

1

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

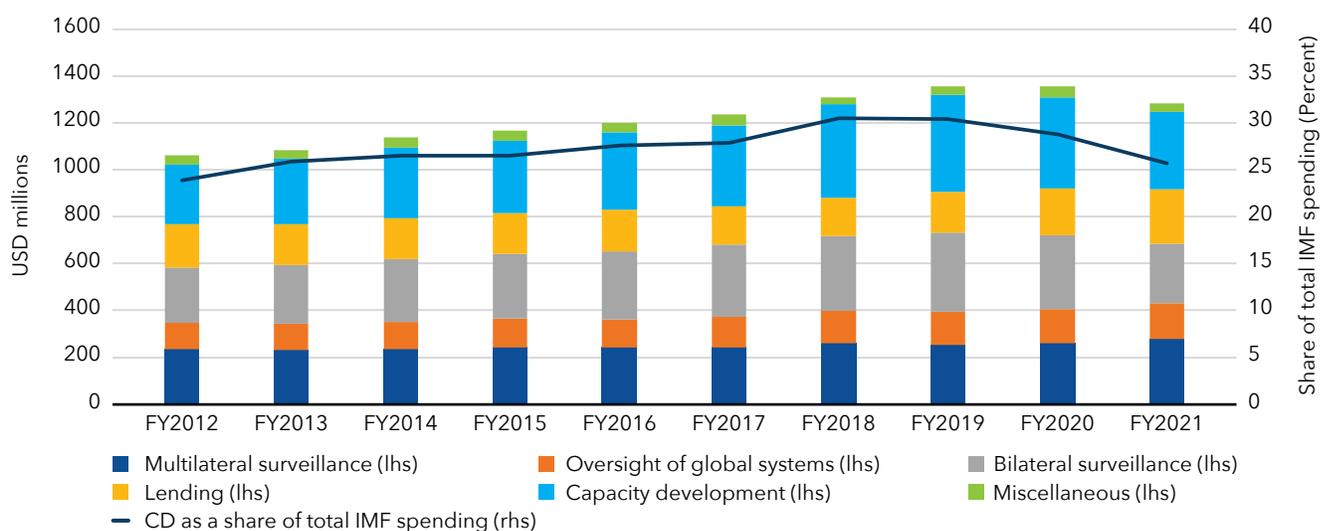
IMF CD activities are anchored in the Articles of Agreement, which allow the Fund to perform “financial and technical services” consistent with the Fund’s purposes to member countries on request.² Unlike the Fund’s surveillance and lending operations, where the obligations of the IMF and the member countries 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.