

## 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.