

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