coverage of CD in appropriate Board country documents is an important element of the Comprehensive Surveillance Review (CSR) guidance. In the short term, efforts will focus on implementing this guidance, including with the help of Board feedback. Further requirements or clarifications could be considered later on in light of lessons learned from the implementation of the guidance.

We will continue to explore other means for enhancing information provision to the Board, including through funding vehicle approvals and standardized reporting formats.

Recommendation 3. Reinforce measures to promote CD ownership, along with tighter integration with surveillance and lending, tailoring to country circumstances and promoting collaboration as key drivers of CD effectiveness.

Possible specific short-term steps identified by IEO for future consideration at the MIP stage:

- ▶ Deepening engagement with recipient authorities in the development of CSNs and in the design and planning of CD projects.
- ▶ Enhancing the guidance to staff on how to navigate challenges of CD in a program context to support rather than hinder CD ownership.
- ▶ Clarifying the expectations of and guidance for staff, especially resident representatives, on supporting efforts by country authorities to lead and coordinate CD providers, underpinned by collection and dissemination of evidence on best practices more generally in coordination of CD providers.

Over the medium term, as resources permit, IEO also proposes consideration of:

- ▶ Exploring options for recipient authorities to signal their ownership, for example through requiring sign-off of Terms of Reference for CD projects, and commitment of resources to working with the Fund. Staff could also explore ways to measure and assess ownership on a more systematic basis

I support this key recommendation. Strengthening authorities' ownership, integration with surveillance, and tailoring to country context were all central objectives of the 2018 CD Strategy Review. This key recommendation is already embodied in recent staff guidance, although implementation remains a work in progress. Significant efforts are also being invested in external communications, improving CD information dissemination in line with the recently updated policy, as well as outreach activities such as the CD talks at the annual and spring meetings.

We will continue to explore ways to further strengthen implementation of best practices regarding CD-surveillance integration—as outlined in the guidance from both the 2018 CD Strategy Review and the 2022 CSR guidance—with a recommended set of actions based on experience, while remaining conscious of trade-offs stemming from absorptive capacity of recipients and internal administrative costs. Existing CD integration guidance can be

enhanced regarding program contexts. These issues are expected to be another key theme of the 2023 CD Review.

Recommendation 4. Leverage further the advantages of Regional Capacity Development Centers (RCDCs) and put them on a sustainable footing.

Possible specific short-term steps identified by IEO for future consideration at the MIP stage:

- ▶ Clarifying the roles of HQ and RCDCs and strengthening the governance structure of RCDCs.
- ▶ Moving toward more coherent geographic coverage, as well as more consistent deployment of fully integrated centers and greater balance in funding across regions.
- ▶ A stronger role for IMF financing of RCDCs to ensure a more stable source of funds for overhead costs, enabling donor resources to be focused on financing specific CD activities.

Over the medium term, as resources permit, IEO also proposes consideration of:

- ▶ Enhanced knowledge exchange across RCDCs and between centers and HQ about best practices.

I support this key recommendation, although implementation will be dependent on resource availability. RCDCs are critical to the Fund's CD delivery, providing a strong field presence and ensuring tailored, responsive support to members. The recently approved FCS strategy recognizes the critical role of field presence, notably for CD, and its implementation includes increasing the number of CD experts based in the field. We envisage that enhancing field presence in general and the governance of RCDCs, including clarifying the roles of HQ and RCDCs, will be a central element of the upcoming CD Strategy Review. We continue to strive to ensure stable funding for the centers by expanding the donor base for RCDCs. Options for further increasing IMF financing of the centers, building on that put in place as part of the budget augmentation, can be explored but will obviously imply trade-offs in a flat real-budget environment.

Recommendation 5. Further enhance the Monitoring and Evaluation system and fully exploit it to drive improvement in CD prioritization, design, and delivery.

Possible specific short-term steps identified by IEO for future consideration at the MIP stage:

- ▶ A thorough assessment of CDMAP progress and remaining challenges, with further fine-tuning of CDMAP to ensure that the system is as user-friendly as possible.
- ▶ Developing a more coherent institution-wide strategy for CD evaluation to be endorsed by the CCB, covering both internal and external evaluations, that guides what will be evaluated and by whom, ensuring lessons are distilled and effectively disseminated.
- ▶ Streamlined project assessment reports prepared at the conclusion of all projects should include lessons learned with broad applicability and comments from the relevant authorities, to serve as the building blocks for broader evaluations.

Over the medium term, as resources permit, IEO also proposes consideration of:

- ▶ Exploring how more systematic use of result-based management (RBM) results could help enhance assessment of CD effectiveness and cost effectiveness and contribute to prioritization and allocation decisions.
- ▶ Developing a framework and processes to assess CD effectiveness and impact at the level of countries and their key institutions, as well as the synergies between CD, surveillance, and lending.
- ▶ The five-yearly CD Strategy Reviews should be informed by a comprehensive assessment of performance and actual outcomes and impact.

I broadly support this key recommendation with qualifications. Significant work has been invested towards ensuring that more use is made of the RBM approach and evaluation information in decision-making about CD prioritization and design of individual projects, particularly through

the implementation of CDMAP. We already intend to undertake a thorough assessment of progress under this initiative and will use it to guide future fine-tuning and development of the system.

On evaluation of CD, the focus is expected to be on better rather than more evaluations, as the current externally mandated evaluation program is already extensive. In this light, the CCB will continue to strive for a coherent and effective internal evaluation strategy and seek to use the findings of mandated external evaluations as strategically as possible. We will consider ways to raise the profile of these evaluations' recommendations and to synthesize them so they can better inform planning, design, and prioritization of all Fund CD. We will also investigate options for further centralizing the strategic planning and execution of internal evaluations while bearing in mind cost-benefit tradeoffs.

We will continue our efforts to improve the quality and consistency of RBM information, including through closer communication between area and CD departments, and with authorities. We intend for analysis of RBM data to inform the 2023 CD Strategy Review. I agree that more use should be made of assessment information for decision-making, while noting inherent limitations in the use of quantitative RBM information and the substantive cost of complementing such data with qualitative information. Development of new mechanisms and frameworks will also need to take account of resource constraints and the importance of preserving CD delivery resources.

Recommendation 6. Consider further steps to enhance the stability and flexibility of CD funding in order to sustain support for the CD needs of member countries.

Possible specific short-term steps identified by IEO for future consideration at the MIP stage:

- ▶ Further enhancements in the management of the current external funding model to enhance its effectiveness and efficiency.
- ▶ Exploring potential alternatives to increase funding, such as a targeted increase in contributions from higher-income recipients, an internal stabilization mechanism, or larger contributions from internal resources.

- ▶ Enhancing communication across departments regarding requests and engagement with donors.

I support this key recommendation with qualifications. I agree that increasing stability and flexibility of external funding is important. As noted in the report, the Fund has made progress in this area in recent years including broadening of the donor base, creating buffers for CD demand surges, and instilling a carry forward policy for multi-year CD programs and expenditure optimization. We will continue to explore new options, but the scope for, or speed of, significant gains may be limited, given pressures on both Fund and donor budgets.

I do not support the option to increase charging for CD services given the serious administrative difficulty of implementing such a charging regime and the limited appetite of members for the policy, as evidenced by the experience with implementation of the existing charging policy. The merit and practicality of other options will have to be carefully considered, in light of the Fund's income model and donors' preferences and constraints.

The scope for significant increases in internal funding will continue to be subject to overall prioritization within Fund's medium-term budget process and the inevitable trade-offs that come with a flat real budget.

Recommendation 7. Calibrate HR policies and incentives to ensure that the IMF maintains and enhances the quality and continuity of CD expertise, and that CD receives appropriate priority as an integral aspect of country engagement.

Possible specific short-term steps identified by IEO for future consideration at the MIP stage:

- ▶ Energizing the development and implementation of an ambitious expert track to enhance career opportunities by providing additional budgetary resources.

- ▶ Taking steps to complete the workforce planning and talent inventory initiatives to allow better tracking and planning of CD expertise across the Fund.

- ▶ Seeking to build on innovations introduced during the pandemic with a view to appealing to a broader candidate pool and helping attract high-quality and diverse experts.

Over the medium term, as resources permit, IEO also proposes consideration of:

- ▶ Consideration of the extent to which HR policies and practices for CD staff are appropriately calibrated to balance the tension between flexibility and continuity in CD expertise.

I support this key recommendation, although timing of implementation will need to be aligned with the pace of broader HR reforms. Ensuring that the Fund can continue to attract and retain expertise is critical to maintain the high quality of its CD. Progress has already been made on multiple fronts, including through the inclusion of CD missions in the talent inventory and the coverage in FCS policy. However, changes to HR policies and practices have to be taken forward for the whole workforce and staff is still implementing the measures from the last HR strategy review along with major HR transformation initiatives. While some of IEO's recommendations such as an expert track and talent inventories are on HRD's work agenda, others (HR policies on flexibility/continuity) can only be considered in the context of a comprehensive review of HR employment policies. A key challenge will be the persistent internal perception that CD work is less valued and conducive to career progression than surveillance and program work.

Rebalancing this requires behavioral and cultural changes that cannot be achieved solely through HR policy changes.

TABLE 1. THE MANAGING DIRECTOR'S POSITION ON IEO KEY RECOMMENDATIONS

KEY RECOMMENDATION	POSITION
1. Enhance the strategic framework for IMF CD to clarify how CD contributes to the IMF's overall mandate, and the synergies and trade-offs between CD, surveillance, and programs, at the institutional and country levels.	QUALIFIED SUPPORT
2. Further develop the Executive Board's strategic and oversight role through increased engagement and provision of information.	SUPPORT
3. Reinforce measures to promote CD ownership, along with tailoring to country circumstances and promoting collaboration, as key drivers of CD effectiveness.	SUPPORT
4. Leverage further the advantages of RCDCs and put them on a sustainable footing.	SUPPORT
5. Further enhance the monitoring and evaluation system, and fully exploit it to drive improvement in CD prioritization, design, and delivery.	QUALIFIED SUPPORT
6. Explore options to secure more stable and flexible funding for IMF CD.	QUALIFIED SUPPORT
7. Adjust HR policies and incentives to ensure that the IMF maintains and enhances the quality and continuity of CD expertise, and that CD receives appropriate priority as an integral aspect of country engagement.	SUPPORT

THE CHAIR'S SUMMING UP

INDEPENDENT EVALUATION OFFICE—THE IMF AND CAPACITY DEVELOPMENT EXECUTIVE BOARD MEETING 22/80, SEPTEMBER 26, 2022

Executive Directors welcomed the report of the Independent Evaluation Office (IEO) on The IMF and Capacity Development (CD) and appreciated its insights and recommendations. They welcomed the report's finding that overall, Fund CD has been of high quality and constitutes a key function of the Fund, alongside surveillance and lending, which has supported member countries in building the institutional capacity to formulate and implement sound macroeconomic and financial policies in a very wide range of circumstances. Directors also welcomed the finding that IMF CD is relevant, valued, and broadly effective, and that significant progress has been made in recent years in improving tailoring, governance, funding, and management of CD, including through the recent pandemic. While recognizing these achievements, Directors noted the evaluation's finding of a number of shortcomings and challenges facing Fund CD work. Against this background, Directors welcomed the Managing Director's broad support for the IEO findings and recommendations, while also noting the qualifications. They agreed that further reinforcing the value provided by the Fund's CD to member countries should be a guiding principle, particularly in the context of the forthcoming Capacity Development Strategy Review, which will consider prioritizing actions that best address needs, enhance CD impact for members, and help meet growing demand in the core and newly emerging areas of work.

Directors broadly supported Recommendation 1 on further enhancing prioritization and the strategic framework for CD. They noted that this objective would be a key theme of the forthcoming Review, which will consider synergies and trade-offs between CD, surveillance, and program work, and reflect on the overall size of CD. At the same time, most Directors noted that the Review is not meant to be an overarching framework for the entirety of Fund engagement with member states, and that developing such an umbrella framework covering CD, surveillance, and lending would be a costly exercise with uncertain benefits given the backdrop of already existing Board-endorsed policies and strategic documents both on CD and the other main activities of the Fund. Some Directors, however, suggested or were open to considering such a framework. Directors agreed that strengthening the role of the Committee on Capacity Building (CCB), including through updating the Terms of Reference will be important. They agreed that Regional and Country Strategy Notes should continue to drive prioritization at the country level while improving their rigor, consistency, and approaches to strengthen member country engagement. While a number of Directors supported or were open to the recommendation to develop Country Engagement Strategies (CES) for all heavy CD users, other Directors wondered about the cost implications of mandating such use for all heavy CD users and a few Directors noted that this would best be considered following longer experience with the implementation of the FCS Strategy.

Directors concurred with Recommendation 2 on further developing the Executive Board's strategic and oversight role through increased engagement and provision of information. They recognized that Board engagement on prioritization and strategy has increased significantly in recent years, with formal engagement remaining centered on the five-year CD strategy reviews. They agreed that introducing a formal mid-point progress report on the implementation of the CD strategy could be a useful vehicle for deepening Board engagement. They saw merit in strengthening the coverage of CD in appropriate Board country documents, in line with the Comprehensive Surveillance Review guidance, as well as in continuing to explore other means for enhancing information provision to the Board on CD effectiveness and value for money, including through funding vehicle approvals and standardized reporting formats. This will help enhance the Board's strategic oversight.

Directors supported Recommendation 3 on reinforcing measures to promote CD ownership, along with tighter integration with surveillance and lending, tailoring to country circumstances and absorptive capacity, and promoting closer collaboration with CD recipients and other CD partners as key drivers of CD effectiveness. Directors stressed the importance of enhancing the guidance to staff on how to integrate CD in a program context. They encouraged addressing these issues in the context of the upcoming Review.

Directors agreed with Recommendation 4 on further leveraging the advantages of Regional Capacity Development Centers (RCDCs) and putting them on a sustainable footing. They highlighted that enhancing field presence in general and the governance of RCDCs, including clarifying the roles of HQ and RCDCs, is an important element of CD provision and should be a central element in the upcoming Review. Many Directors called for increasing Fund financing of RCDCs to ensure a more stable source of funds and noted that a stronger role for IMF internal financing should be explored. Other Directors recognized that implementation would depend on resource availability.

Directors broadly agreed with Recommendation 5 on further enhancing the Monitoring and Evaluation system and fully exploiting it to drive improvements in CD prioritization, design, delivery, and reporting. They encouraged

undertaking a thorough assessment of progress under CDMAP and remaining implementation challenges, along with fine-tuning of operational practices as experience with CDMAP accumulates. Directors also encouraged continued efforts to improve the quality and consistency of RBM, including through closer communication between area and CD departments and with authorities. Directors emphasized that the CCB should continue to strive for a coherent and effective evaluation strategy to learn lessons for how to ensure maximum CD impact. Noting the already extensive externally mandated evaluation program, Directors suggested seeking to make strategic use of their findings and synthesize them so they can better inform planning, design, and prioritization of all Fund CD. They also noted that options should be explored to further strengthen the strategic planning and execution of internal evaluations, while bearing in mind cost-benefit trade-offs.

Directors broadly agreed with Recommendation 6 on considering further steps to enhance the stability and flexibility of CD funding in order to sustain support for the CD needs of member countries. They recognized that the Fund has made progress in this area in recent years including broadening of the donor base, creating buffers for CD demand surges, and instilling a carry forward policy for multi-year CD programs and expenditure optimization. In this regard, Directors saw the benefit of continuing to explore new options, although they recognized that the scope for, or speed of, significant gains may be limited, given pressures on both Fund and donor budgets. Some Directors were open to exploring the feasibility of the option to increase charging for CD services. Other Directors expressed doubts, given the serious administrative difficulty of implementing such a charging regime and the limited appetite of members for the policy. Many Directors were also open to exploring the merits of larger contributions from internal Fund sources. Many Directors suggested a review of the CD funding model, including external funding vehicles. Directors noted, however, that the merit and practicality of the different options would have to be carefully considered in light of the Fund's income model and donors' preferences and constraints.

Directors agreed with Recommendation 7 on the need to calibrate HR policies and incentives to maintain and enhance the quality and continuity of CD expertise, and ensure that CD receives appropriate priority as an integral

aspect of country engagement. They stressed the need to deliver on initiatives such as the talent inventory and the expert track that were already part of the HR strategy. Directors recognized that the timing of implementation of some other elements of this recommendation would need to be aligned with the pace of broader HR reforms, although a number of Directors suggested there could be scope to consider options on flexible working arrangements, at least on a trial basis. Directors looked forward to proposals in the MIP on staff incentives to work in CD. They noted that raising the recognition and opportunities for CD specialists at the Fund also requires behavioral and cultural changes.

Overall, Directors noted that the recommendations and their detailed suggestions should be carefully weighed against their budgetary implications and be subject to overall prioritization within the Fund's medium-term budget process and the inevitable trade-offs that come with a flat real budget. In line with established practice, management and staff will give careful consideration to today's discussion in formulating the Management Implementation Plan for Board-endorsed recommendations.

THE IMF AND CAPACITY DEVELOPMENT
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