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April 2024

REVIEW OF THE FUND'S CAPACITY DEVELOPMENT STRATEGY—TOWARDS A MORE FLEXIBLE, INTEGRATED, AND TAILORED MODEL

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 4, 2024 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on March 4, 2024 for the Executive Board's consideration on April 4, 2024.

The document listed below have been or will be separately released.

Review of the Fund's Capacity Development Strategy—Background Papers

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes the Review of the Fund's Capacity Development Strategy

FOR IMMEDIATE RELEASE

Washington, DC – April 4, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the third quinquennial review of the Fund's Capacity Development (CD) Strategy.

Every five years, the IMF undertakes a comprehensive review of its CD strategy. As a core function of the Fund, CD accounts for around one-third of our direct work with member countries and supports them to develop human capacity and build institutions for sound macroeconomic policies.

Regular reviews of our CD strategy are vital to ensure that the Fund's CD continues to be of high quality and well-focused on the priority needs of member countries. The past two strategy reviews in 2013 and 2018 led to a series of reforms to increase the efficiency and impact of CD, while strengthening its internal governance. This review builds upon these reforms to advance the evolution of the Fund's CD. It calls for CD to become more flexible, better integrated with the Fund's economic analysis and lending activities and well-tailored to respond to member needs. The review benefitted from the recent independent evaluation of Fund CD and a wide range of inputs, including internal and external consultations with CD stakeholders, surveys of recipients and development partners, staff background studies and recommendations of the External Advisory Group.

The strategic vision for the Fund's CD is informed by its comparative advantages and the Fund's surveillance priorities amid a changing global CD landscape, characterized by elevated uncertainties from higher debt, geopolitical tensions, climate change and digitalization. The reform proposals of the current review center around the six key areas: strengthening CD prioritization and integration to respond to members' evolving needs, enhancing the funding model to reduce risks, strengthening monitoring and evaluation, modernizing modalities, increasing field presence, and reviewing human resources policies for staff working on CD.

Executive Board Assessment[1]

Executive Directors welcomed the opportunity to discuss the Fund's capacity development (CD) strategy. They noted the sustained progress in implementing the recommendations of the previous CD strategy reviews to further enhance the efficiency and impact of Fund CD, and broadly supported the proposals of the review toward a more flexible, integrated, and tailored CD model. Directors commended the staff's work and their outreach efforts to build consensus for the proposals leading up to the Board discussion. They also called for

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

strengthening coordination and communication with other development partners to improve traction and efficiency of Fund CD delivery.

Directors appreciated the quality and value added of Fund CD, noting the central role it plays in supporting member countries. The importance of Fund CD was also recognized by the IEO evaluation in 2022 and confirmed by the recent surveys of CD stakeholders.

Directors noted that Fund CD should continue to respond to the membership's demands and evolving needs, and endorsed the vision of agile and demand-driven CD that focuses on the Fund's comparative advantages and is well integrated with surveillance and lending activities. Directors broadly supported the review's proposals in six inter-related areas:

CD Prioritization and Integration

Directors concurred that the current size of CD relative to surveillance and lending is broadly appropriate, while noting that prioritization is key to meeting the evolving and most pressing needs of our members. They underscored the need to closely collaborate with authorities in setting priorities to ensure ownership and stressed the importance of further deepening CD integration with the Fund's surveillance and lending activities, including through improved coverage of those efforts in staff reports for heavy CD users. Directors considered that CD delivery should be scaled up to address unmet demand from member countries in the Western Hemisphere.

Funding Model

Directors concurred that external funding has enabled the Fund to expand significantly its CD and better meet members' needs. While acknowledging the risks associated with the Fund's reliance on external financing for CD, they agreed that external financing would continue to play a key role, given internal budget constraints. Directors encouraged staff to continue work on mitigating those risks and welcomed in this regard the staff's ongoing efforts to increase the flexibility and diversity of funding sources, including through regional and thematic vehicles, with a number of Directors also calling for deployment of a larger share of internal resources. Directors also supported exploring the future establishment of a CD stabilization mechanism, and called for additional work on its design, mechanisms, and funding sources. Most Directors also supported the proposed modification in the charging policy for CD delivery to lift the self-financing requirement for high-income members that are already contributors to Fund CD, with a few Directors calling for this requirement to be lifted for all high-income members.

Impact

Directors welcomed the progress in enhancing monitoring and evaluation of Fund CD (prioritized by past CD Strategy Reviews) to more effectively demonstrate effectiveness and impact. They concurred with the proposed enhancements of the results management framework, including measures to seek explicit agreement with country authorities on targeted results and resource commitments; and developing strategic results frameworks at the project level. Directors also welcomed the proposals to build standardized mechanisms for monitoring and evaluation results to directly inform CD priorities. They emphasized that coordination with other development partners is critical to enhancing the efficiency and impact of Fund CD.

Modalities

Directors welcomed proposals to further modernize the ways that country-tailored CD is implemented, such as combining in-person and virtual delivery and further integrating technical assistance and training. While in-person CD delivery is a large and essential component of Fund CD, they welcomed the increased effectiveness under mixed modalities supported by technological progress. Directors stressed that the choice of modalities should be tailored to country-specific circumstances and the authorities' absorptive capacity, particularly in fragile and conflict-affected states and in small developing states. They also supported undertaking a review of the Fund's external training curriculum to complement these approaches.

Field Presence

Directors agreed that field presence, in particular through the global network of Regional CD Centers (RCDCs), has become fundamental to the Fund's CD model. They supported the proposals to clarify RCDC governance, regularly review RCDC's coverage and, after careful consideration, introduce modifications to their financing and administrative frameworks, effectively adopting these centers as an integral part of the CD strategy in order to strengthen the effectiveness of this network.

HR Policies

Directors emphasized the importance of appropriate HR policies to maintain the quality and continuity of CD expertise and to incentivize staffing in these areas. They supported initiating a strategic review of the HR framework for staff working on CD over the medium term to complement existing HR initiatives, such as the work on the local employment framework. Directors emphasized the desirability of increasing mobility and career progression possibilities for specialized economists and CD experts, including by adjusting and harmonizing policies and practices for these career streams.

Directors also urged staff to manage the risks associated with the reform proposals.

They called for careful management of resource implications of the proposals' implementation in a flat real budget environment and welcomed in this regard the staff's assessment that most costs could be achieved by re-prioritizing within current workstreams. A few Directors considered that an implementation roadmap with indicative timeframes and accountabilities would be useful to support implementation.

It is expected that the next review of the Fund's CD strategy will be completed no later than April 2029.

March 4, 2024

REVIEW OF THE FUND'S CAPACITY DEVELOPMENT STRATEGY—TOWARDS A MORE FLEXIBLE, INTEGRATED, AND TAILORED MODEL

EXECUTIVE SUMMARY

The global landscape has changed significantly since the 2018 Capacity Development (CD) Strategy Review. Following the pandemic shock, member countries are facing a range of challenges. These include macro-financial uncertainties and debt vulnerabilities and are compounded by more frequent and intense climate-related shocks, higher food and energy insecurity, geopolitical tensions, and the digital revolution. Fund CD through technical assistance and training can boost members' resilience, institutional capacity and economic sustainability, reduce the Fund's overall enterprise risks and contribute to economic integration and multilateralism.

Fund priorities and working practices have evolved with the global landscape. The surveillance landscape has shifted as recognized in the 2021 Comprehensive Surveillance Review (CSR) and in the new institutional strategies addressing climate change, fragile and conflict-affected states (FCS), gender, and digital money. The pandemic experience offers lessons in modality innovations and their limits. Rapid technological progress holds the potential to accelerate the pace of these innovations.

The challenging global economic environment calls for making Fund CD even more flexible, integrated, and tailored. The past two reviews led to reforms to strengthen CD governance and management and improve CD efficiency and impact. The Independent Evaluation Office (IEO) reaffirmed in 2022 that Fund CD is relevant, effective, and valued by members. The IEO recommendations provided a guiding path for enhancing the impact of CD on members' policies and institutions. Accordingly, this review highlights six areas of further improvements in CD, namely prioritization, integration, financing, impact and evaluation, field presence and human resources.

The current size of CD relative to the Fund's other main activities is broadly appropriate but more flexibility would help the Fund respond to member needs. This flexibility may be in overall size of CD spending in response to shocks or structural changes and in its composition by region and topic. The review proposes measures to ensure that prioritization of CD projects and resource allocation respond to members' changing needs, focus technical assistance (TA) and training on macrocritical areas and reflect the Fund's comparative advantage.

Integration with surveillance and lending is central to CD's success. Substantial progress has been made in this area since the 2018 Strategy Review, both in terms of internal processes and coverage of CD issues in Board documents and discussions. Room for further progress remains. The review proposes new avenues for the Board to gain insight into prioritization and to enhance coverage of CD issues in staff reports while also emphasizing the need to continue enhancing internal incentives for effective integration.

The design of the funding model influences flexibility and impact. Greater usage of external financing has enabled the Fund to meet the growing CD demand from members in a flat real budget environment and has served the Fund and its membership well. At the same time, it brings additional costs of administering multiple funding sources and important risks for the continuity of delivery and prioritization. These have been managed well thus far, but the fundraising environment is getting more difficult. To mitigate funding risks, the review identifies options for enhancing the funding model and discusses ways to enhance the flexibility and agility of external financing.

Modernizing delivery and enhancing monitoring and evaluation could further increase the impact of CD. Staff analysis supports the IEO's conclusion that Fund CD has been broadly effective and impactful. Enhancing the results management framework, intensifying evaluation and ensuring these systems are used in project design and strategy development could increase the impact of CD for members, who should also be more involved in the results management process. The review also proposes modernizing delivery modalities, including by leveraging communications and technology and through blended delivery, to further increase the efficiency, tailoring, and impact of CD.

Field presence has become fundamental to the Fund's model, enabling more intensive and tailored CD. Field presence has grown organically over two decades and there are longstanding strategic and governance issues that need to be addressed. The review notes that Regional Capacity Development Centers (RCDCs) are now an integral part of the Fund and proposes actions to reflect this through evolution of financing structures, governance, and relationship with HQ activities. It also proposes continued increases in field presence, taking account of the evolution of all Fund operations and budgetary constraints.

Growth in CD size and field presence has been accompanied by changes in the composition of CD staffing. The IEO evaluation identified issues with the human resource (HR) model for CD employees. Addressing these issues is crucial to safeguard the quality and agility of the Fund's CD but is a complex undertaking given the connections to the Fund's broader HR environment and budget. The review therefore proposes a number of measures that enhance the environment for staff working in CD accompanied by a strategic review of CD personnel structures. This review will be linked to other ongoing work, including work on field-based employment.

Reform proposals are interrelated and involve risks that need to be managed. Staff proposals to enhance the flexibility, integration and tailoring of CD will require well-sequenced reforms and management of concomitant risks. The review assesses these risks and associated risk management strategies to inform the effective implementation of the CDSR proposals.

Approved By
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Prepared by the Institute for Capacity Development (ICD) in collaboration with other departments and coordinated by Faisal Ahmed and Matt Davies under the overall guidance of Michaela Erbenova (all ICD).

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This review was conducted by an interdepartmental team led by ICD, under the leadership of Faisal Ahmed and Matt Davies, and the overall guidance of Michaela Erbenova (all ICD). The overview paper drew from consultations with an Interdepartmental Contact Group and External Advisory Group and contributions from Nathalie Carcenac, Lohith Chittamuru, Enkhzaya Demid, Emmanuel Lartey, and Anton Manzano. Background papers were produced by interdepartmental teams. Michaela Schrader provided detailed feedback on the papers, Barbra Licudine and Nia English provided excellent support.

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Mapping of the Fund's Position vis-à-vis other CD Providers: co-led by Roman Didenko and Faisal Ahmed (ICD), with research assistance from Enkhzaya Demid and survey assistance from AidData, a research lab at the College of William and Mary's Global Research Institute, and in consultations with various CD providers and the Fund's CD partners.

Glossary

AD	Area Department
AFR	African Department
AFRITAC	Africa Regional Technical Assistance Center
AI	Artificial Intelligence
APD	Asia & Pacific Department
ATI	Africa Training Institute
CBDC	Central Bank Digital Currency
CCB	Committee on Capacity Building
CD	Capacity Development
CDD	Capacity Development Department
CDMAP	Capacity Development Management and Administration Program
CDSR	Capacity Development Strategy Review
CES	Country Engagement Strategies
CSN	Country Strategy Notes
CSR	Comprehensive Surveillance Review
EAG	External Advisory Group
FCS	Fragile and Conflict-Affected States
FM	Fungible Macroeconomist
FPAS	Forecasting and Policy Analysis System
FSB	Financial Stability Board
FTE	Full-Term Employment
HR	Human Resources
HQ	Headquarters
ICD	Institute of Capacity Development
IEO	Independent Evaluation Office
IET	Internal Economics Training
LIDC	Low-Income Developing Country
LTX	Long-Term Expert
MCD	Middle East and Central Asia Department
MCM	Monetary and Capital Market
MEF	Ministry of Economy and Finance
MOOCs	Massive Open Online Courses
MPAF	Monetary Policy Analysis and Forecasting
MTW	Medium-Term Workplan
PFM	Public Financial Management
RA	Revenue Administration
RBM	Result-Based Management
RCDC	Regional Capacity Development Center
RMS	Revenue Mobilization Strategy
RSN	Regional Strategy Note

RTAC	Regional Technical Assistance Center
RTC	Regional Training Center
SARTTAC	South Asia Regional Training and Technical Assistance Center
SCS	Specialized Career Stream
SE	Specialist Economist
SMP	Staff-Monitored Program
SPR	Strategy, Policy, & Review Department
STI	Singapore Training Institute
TA	Technical Assistance
WHD	Western Hemisphere Department

INTRODUCTION

1. Capacity development, together with surveillance and lending, fosters macroeconomic stability and development by improving human capital and institutions. As one of its core functions, Fund CD facilitates the transfer of knowledge and best practices, improving economic sustainability across the Fund's membership.

2. In the last two decades, Fund CD's size and geographic footprint grew significantly. Overall spending on CD grew to about a third of the Fund's total budget; external funding greatly increased; field presence considerably expanded; and the management and delivery of CD was transformed. This quinquennial review is an opportunity to reflect on this evolution, refine the long-term vision and principles guiding Fund CD activities, and set the reform path for the next five years.

3. The Independent Evaluation Office reaffirmed that Fund CD is relevant, effective, and valued by members. The 2022 evaluation (IMF, 2022a) concluded that Fund CD is responsive and tailored to members' needs, valued, of highest technical quality, flexibly delivered through a range of delivery modalities and vehicles, well prioritized, and adaptive to changing circumstances and needs. Recent evaluations on IMF engagement with small developing states (IMF, 2022b) and on growth and adjustment in IMF-supported programs (IMF, 2021b) resulted in similar findings.

4. This CD Strategy Review (CDSR) builds on the progress since the past two reviews. It focuses on maximizing impact by strengthening prioritization, enhancing the funding model, and upgrading delivery. The review draws on many inputs: extensive internal consultation and outreach, surveys of recipient authorities and CD partners, guidance from the Executive Board, and consultations with external experts. It also incorporates conclusions from other workstreams, including the 2021 Comprehensive Surveillance Review (IMF, 2021a), ongoing work on implementing transformational strategies (e.g., FCS, climate, digitalization, inequality, gender) and various IEO reports.

5. The CDSR is the main vehicle for the Executive Board to provide strategic direction and oversight to the Fund's CD. Through these reviews, the Board receives information on Fund CD, takes necessary policy decisions, and expresses views on goals for the next five-year period (IMF, 2018a). Management and staff then translate this direction into procedures and practices that govern CD. The review allows the Board to guide the medium-term roadmap for increasing CD effectiveness and impact and to ensure that, in line with evolving member demands and the changing global landscape, CD *coevolves* with the Fund's surveillance and lending agenda.

6. The paper is organized as follows: Section I highlights the long-term vision that guides the Fund's CD journey. Sections II and III cover the progress following the past two reviews, medium- to long-term considerations and Fund surveillance priorities. Next, the paper focuses on specific measures and proposals on how to further increase the integration, flexibility, and tailoring of Fund CD by strengthening prioritization and by enhancing the funding model and impact. These proposals are summarized in Table 1 and supported by analysis in five background papers.

Table 1. CD Strategy Review—Summary of Main Proposals

Size and Prioritization

Broadly maintain the relative size of Fund CD to other Fund outputs while ensuring scope for flexibility in absolute size of annual CD spending.
Strengthen the scope for compositional shifts in the current resource allocation process.
Actively monitor and report on different types of CD.

Integration

Increase visibility of CD integration, including by improving coverage of CD in staff reports for heavy CD users and streamline other documentation requirements.
Continue to strengthen internal incentives and capacity for integration.

Financing

Continue broadening external funding vehicles, increasing their flexibility, and diversifying sources
Establish a CD stabilization mechanism
Modify charging policy for high income economies.

Impact

Require explicit agreement with authorities on targeted results and resource commitments for programmatic CD.
Develop strategic result frameworks for articulating and tracking results at a higher-than-project level.
Increase internal evaluations focused on the impact of Fund CD.
Create formal mechanisms for feeding monitoring and evaluation results into strategy development.
Continue to enhance CD dissemination and communication.

Modalities

Implement country-tailored delivery approaches to further integrate TA and training utilizing a blend of in-person and virtual approaches.
Review the external training curriculum.

Field presence

Recognize RCDCs as integral parts of the Fund’s structure, clarify their governance and make required adjustments to their financing and administrative framework.
Continue to increase CD field presence, including through experimenting with broadening its scope.
Regularly review RCDCs’ coverage, size, and locations.

HR

Bolster career paths for specialized economists (SEs) in lieu of a separate expert track.
Modernize and harmonize expert recruitment and management.
Adjust policies and practices for specialized career streams to promote mobility and career development.
Over the medium term, initiate a strategic review of CD personnel structures.

THE VISION

7. CD allows the Fund to work with members to build the institutions and skills needed to formulate and implement sound macroeconomic and financial policies. In contrast to surveillance, CD is voluntary for both the member and the Fund. CD is intrinsically linked to the surveillance mandate as it must be consistent with the Fund's purposes as set out by the Articles of Agreement (IMF, 2020, Article V, Section 2b). Over time, key principles have been developed to guide CD provision (see IMF Policies and Practices on Capacity Development, 2019b):

- The Fund provides CD in its core areas of competence.
- All CD should target high-impact activities.
- CD activities are driven by demand from member countries.
- CD activities are integrated with the policy dialogue between member countries and the Fund that takes place during surveillance or Fund-supported programs; and
- The Fund seeks to avoid duplication and to enhance complementarity with other CD providers.

Box 1 summarizes the areas of Fund comparative advantage.

8. CD is particularly important to foster economic sustainability. Ensuring economic sustainability is key to achieving the Fund's surveillance mandate (IMF, 2021a). CD empowers policy makers and helps build institutions to foster economic growth, development, stability, and resilience, thus supporting the goal of economic sustainability. Economic literature has demonstrated how institutions and individual capacity are critical for state capacity, economic growth, resilience, and sustainability (e.g., North, 1990; Imam, 2023); how weak institutions cause volatility through macro- and microeconomic channels (Acemoglu and others, 2003); and how skills, knowledge, institutional framework, and the structure of an economy influence each other and can lead to a path-dependent pattern of development (North, 1990).

9. CD plays a critical role in supporting program implementation and building policy buffers. The supportive role of CD for program implementation and its catalytic role for collaboration with other institutions are important given the evolution of Fund lending toolkit. CD is particularly helpful in improving traction with the authorities and informing the design and implementation of Fund programs, especially in economies with limited capacity and policy buffers.

10. CD needs to be flexible, tailored, and integrated. The world confronts significant economic challenges: the existential threat of climate change as well as a digital transition, all in the context of more frequent shocks, high debt levels, limited policy space in many countries, and geopolitical tensions. Well-designed and appropriately sequenced policies are critical to help accelerate growth, build resilience, alleviate policy trade-offs, support the green and digital transitions, and address gender inequality. They can contribute to global economic integration and multilateralism, including through contributing to cross-border macro-financial integration, global policy coordination and reduced negative spillovers. To design and implement these actions, members can greatly benefit from Fund CD that is aligned with policy priorities identified in surveillance and program engagements and cognizant of their absorption capacity, mitigating policy and program risks. Flexibility is needed in design, staffing, and financing structure, along with strong coordination within and across delivery modalities and types of CD. A tailoring imperative sharpens the focus on implementation capacity and may require greater selectivity. A better integrated CD can help boost the traction of surveillance and strengthen policy dialogue across various country groups and variety of economic circumstances by enabling more granular technical engagement. In short, flexibility, integration and tailoring ensure Fund CD remains fit for purpose in a rapidly evolving world.

11. Fund CD already performs well against this vision. The 2022 IEO evaluation highlights its impact, as does external commentary and analysis (Box 1). Nevertheless, as the IEO evaluation and the accompanying Management Implementation Plan (IMF, 2023a) show, there are areas where further progress can be made (Annex I). After reviewing the CD journey over the last two decades, the paper focuses on those areas.

Box 1. Comparative Advantages of Fund CD

Echoing the IEO findings, Fund CD has a number of comparative advantages, including (i) a close integration between CD, surveillance, and lending; (ii) convening power in member countries and among development partners; (iii) its standalone demand-driven nature; (iv) diagnostic and assessment tools; and (v) policy-oriented macro training (IMF, 2022a).

Integrated product: Close integration of Fund CD with surveillance and lending is central to its comparative advantage vis-à-vis other providers of technical advice, as mentioned in the Global Policy Agenda (IMF, 2023). This is particularly important in crisis situations where the Fund's ability to quickly mobilize high-quality technical advice reinforces its financial support. Area department teams regularly use CD to enhance country engagement and traction.

Convening power: The Fund's access to senior policy makers, along with its convening power, allows the Fund to link member's domestic policy agendas effectively with global trends and direct CD to support key reforms. It is also highly valued by other CD providers and helps leverage their impact. Listening to Leaders (Custer and others, 2021) ranked the Fund as the most influential partner in shaping how national leaders prioritize their economic policy agenda.

Demand-driven: The Fund provides CD to members in response to their demand. Unlike many development partners, Fund CD provision is not conditional upon lending, allowing for more control over its prioritization and for CD to be informed by the Fund's surveillance agenda.

Diagnostic and assessment tools: Diagnostic and assessment tools drawing on the Fund's highly valued technical expertise and comprehensive country coverage are the Fund's greatest perceived value additions in the TA areas. These often form the basis for follow-up CD programs from other providers. The Fund's own programmatic TA appears less well known to some development partners. Some partners also suggested giving more attention to implementation prerequisites (change management, political economy) to increase CD's impact and sustainability.

Policy-oriented training: The Fund has a strong comparative advantage in macroeconomic policy-oriented training of government officials. Very few other providers offer a similar product, and it is highly valued by member institutions.

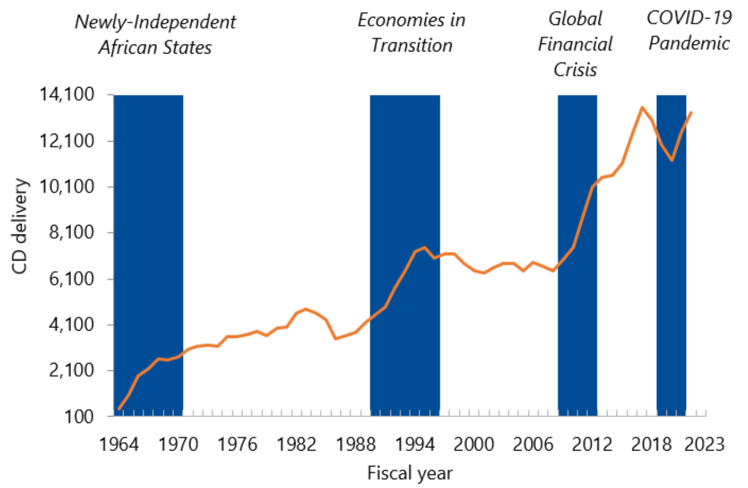
These comparative advantages are analyzed in the background paper on mapping of the Fund's position vis-à-vis other CD providers.

THE JOURNEY SO FAR

12. The size, footprint, funding, and staffing of Fund CD have been transformed over the last two decades (Figure 1). CD now accounts for almost a third of country operations (Figure 2), encompassing a rich and diverse set of interventions across regions and CD types (Boxes 2 and 3). The following paragraphs highlight key elements of this transformation. In the last two decades, CD has grown rapidly, becoming more field-based and with more focus on fiscal issues and Africa/low-income developing countries (LIDC). Field-based delivery increased steadily, from around 35 percent in 2003 to around 60 percent of total delivery. Spending on public finance CD overtook monetary and financial CD (Figure 3). The share of CD going to Africa increased markedly. Training modalities also greatly evolved. Up until 2002, training participants at headquarters (HQ) and in the field were at par; participants trained at regional centers now account for over 95 percent of training, while the number of online course offerings continues to grow rapidly.

Figure 1. Fund CD Spending Over Time

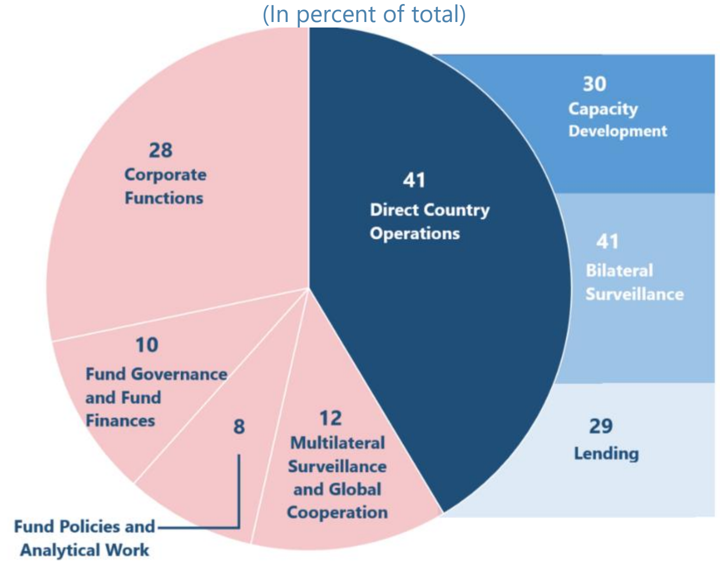
(Index 1964=100, in FTE)



Source: Fund staff estimates.

Figure 2. Country Operations Spending by Major IMF Activities, FY2023

(In percent of total)



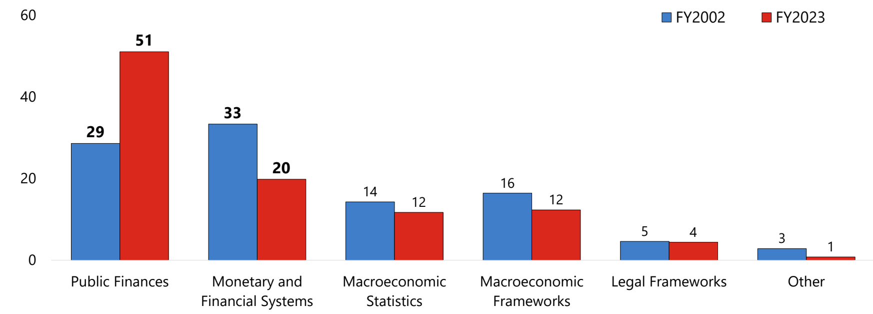
Source: Fund staff estimates. Excludes minor miscellaneous items and travel.
Note: Country operations spending excludes activities related to policy, analytics, and other output areas.

13. External financing has been the key facilitator of this growth. As the IEO CD evaluation (IMF, 2022a) noted, external financing allowed the Fund to increase CD despite a flat real budget constraint. This has been instrumental in allowing the Fund to meet the needs of members and, in particular, to establish a sizeable and effective field presence. It has also improved coordination with development partners and accountability.

14. The Fund's field presence has greatly increased. Currently, there are around 400 CD-related employees in the field, with the number of RCDCs doubling since 2010. Taking a longer view, since 2000, the number of RCDCs has increased from 3 to 17 (Figure 4). As noted by the IEO evaluation (IMF, 2022a), this growth has largely been opportunistic. Nevertheless, these RCDCs, each initiated as a distinct five-year funding and delivery vehicle, are now as a whole an integral part of the Fund's CD architecture.

Figure 3. Topical Composition of Fund CD, FY2002–FY2023

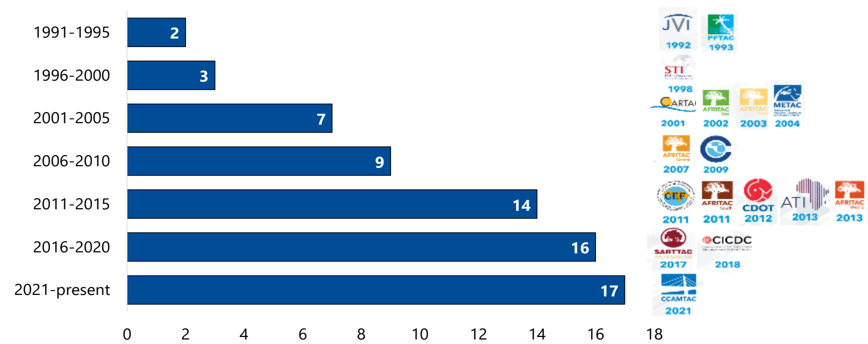
(In percent of total delivery)



Source: Fund staff estimates.

15. The COVID-19 pandemic led to large changes in the Fund's CD delivery modalities. Following the onset of the pandemic, the Fund moved quickly to fully virtual CD delivery (Figure 5). After the lifting of COVID-related travel restrictions in early 2022, delivery modalities started converging towards a new normal. In FY2023, the Fund gradually resumed in-person delivery, which accounted for about 70 percent of all CD activities at the end of FY2023. Conversely, virtual delivery declined from close to 100 percent to 17 percent at the end of FY2023, while the number of hybrid CD activities (in-person combined with synchronous virtual) continues to rise, accounting for 14 percent of all activities. This new normal is expected to see CD delivery move closer to continuous engagement with member countries in line

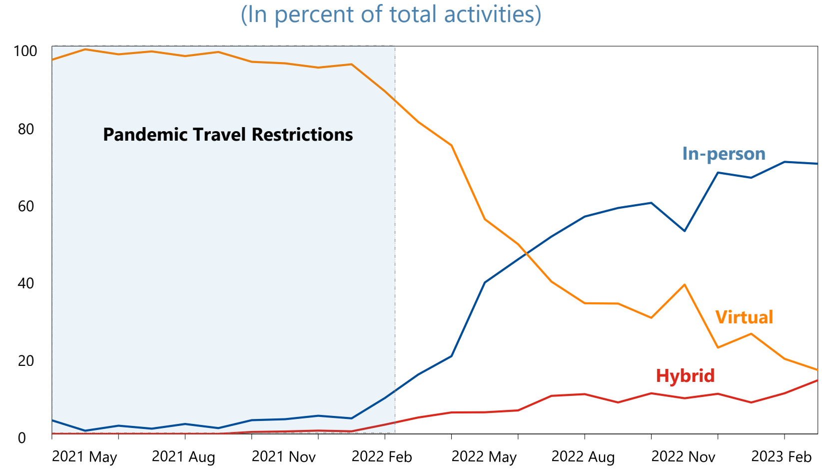
Figure 4. Regional Capacity Development Centers



Source: Fund staff.

Figure 5. CD Modalities During COVID-19 Pandemic

(In percent of total activities)



Source: Fund staff estimates.

with a programmatic CD approach, blending synchronous in-person CD, synchronous virtual CD and asynchronous (self-paced) online content.

16. CD is more heterogeneous than surveillance and lending and entails a greater volume and diverse types of activities. In contrast to surveillance, CD is demand-driven, more granular, and delivered through a much wider range of modalities. Each of its 36 workstreams, managed across five CD departments (CDDs), is distinct, and requires specialist expertise that is rarely transferable across departments. This reliance on specialized skills, which take time to build, together with the more complex financing structure, result in greater reliance on contractual experts. The decentralized management of CD has also led to more innovation and variability in how CD is delivered. Strategy setting for CD is therefore different than for the Fund's other main outputs.

17. Past reviews reflected the Fund's continued commitment towards improving the CD program. The reviews were guided by the objective of supporting better policies through stronger institutions in member countries.

- **The 2013 CD Strategy Review (IMF, 2013) highlighted reforms to increase the effectiveness of Fund CD.** The recommendations included strengthening the CD governance structure, enhancing the prioritization process, clarifying the funding model, strengthening monitoring and evaluation, promoting greater integration of TA and training, improving delivery, and leveraging CD as outreach.

- **The 2018 CD Strategy Review (IMF, 2018a) built on the reforms of the 2013 review and aimed at two mutually reinforcing objectives.** These were (a) increasing the impact of CD by continuing to strengthen integration between CD, surveillance, and lending within a comprehensive country-centered approach; and (b) increasing the efficiency of CD by improving CD processes and prioritization systems, including through the development and launch of the Capacity Development Management and Administration Program (CDMAP)—a new budgeting and project management system for CD.

18. Reflecting the decisions taken in these past reviews, the governance and management of Fund CD has been greatly enhanced over the past decade (Annex III). These changes have helped the Fund adjust to a changing external environment. The most significant achievements, highlighted in the Concept Note for this review (IMF, 2022d), include strengthened strategic planning; stepped up Executive Board engagement; introduction of country and regional strategies entrenching the lead role of area departments (ADs) in setting CD priorities; new CD information dissemination policy (IMF, 2022e) facilitating broader access to CD-related materials and visibility of Fund CD; introduction of the CDMAP system that has provided all departments extensive information on CD statistics, harmonized and automated processes across departments; a unified Results-Based Management (RBM) Framework and a Common Evaluation Framework (IMF, 2020b); and major advances in the funding model through new multi-partner vehicles complementing bilateral programs and progress in broadening the donor base.

Box 2. Fund CD At-A-Glance

The Fund spent $281 million on CD projects in FY2023. This excludes indirect costs. CD delivery now accounts for around one-third of direct country operations.

In FY2023, 168 of 190 member countries received some form of single-country CD from the Fund and all received training. Low-income developing countries, FCS, and small states—around 54 percent of the recipient list—accounted for 69 percent of single-country CD delivery spending. Other country groups, including emerging and some advanced economies also benefit from Fund CD, with less intensive but substantive engagement.

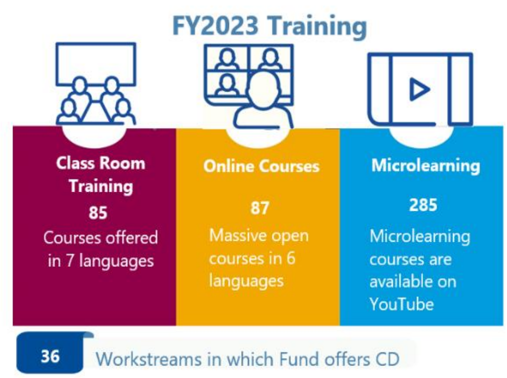
Sources: CDMAP; Fund staff analysis.

FY2023 CD Spending by Region
(In percent of total delivery spending)

AFR: Sub-Saharan Africa, **APD:** Asia & Pacific, **EUR:** Europe, **MCD:** Middle East and Central Asia, **WHD:** Western Hemisphere
Sources: CDMAP; Fund staff analysis.

The Fund's 2023 training catalog lists 85 courses that are offered in a classroom setting in 7 languages, and 87 massive open online courses offered in 6 languages. In addition, 285 microlearning videos are available on YouTube, and many workshops and peer-to-peer events are organized on an ad hoc basis every year.

The Fund offers CD in 36 workstreams. It is among the largest CD providers in its core areas of expertise, including public financial management, domestic revenue mobilization, financial stability, macroeconomic statistics, and macroeconomic frameworks. Internally, the responsibility for managing technical expertise and delivery rests with five CDDs.



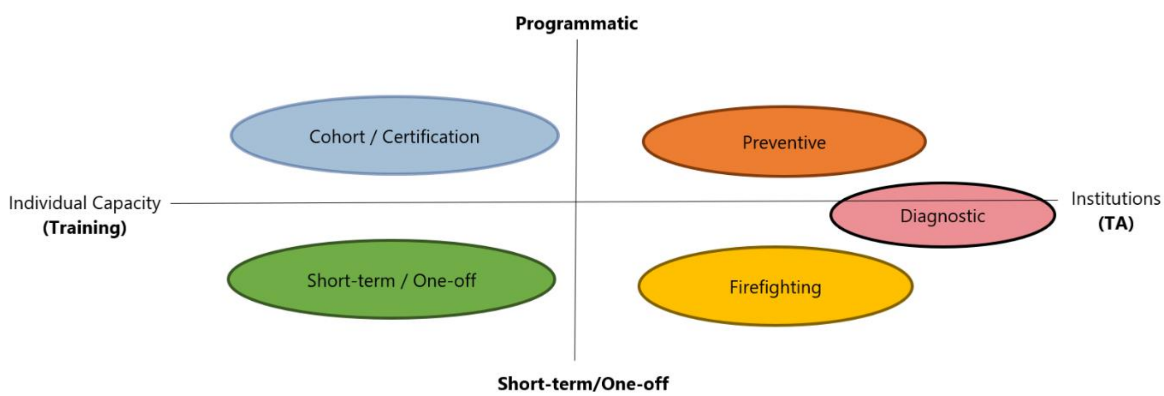
Sources: CDMAP; Fund staff analysis.

Box 3. A Taxonomy for CD

From a taxonomic perspective, CD can be categorized by the type of capacity it builds and the duration it takes to design and deliver. CD strengthens individual capacity (training) and institutions (TA) through activities of varying duration and engagements from short-term/one-off to programmatic activities over the medium to long term. CD activities can be grouped and mapped to one of the four quadrants.

The diversity of training and TA approaches reflects members' needs. Within both TA and training, there are engagements of different duration. Some TA—for example, in the context of crisis "firefighting"—entails a shorter-term or one-off engagement. Some of these activities are technical policy engagements and dialogue that can reinforce surveillance by deepening discussions of granular policy issues. Peer-learning CD activities also fall in that category. On the other hand, TA that requires a more prolonged/programmatic engagement could be termed as "curative," "preventative," or "developmental" focusing on medium- to longer-term institution building (e.g., TA on boosting fundamental capacities of a ministry of finance, central bank, or national statistical institution). "Diagnostic" CD provides the initial assessment to design a CD program. In training, there are courses of limited duration that build or reinforce specific skills, while others can develop broad policy-making capacity, particularly when taken in sequences or in coordination with TA engagement.

Further exploiting synergies among the various forms of CD can improve flexibility, tailoring, and impact, especially in a rapidly changing world. For example, there are elements of training in many TA missions. Relatedly, training can create the ground for and increase the absorption of TA.



19. Board engagement on CD has significantly increased. In addition to engagement on the quinquennial strategy reviews, the Board now discusses priorities on an annual basis both through enhanced coverage in the main budget process and through associated dedicated briefings on CD priorities. Issue-specific discussions on CD topics and policies have also been stepped up in addition to increased coverage in country papers and regional briefings.

THE ROAD AHEAD

20. The global landscape has changed significantly since the last review (Box 4). Member countries are facing multiple challenges—inflation, tighter financing conditions, capital flow disruptions, and high debt. Long standing gaps in institutional capacity also require sustained attention and there is increasing demand for support in building policy frameworks to address these challenges. Members will need a broad variety of Fund CD to boost their resilience to shocks and underpin sustained growth and development. With more frequent and intense climate-related shocks, higher food and energy insecurity, and the digital revolution, the Fund's own priorities expanded to encompass new strategies addressing climate change, FCS, gender, and digital money. Relatedly, financing conditions facing some donors have tightened.

21. **The post-pandemic world offers both opportunities and challenges.** The surveillance landscape has shifted to include the new priorities accentuating prioritization pressures as members confront multi-faceted immediate challenges. The pandemic experience offers lessons in modality innovations and their limits. Looking ahead, rapid technological progress, including artificial intelligence (AI), holds potential to accelerate the pace of innovations and CD productivity. Managing climate change-related transitions and progress on sustainable development goals (SDGs) require significant boost in investment in emerging market and developing economies (EMDEs), including through bolstered domestic resource mobilization.

22. **This challenging environment calls for making CD even more flexible, tailored, and integrated.** The IEO recommendations provide a guiding path for how to do this. The remainder of this review identifies focused actions in six areas aimed at enhancing CD's impact on members' policies and institutions. Impact also requires coordination with development partners and focused communication and outreach to raise awareness and garner traction for Fund CD.

23. **Many of the reforms are inter-related, meaning that progress will require time and coordination** (Figure 6). For instance, measures that foster continued evolution of the Fund's field presence may require correlated changes in prioritization, funding, and HR policies and may have budget implications. As many of these impinge on the broader Fund polices and processes, they need to be carefully designed and implemented at a pace that is consistent with the Fund's implementation and budgetary capacity. Thus, proposals regarding inter-related changes should be best understood as having a medium- to longer-term implementation horizon.

Figure 6. Schematic Diagram—CD Strategy Review

Box 4. Surveillance Landscape and Priorities in the Decade Ahead

The global surveillance landscape faces a highly uncertain outlook and uneven recovery due to both conjunctural challenges and key secular trends. Amid growing risks and imbalances, policymakers face difficult trade-offs and limited policy space. Furthermore, key secular trends—in digital technology, climate change, inequality, gender, demographics, and geopolitics—are shifting the economic and financial landscape in dynamic ways.

The latest CSR emphasized Fund surveillance should be prioritized around four key priorities:

Confronting risks and uncertainties: policymakers will need to manage the risks of a highly uncertain outlook;

Preempting and mitigating adverse spillovers: shifting patterns of global economic integration will bring about new channels for contagion and policy spillovers;

Fostering economic sustainability: a broader understanding of sustainability to better account for the impact of economic and non-economic developments on stability; and

Unified policy advice: better accounting for the trade-offs and synergies among different policy combinations in the face of limited policy space and overlapping priorities, tailored to country-specific circumstances.

These mutually supportive priorities capture a wide range of country-specific challenges while remaining grounded in the Fund's mandate to further enhance the traction of Fund surveillance.

Looking ahead, a modern surveillance framework will focus on being:

Timely, topical, and targeted: to make policy advice more granular and tailor it to country-specific circumstances, leveraging cross-country lessons and focusing more on topical issues.

Better interconnected: with strengthened incorporation of macro-financial analysis and greater use of contingent policy advice, more mindful of spillovers, deeper CD-surveillance integration.

Better informed: with revamped training, better analytical tools and data, leveraging technology.

CD and surveillance need to co-evolve and continue to be mutually reinforcing in response to the surveillance landscape. CD engagements can serve both to inform and be a conduit for granular policy advice for a modern surveillance framework. CD can also work in sync with the Fund's surveillance agenda to build institutions and capacity that can help member countries achieve economic sustainability.

Source: IMF (2021a).

NAVIGATING THE NEXT PHASE: FLEXIBILITY, INTEGRATION, AND TAILORING

24. **The following sections highlight the key areas of reforms to ensure Fund CD remains an effective and integrated pillar of the Fund's support to its members.** The proposals take into account the detailed analysis contained in the recent IEO evaluation and staff analyses, including in five background papers. The proposals also include the input of an External Advisory Group (Annex II), which proposed steps to enhance collaboration between area and CD departments, offered thoughts on mainstreaming new topics into CD operations, highlighted the importance of strengthening monitoring and evaluation, and suggested the need for reinvigorating the Fund's role

in promoting good governance. Most of the proposals of the review represent adjustments to existing delegated practices and procedures. Where Board decisions will be required, the Board will be approached formally as part of the work on implementation.

25. The proposals address the key recommendations of the IEO evaluation. The evaluation emphasized a set of key strategic questions: 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 evolution of the CD delivery model. This CDSR responds to these strategic questions. Annex I provides a mapping of the IEO recommendations to the thematic areas of this review.

A. Strengthening Prioritization and Integration

CD Size

Issues

26. A key initial prioritization criterion is whether the size of CD spending reflects adequately member needs, the Fund's comparative advantages, and its mandate. Decisions on the size of CD spending are taken annually in the context of the medium-term budget process, which sets an overall envelope for Fund operations and their output orientation. It also sets an explicit budget for externally financed spending within the Board-endorsed envelope, which is almost entirely devoted to CD. Prioritization principles inform allocation decisions and help maximize the overall impact of Fund activities and value of CD to the members. The 2022 IEO evaluation emphasized that clearer guidance is needed for a more intentional and transparent approach to the prioritization and allocation of CD resources, while considering synergies and trade-offs between CD, surveillance, and program work. This would involve fine-tuning rather than overhauling the strengthened approach put in place in recent years, which has focused on meeting evolving member needs while maintaining strategic focus, safeguarding high quality and ensuring appropriate balance with other Fund outputs.

Considerations

27. The present size of CD within the structure of country operations appears in line with the Fund's mandate. Surveillance—as the mandatory mode of country engagement under the Articles of Agreement—takes up around 40 percent of the Fund's country operations, CD and lending represent the rest and are broadly similar in size (Figure 2). These shares vary from year to year according to the degree of program and CD demand and the three core activities mutually reinforce each other. Fund CD's comparative advantage relies critically on this reinforcement. Changes in CD's overall size should not fundamentally alter the balance between surveillance, CD, and program work.

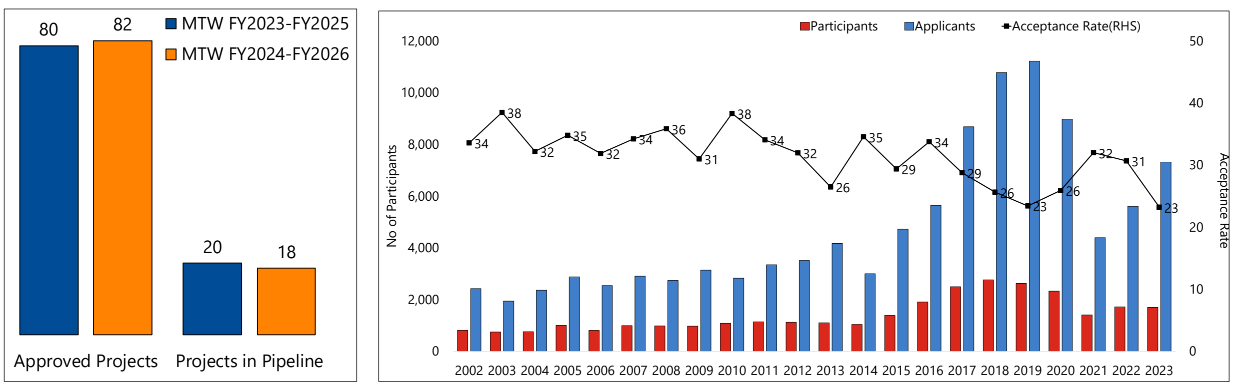
28. CD spending also appears broadly aligned with member demand. While reaching conclusions in this area is inherently difficult as there is little authoritative data on unmet demand, some broad judgments can be made:

- **Signs of broad-based and persistent excess demand appear to be limited, notwithstanding pockets of higher regional/thematic demand.** The Fund rarely abstains from providing CD when requested, as evidenced among others, by the low share of pipeline projects not incorporated in CD departments' medium-term workplans (MTW) (Figure 7). Rather, provision may come with a lag or be stretched over a longer time when budget constraints bind or more urgent needs surface. In-person training has, however, been consistently oversubscribed, and acceptance rates have edged slightly down in recent years.

Figure 7. Indicators of Excess Demand

(In percent)

CD Projects in MTW | **Acceptance Rate (Training)**



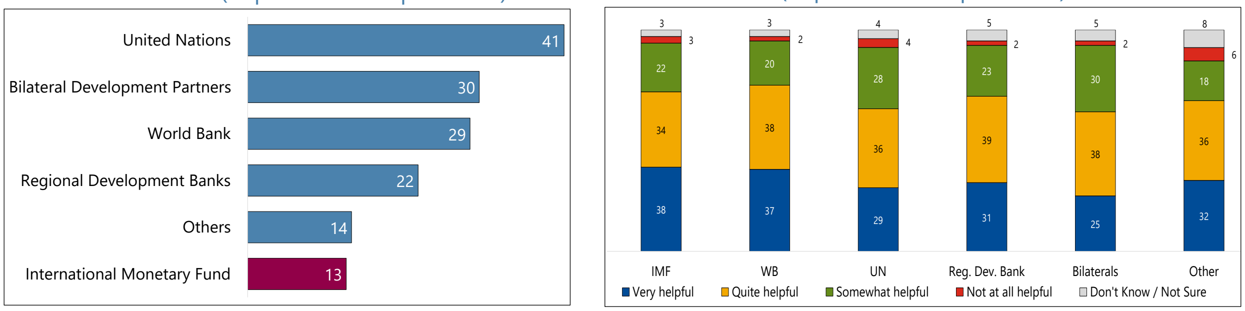
Sources: CDMAP; Participant Training System.

- **Nevertheless, there are pressures for growth.** Survey evidence indicates that partners and recipients want more Fund CD and increased Fund involvement in most existing workstreams; they did not cite any areas where Fund CD provides little value added. Even when the Fund has a relatively small or new footprint (e.g., digital money), the Fund's agenda setting role is highly valued, and these are key areas that underlie the granular policy dialogue in surveillance. A recent AidData survey of the Fund CD recipients in 60 heavy-user LIDCs found that, despite its relatively modest size compared to that of other development partners, Fund CD is perceived to be the most influential and the most helpful (Figure 8). Furthermore, a majority of respondents expressed strong preference in receiving Fund CD in its core areas, where the Fund was viewed to have comparative advantage. Recipients also emphasized the need to align CD with country priorities (see background paper on mapping).

Figure 8. Survey Results of CD Recipients

Organizations from which Respondents Received CD (In percent of respondents)

Perceived Helpfulness (In percent of respondents)



Source: AidData Survey.
Note: Based on 1,114 respondents from 60 countries. See Background Note on Mapping of the Fund's Position vis-à-vis other CD Providers.

29. **The size of CD needs to be able to change (up and down) according to member needs, shocks, and other global developments.** In the flat real budget environment, the high demand for policy advice and financing, and the reduction in members' absorptive capacity with the onset of the pandemic reduced the share of CD in the Fund's spending as departments utilized budget flexibility to meet other member priorities. As priorities shift back to structural reforms and long-term capacity building, the size of CD supporting these reforms is expected to rise back, as has been seen already in FY2023. It is also important to preserve some flexibility to respond to unforeseen shocks, such as spikes of CD needs in countries hit by a sudden macroeconomic crisis or a conflict or scale back when policy priorities or demand shift.

30. **Recent budget adjustments to accommodate the Fund's transformation strategies provide a model for flexibility in CD size.** CD budgets were augmented and reprioritized to embed the FCS, climate, gender, and digitalization strategies into the Fund's core delivery areas (Boxes 5–7). This was facilitated by both augmentation of the Fund-financed CD budget (US$17 million) and through increasing the externally financed envelope (US$19 million). This increase kept the share of CD in the overall Fund budget and the funding mix broadly stable.

31. **Coordination and communication with development partners can help mainstream new priorities more effectively and efficiently.** Leveraging existing good practices and innovative communication within the Fund and across development partners can increase effectiveness and impact of Fund CD. In the Fund's core areas, such as fiscal or monetary/financial sector issues, the Fund already has multiple mechanisms in place that can facilitate such coordination. These include joint missions, including with the World Bank, and the European Commission; country level coordination mechanisms with both HQ and field participation; steering committees of RCDCs and Global Thematic Funds (including the Debt Management Facility that is a joint initiative with the World Bank) and global initiatives such as the Platform for Collaboration on Tax. Coordination on climate and digital money is of critical importance, given the cross-cutting nature of the topics and the comparative advantages of different development partners. Nevertheless, there is room to further strengthen the effectiveness of coordination within existing resource constraints. New

initiatives will continue to focus on collaboration and synergies; for instance, a forthcoming joint Domestic Resource Mobilization initiative with the World Bank will focus on stepping up efforts to support countries seeking to mobilize domestic resources to address investment needs associated with climate change and the SDGs.

Proposals

32. The review proposes to broadly maintain the size of CD spending relative to the Fund's other main activities while emphasizing the need for flexibility. This implies remaining in the vicinity of the pre-pandemic baseline of around 30 percent of the Fund's main activities, allowing for year-to-year variations according to changing global economic conditions and member demand and more structural responses to any persistent gaps in areas of the Fund's focus.

33. To some extent, flexibility can be achieved through the normal resource planning process. The existing budget process allows for reprioritization of the main activities within the overall Fund-financed budget or through adjustment of the externally financed envelope, subject to Board approval. Given the tightness of the budget environment, reallocations are likely to be small in a given year but can build over time into meaningful shifts.

34. Addressing new priorities need not always require additional resources, but specific gaps may emerge that would require one-off increases beyond typical annual adjustments. This was the approach adopted by the Board to integrate new priorities into the Fund's core CD work, as described in paragraph 30 and Boxes 5–7. A similar track might be required to tackle limited thematic or regional CD gaps (see paragraphs 38 and 39). Before their inclusion in a budget proposal to the Board, proposed adjustments would be carefully justified, with the Committee on Capacity Building (CCB) playing a critical advisory role; distinguish between permanent and temporary adjustments; and take full account of the scope for reprioritization within current envelopes. It would also require close communication, collaboration, and coordination with other development partners and, within the Fund, between area, CD, and functional departments.

Box 5. Mainstreaming Emerging Priorities—Gender

Closing gender gaps enhances economic growth, fosters stability, promotes inclusion, and yields positive externalities for societies. Recognizing the macrocritical impacts of gender inequality, the 2022 IMF Strategy Toward Mainstreaming Gender calls for a gradual, systematic integration of gender considerations into the IMF's core work of surveillance, lending, and CD. During FY2023, 22 staff reports across countries in various stages of development included gender analysis, well above the target of 11 countries set out in the strategy.

The IMF is well placed to provide TA and training to support the implementation of macrocritical gender-related reforms and has been responding to demand from country authorities for gender-related CD in areas such as:

Data: Strengthening data collection and analysis to better understand and address gender-related economic disparities, particularly for countries that lack sufficient data to assess gaps.

Gender-responsive budgeting and public financial management (PFM): Promoting the integration of gender into budgetary processes; applying a gender perspective to fiscal policies and the budget process; and enhancing PFM systems to ensure gender-responsive budget execution.

Taxation: Advising on designing gender-responsive tax policies, including labor, capital, wealth, personal income, and consumption taxes.

Revenue administration: Applying a gender lens when administering tax or trade laws to help reduce barriers to women's employment, entrepreneurship, and trade; and developing gender-balanced and inclusive workforces with policies and procedures that ensure equal employment opportunities.

Legal barriers: Addressing legal issues that emerge when countries design fiscal and tax measures to address gender inequality; and implementing reforms to promote women's economic empowerment.

Such CD can be particularly impactful when provided to assist countries with implementing reforms recommended in surveillance, or where needed to help the member implement conditionality under an IMF-supported program.

External collaboration is a critical pillar of the gender strategy. Continuous deepening of collaboration with development partners and other organizations, such as the World Bank Group and UN Women, supports knowledge sharing and peer learning, leveraging complementarities, and maximizing the impact on the ground. A dedicated unit in SPR serves as the initial point of contact between country teams and external partners. External collaboration is also aided by two external advisory groups, one of well-known academics and another of CSOs and think tanks. Furthermore, resident representatives can coordinate with authorities and local partners.

Contributor: Lisa Kolovich (SPR).

Box 6. Mainstreaming Emerging Priorities—Climate Change

Climate change is one of the most critical macroeconomic and financial stability challenges facing IMF members. Going forward, climate change will affect macroeconomic and financial stability at national and global levels and risks widening economic disparities.

Guided by its [2021 Climate Strategy](#) (IMF, 2021c), the Fund is addressing the growing demand for climate-informed CD by (i) bolstering TA on fiscal, financial, statistical, legal, and macroeconomic issues; (ii) designing new training and micro-learning; and (iii) developing and scaling-up analytical tools and modeling. The work encompasses all areas of Fund expertise, including:

Fiscal Management: Fund CD provides support on mitigation, green PFM, identification of fiscal risks related to climate change, climate-responsive PFM assessments, the climate module of the Public Investment Management Assessment (C-PIMA), and other related analytical tools.

Financial Sector: The Fund has integrated climate issues into its financial sector toolkits and provides tools and capacity building for country analysis of financial sector climate risk, including in prudential frameworks in the financial sector, and for strengthening the climate information architecture

Data and Statistics: A Fund multi-country pilot project provides CD to develop policy-relevant climate statistics. This is supported by ongoing work on methodological and data reporting frameworks, including under the G-20 Data Gaps Initiative 3, to gauge the impact of climate reform measures. The Fund also uses its climate change indicators dashboard and innovative data collections to better assess climate shocks.

Legal Frameworks, Financial Integrity, and Anti-Corruption: The Fund provides guidance on legal frameworks, financial integrity, and anti-corruption related to climate change.

Macroeconomic Framework and Modeling: The Fund's CD helps countries build macro scenarios that reflect climate change shocks, mitigation, and adaptation policies including through the streamlined Climate Macroeconomic Assessment Program and Climate Policy Diagnostics. These resources help integrate adaptation to climate change in macro-fiscal planning and frameworks.

Share of Climate Change Related CD by Region

(In percent of projects, FY2023)

AFR: Sub-Saharan Africa, **APD:** Asia & Pacific, **EUR:** Europe, **MCD:** Middle East and Central Asia, **WHD:** Western Hemisphere

Sources: CDMAP; Fund staff analysis.

This work is closely informed by member needs and surveillance priorities, while supporting program work design (e.g., RSF) and implementation where relevant.

Partnerships and coordination are critical to meeting member demand and scaling up CD. The Fund works closely with bilateral and multilateral partners such as the World Bank, the OECD, WTO, UN agencies, the European Commission, regional developments banks and international fora (e.g., FSB). Staff also partner with researchers, academic institutions, civil society, and climate experts, among others, to shape policies and share expertise. The recent augmentation of Fund budget allowed a modest increase in specialized staff to bolster this effort as increasing demand stem from the reform commitments of the countries under the RSF arrangements.

Box 7. Mainstreaming Emerging Priorities—GovTech and Digital Money

Digitalization will continue to have major impacts on economic outcomes, reshaping many industries and sectors, accelerating connectivity within and across markets, industries, and countries. As noted in the 2021 CSR, digitalization can increase competition, efficiency, and inclusiveness of the financial system and will also shape the international monetary system. In the government sector, digitalization holds the promise to reshape public finance and other policy frameworks by changing how governments collect, process, share, and act on information. This box provides some examples of how the agenda of digitalization is being onboarded through its core areas of expertise, namely monetary, financial, fiscal, and statistical areas.

Digitalization of fiscal operations and policies can substantially improve macro-fiscal performance, by improving revenue mobilization, expenditure efficiency, service delivery, fiscal transparency, and governance. For instance, greater digital adoption in revenue administration (RA) through e-registration, e-filing and e-payment is associated with higher tax revenue collection and lower non-compliance. Digitalization of PFM processes through financial and market investments have been found to improve spending efficiency, reduce payment delays, improve internal controls, and enable real-time monitoring of fiscal data, enhancing fiscal transparency and accountability. Digital ID and digital payments have allowed better identification systems that reduce inclusion and exclusion errors of social benefits.

GovTech initiatives require a good enabling environment and a comprehensive transformation. The benefits from GovTech can only occur if the digital transformation processes are designed and implemented considering institutional capacity and ownership. Fund CD has increasingly promoted the agenda of GovTech, through its different forms of CD, including TA, innovations events, peer-to-peer activities and analytical work related to PFM, RA, and expenditure/tax policy. The IMF produces cutting-edge analytical work to underpin Fund CD and policy advice. Enhancing the integration of GovTech CD activities with surveillance and lending can raise awareness and reform commitments.

Digital money has implications for domestic and international macro-financial stability. The Fund's Digital Money Strategy (IMF, 2021d) recognizes the macro relevance of digital money and fintech developments, and the need to assist countries with their digitalization agenda. In this context, Monetary and Capital Market (MCM) Department is onboarding the new priority—digitalization, for instance, by ramping up CD on Central Bank Digital Currency (CBDC) and cross-border payments. The IMF Approach to CBDC CD (IMF, 2023b) outlines the multi-year strategy to assist countries.

Cross-border payments is a G-20 priority. Fund CD will play a critical role in helping to achieve the commonly agreed targets in the Financial Stability Board (FSB) Roadmap for cross-border payments. The IMF and the World Bank have jointly developed an approach for providing cross-border payments assistance to member countries, as outlined in a recent policy paper (IMF, 2023d). The Fund had identified focus areas that can best help achieve the targets while safeguarding the integrity of the financial system. It will also necessitate closer collaboration and coordination with the World Bank wherever possible and appropriate at country/project level. The IMF will coordinate with the FSB, Committee on Payments and Market Infrastructure (CPMI), and central banks among others when conducting CD through bilateral TA, regional or global workshops/conferences, and analytical work.

Digitalization raises statistical measurement issues and engenders new data needs. The Fund is updating its Balance of Payments Manual to address the impact of digitalization on external sector statistics; and is collaborating with the international statistical community in updating the System of National Accounts. CD in real, external, monetary, and financial sector statistics are already targeting digitalization-specific issues—with training covering topics such as digital trade, digital money, fintech and financial inclusion. A recent IMF Statistical Forum discussed how digital money statistics can inform policy and work under the G-20 Data Gaps Initiative to address data gaps on digitalization and financial innovations.

Contributors: Paul Austin, Oana Croitoru, Kieran Murphy, Tao Sun, and Gerardo Una.

Composition

Issues

35. The composition of Fund CD reflects its areas of competence and changes according to institutional priorities and to maximize impact. The composition of the CD portfolio can be assessed along several dimensions, e.g., by region, broad topical area, delivery modality. Judgments on the need for change reflect the overall objectives of Fund CD and its comparative advantages. The IEO found that overall resource allocations have struck a reasonable balance between country demands and Fund priorities, while the increased role of ADs is crucial to facilitate a country-centered approach. It has called for a clearer articulation to guide allocation of CD resources between individual country demand and the IMF's broader strategic priorities, enhancing the empirical basis for informing decisions about the allocation of CD and for a systematic assessment of institutional capacity in heavy-user countries.

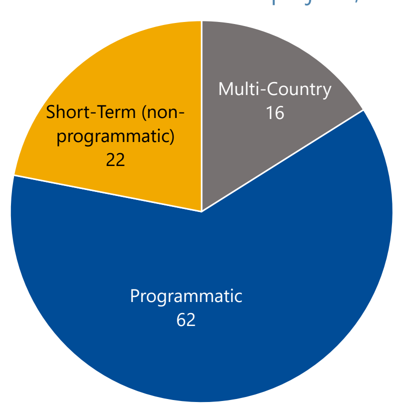
Considerations

36. The area department-led prioritization process has served the Fund well. It is designed so that prioritization decisions reflect surveillance and lending priorities and individual country circumstances, as reflected in country strategy notes (CSNs). CDMAP helps ensure that country and regional teams lead project-level prioritization, which requires strong communication and collaboration among ADs, CDDs, and RCDCs. This helps build awareness of the Fund's CD spectrum in country teams, aiding effective integration. The prioritization process results in the allocations made to regions and workstreams, within which individual projects are then prioritized in iterative consultation between CDDs and ADs, informed by the CD demand pipeline. Topical and regional reallocation can only happen gradually given the constraints inherent in CD resource allocation (multi-year projects, non-fungibility of specialist staff resources and financing sources).

37. Programmatic CD aimed at institution building is the bedrock of the Fund's CD program (Figure 9). Strengthening it has been the focus of previous reviews, and considerable progress has been made. Building institutions in the IMF's areas of expertise and tailored to the authorities' absorption capacity often requires sustained engagement that lasts longer than year with a focus on outcomes monitored through RBM and managed through CDMAP. In many cases, programmatic engagements require a mix of TA, training and peer learning, with training activities frontloaded to maximize effectiveness. They also benefit from initial diagnostic TA, including an assessment of technical capacity. Field presence through RCDCs and in-country advisors is beneficial for close and continuous interactions between experts and the authorities.

Figure 9. Share of Programmatic vs Short-Term CD

(In percent of total number of projects, FY2023)



Sources: CDMAP; Fund staff analysis.

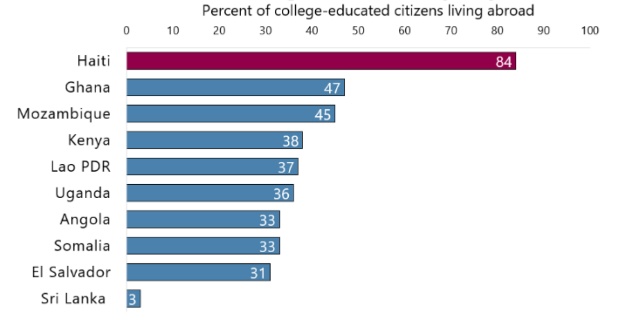
Evaluations that allow course correction are important ingredients for success, especially in a fragile or LIDC context (Box 8).

Box 8. Integrating CD and Program—Haiti

Haiti is a fragile state with multiple challenges. Half its population lives below the poverty line. The economy has a low tax base and a large informal sector relying heavily on volatile remittance flows. It has endured a series of crises, including the pandemic, a devastating earthquake in 2021, and most recently the food crisis—the latter causing acute hunger. The deterioration of the security situation has led to a surge in the number of displaced people in the last few years, further worsening brain drain and capacity constraints.

Losing Talents and Capacity

Percent of college-educated citizens living abroad

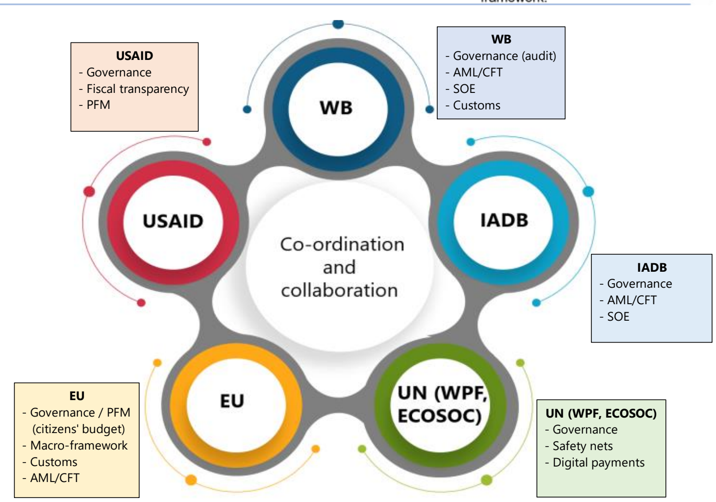


Source: World Bank.
Notes: Ten countries with the highest percentage of college-educated citizens living abroad. Chart only indicates countries with population more than five million.

Capacity development has helped country engagement with the Fund and has increased traction anchored by the 2022 Staff-Monitored Program (SMP) and the 2023 SMP. Each structural benchmark has been mapped with ongoing CD, which is tailored to Haiti's specific circumstances. Thus, the combination of CD and SMP constituted a continuum, that is, a comprehensive and integrated support package.

Structural benchmarks (SBs) under 2022 SMP	CD Purpose	CD Outcomes
SB 1: **Publish** procurement contracts **SB 2:** Expand Treasury Single Account to include main central budgetary units **SB 3:** Adopt a Medium-Term Fiscal Framework	Improve governance and transparency in public procurement and public spending	Published public procurement contracts; Most extrabudgetary funds are now on budget; Prepared a medium-term fiscal framework with NFPS as anchor;
SB 4: **Publish** main donor fund (*FAES*) quarterly reports	Enhance social protection	Published quarterly and annual reports on the operations and finances of the main donor funds (FAES);
SB 5: Draft revisions to the AML/CFT law	Address deficiencies identified in FATF Action Plan	Approved the revisions to the AML/CFT framework;
SB 6: Approve new tax code **SB 7:** **Publish** customs codes and tariffs **SB 8:** Make Tax Identification Number compulsory and **publish** database	Boost domestic revenue mobilization	Approved tax code; published codes and tariffs related to customs;
SB 9: Amend central bank law **SB 10:** Complete the financial audit of the central bank	Build institutions to reduce monetary financing of the deficit, enhance safeguards and central bank governance	Safeguards and revisions of CB framework.

In line with the Fund's Strategy on FCS, leveraging partnerships has been key to maximizing comparative advantage and staying focused on key priorities. Since October 2022, the Fund country team launched a *targeted joint monitoring matrix,* with key development partners, on governance/PFM to improve coordination efforts.



Outcomes of CD on tax reforms, and PFM have been commendable, owing to the authorities' commitment and to CD engagement over a prolonged period. While progress has been non-linear, it has gained momentum. Looking ahead, the implementation of the new tax code is a top CD priority for raising much-needed tax revenue to finance the country's large development needs.

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38. Non-programmatic CD remains essential for agile curative response and peer learning, as well as to support granular policy dialogue. As noted in the past CDSRs, some CD needs to be quickly mobilized, e.g., in a program context or in response to a shock, while work to build sound institutions in a programmatic way unfolds over a longer period. Shorter-term work also includes technical policy engagements and dialogue on granular policy issues, which improves surveillance traction. These activities, many of which are in emerging and advanced economies, are integral to the 2021 CSR's granular policy initiative and remain important for deepening Fund staff's own capacity and technical expertise, including through developing tools and frameworks for the Fund membership. These shorter-term activities also contribute to program design and implementation across a broad range of member countries. Furthermore, resources allocated for non-programmatic CD enable agility in CD delivery to meet urgent and changing member needs.

39. Raising capacity of individual policy makers through training is a core element of the Fund's comparative advantage. The current prioritization process does not explicitly allocate resources to training. It does so implicitly, through the multi-year commitments of Regional Training Centers (RTCs). Fund commitments to RTCs help address the risk of short-term bias and under-allocation to training as AD-led prioritization naturally places strong emphasis on the surveillance/program-linked capacity building that relies on TA, while training tends to have a longer gestation period for delivering impact and more distributed benefits. It is important to monitor the allocation of resources to ensure that training across the full range of CD topics remains at an appropriate level to meet evolving membership needs and demand.

40. The iterative country-centered prioritization process works well within regions and topics but significant reallocations between them take time. This inertia reflects the rigidities inherent in the granular, heterogeneous CD model. Nevertheless, growth in the overall envelope has been accompanied by shifts in topics over time. In particular, the relative share of fiscal CD rose markedly over the last two decades, informed by surveillance and lending priorities, member demand, and donor priorities (Figure 3). According to the AidData survey, recipients noted their interests in additional CD in select areas, such as governance, PFM, climate, revenue mobilization, financial sector issues, and macroeconomic diagnostics.

41. The regional distribution of CD could be further adjusted. Building on the observations of the recent IEO evaluation, staff analysis of CD across regions in FY2023 suggests that Middle East and Central Asia Department (MCD) and Western Hemisphere Department (WHD) countries appear to be under-provided with CD, relative to their needs. The relative under-provision partly reflects that, although internal financing of CD is distributed broadly in proportion to modeled regional needs, external financing favors African Department (AFR) and Asia and Pacific Department (APD). The nascent partnership with Saudi Arabia may ease the constraints in the MCD region looking forward.

Proposals

42. Strengthen the responsiveness of the prioritization and resource allocation process. The Board and the CCB are well positioned to provide clear strategic guidance on the need for broad compositional changes to allow departments to plan on a multi-year basis, informed by the evolving demand for CD. Management has recently amended the terms of reference for the CCB to strengthen its ability to steer strategic resource allocations (as recommended by the IEO). Adjustments to high level topical and regional allocations are expected to favor the MCD and WHD regions. A related issue that will be considered is whether and, subject to availability of funding, how to establish an RTC in Latin America, where officials currently have limited access to Fund training.

43. The prioritization and resource allocation process should periodically reassess whether workstreams and delivery areas are in line with comparative advantage. For instance, identifying areas where the Fund's footprint is small relative to other providers, and macro-criticality had become weaker could offer a space for reallocation to more critical areas. That said, based on the outreach to membership through the AidData survey and discussions with the departments and development partners, no obvious candidates have yet been identified.

44. To ensure that appropriate balance is retained, strengthen monitoring and reporting on the different types of CD. Conscious decisions should be taken about the relative roles of programmatic and shorter-term engagements and their priorities in the allocation process. Monitoring and reporting by departments on the aggregate impact of prioritization decisions across the broad categories of CD will help improve transparency, minimize risks of any prioritization bias (e.g., towards a short-term focus), and allow for the CCB to provide direction where necessary. Given its longer planning cycle, the CCB will also be provided information on the ex-ante allocations to training across departments in the medium-term CD budgeting process.

Integration

Issues

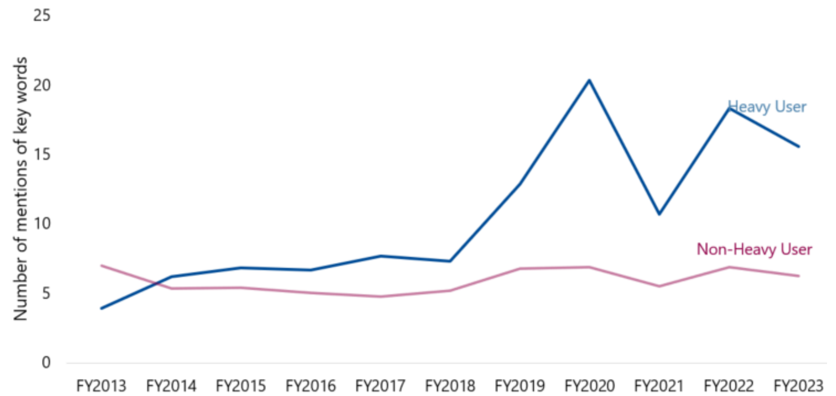
45. Despite significant reforms, further progress on CD-surveillance integration is needed. The IEO evaluation highlighted that integration remains uneven between and within ADs, as reflected for example in the varying depth of coverage of CD in staff reports and the quality of CSNs. In the context of lending, a concern was noted that the inclusion of CD recommendations in program conditionality could undermine the trusted advisor role of CD.

Considerations

46. CD integration with surveillance and lending has increased significantly in the past decade. Area departments now have a well-articulated leading role in country engagement and prioritization, embedded in management systems developed under CDMAP. They are active participants in CD strategy discussions. Following the 2018 CDSR, operational guidelines for integrating CD with surveillance and lending identified best practices for both area and CD departments and emphasized the need for covering both implementation gaps and constraints in the staff reports. These guidelines have been integrated within the 2022 Guidance Note for Surveillance under Article IV Consultations following the conclusion of the CSR. Direct references to CD in staff reports have since increased (Figure 10) and the share of staff reports with a dedicated

CD annex went up from 19 percent in 2018 to over 30 percent in 2022; the ratio is at 60 percent among heavy CD users. However, the extent to which CD issues are reflected within the reports' analysis varies across countries and ADs, as does the approach to including CD annexes. In the context of program engagement, coverage of the linkages between structural benchmarks, CD purpose and outcomes can also aid integration. The goal of deepening integration has helped promote closer collaboration among ADs, CDDs, and the RCDCs in the delivery of both surveillance and CD advice. Resident representatives play a crucial role in this collaboration, particularly as they have a strong appreciation of local capacity constraints and are well-placed to ensure coordination with local development partners. Use of remote delivery has enabled targeted cross-participation in missions by both CD and AD staff.

Figure 10. Average Frequency of CD References Found in IMF Surveillance Documents

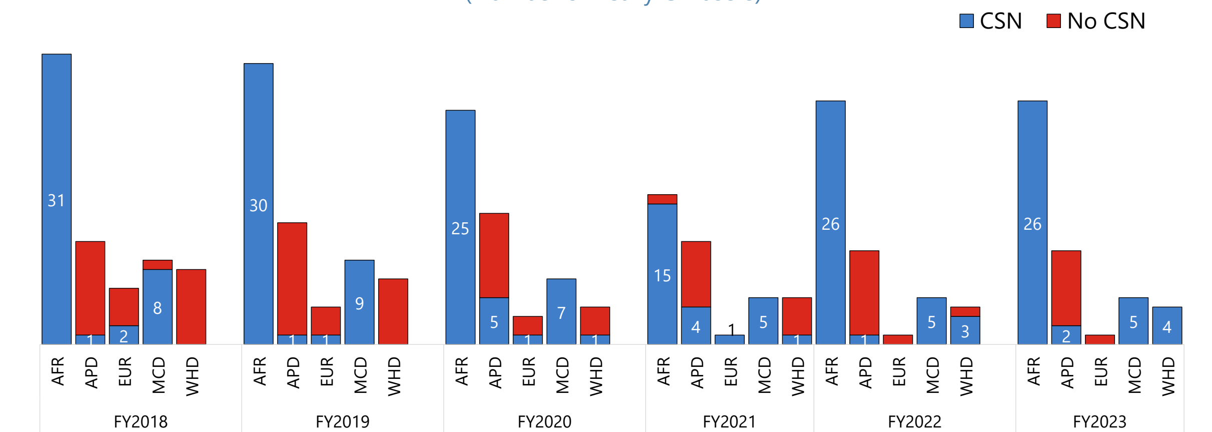


Source: Fund staff analysis.
Note: Includes 3,222 surveillance documents spanning FY2013-FY2023. Words include TA, CD, training, technical assistance, capacity development, and capacity building.

47. Regional Strategy Notes (RSNs) have been valuable in establishing AD leadership. All ADs prepare CD RSNs annually. These notes are shared with management and have been particularly useful for driving analysis of delivery and demand at a regional level and in providing a forum for articulation of key departmental priorities. However, their impact on prioritization has varied due to the heterogeneity of priorities and countries within most regions. RSNs can be quite resource intensive to produce. There is scope for streamlining their production, particularly given the greater availability of granular regional information as a result of CDMAP implementation.

48. CD CSNs have helped drive integration. Staff guidelines on the scope and coverage of these notes were issued in 2020 and helped increase the coverage of strategies in staff reports. While implementation was slowed considerably by the pandemic, it has since picked up (Figure 11). The production of CSNs went beyond the heavy CD users' requirement in some departments (e.g., in WHD). The IEO evaluation notes that CSNs varied in quality and in the extent to which they were reflected in surveillance documentation and discussions. There have also been developments across the Fund that impact the role of CD CSNs. These include the establishment of Country Engagement Strategies (CES) for FCS countries that embed the CD strategy within a broader country strategy and include light CESs in staff reports for small developing states. In addition, information on country-level CD activity, plans and results frameworks is more easily available in CDMAP, reducing the need to document such elements in CD CSNs.

Figure 11. Heavy User Country Strategy Notes by Regions, FY2018–FY2023
(Number of heavy CD users)



Sources: IEO and Fund staff analysis.

49. Consistency of CSNs remains an issue, and improvements have not been visible to external stakeholders. The Board has limited visibility of the CD strategies as CSNs are internal documents and have inconsistent coverage in staff reports. Coverage of regional CD strategy in AD Board briefings has increased but is still very limited, and the Board does not see RSNs. Furthermore, given the varying coverages of CD in staff reports, the Board also does not get sufficient coverage of the relation between CD provision and issues covered in surveillance.

50. Greater participation of CD personnel in surveillance and program design has also contributed to greater integration. As observed during the pandemic and made feasible through technology, participation of CD specialists facilitated technical dialogue and had strong positive impact on CD-surveillance-lending integration and traction. Similarly, it has enabled AD teams to make targeted contributions to CD activities. These activities will continue to be important and will require explicit inclusion of such interactions in the planning framework for blended CD modalities outlined in Section D.

51. Coordination with development partners improves CD integration and impact. Background surveys and outreach activities show that CD stakeholders across the board emphasize the importance of coordination. Effective coordination helps integration, avoids duplication and ensures CD overlaps with activities of other development partners, and increases synergies by allowing development partners to focus on their comparative advantages (see background paper on mapping of the Fund's comparative advantages vis-à-vis other development partners). It also reduces the risks of stretching scarce absorptive capacity in many CD recipients particularly FCS.

Proposals

52. Enhance the visibility of the area department-led prioritization process and streamline documentation requirements. Preparing country- and regional-level strategies has been an essential component of the enhanced integration seen in recent years. Some documents associated with the current prioritization process could, however, be streamlined and made available to the Board. Staff will shorten RSNs and prepare them in full only every three years, with brief annual updates focusing on significant changes. Furthermore, summary of RSNs will periodically be shared with the Board in the context of the annual briefing on CD priorities to increase the provision of information as suggested by the IEO evaluation. CSNs as mandatory standalone documents will be retired in favor of more substantive coverage in staff reports (see below). For FCS and small developing states, CD strategies will be embedded in CES. Country teams could choose to also produce more detailed strategies for internal planning and prioritization purposes.

53. Improve coverage of CD in staff reports for heavy CD users. Better coverage of CD issues in the main text of Article IV staff reports is important for integration and will be assisted by increasing the usage of CD strategy annexes. Drawing on current good practices, these will be required for all heavy CD users and could incorporate automatically produced information drawn from CDMAP. The expected format and required coverage of these annexes will be developed as part of future CD and surveillance guidance, which could also consider adjusting the number of heavy users. These annexes will make the country CD strategy more visible and assist in the ultimate objective of integrating relevant capacity issues in policy discussions and staff report analysis. The EAG also proposes amending the review process to create specific responsibility for monitoring this in ICD (see Annex II), but the resource costs of their proposal are likely to be prohibitive. Nevertheless, strengthening intra and interdepartmental reviews to address coverage of CD adequately will be necessary and may require the development of new tools and processes.

54. Continue to strengthen internal incentives and capacity for integration. Proposals in other sections of this CDSR contribute to enhanced integration. These include clear guidance on AD leadership of Regional Technical Assistance Centers (RTACs), HR reforms to enhance mobility of specialized economists, and more purposeful acknowledgment of the importance of shorter-term CD for surveillance and lending traction. In addition, staff will continue to work on implementing the 2021 staff guidelines on integration, including through inclusion in the CD guidance note that will be issued following this CDSR and through knowledge and change management initiatives. These initiatives should include resident representatives who play a critical role in the effective integration of CD with surveillance and lending. Reflecting a suggestion of the EAG, the Internal Economics Training (IET) program should also include greater focus on public policy and political economy topics to enable both fungible and specialized economists to better understand the nature of institutional change and development.

B. Enhancing the Funding Model

Issue

55. External financing has allowed for a significant expansion in the Fund's ability to meet members' CD needs but has increased risks to the continuity of delivery and to prioritization. Fund CD is reliant on funding from the Fund's administrative budget and a growing array of externally funded vehicles with a large number of financing partners. Board discussions have welcomed the positive impact of external financing but have also highlighted potential risks to its continuity. Some chairs highlight the lack of access to external funding for certain groups of countries, which may not have sufficient access to Fund CD as a result. The IEO evaluation also highlighted these risks and proposed revisiting the current funding model to ensure they are adequately mitigated, including through an increase in the share of internal funding and by charging for CD.

Considerations

56. CD spending includes both direct and indirect components (Figure 12).

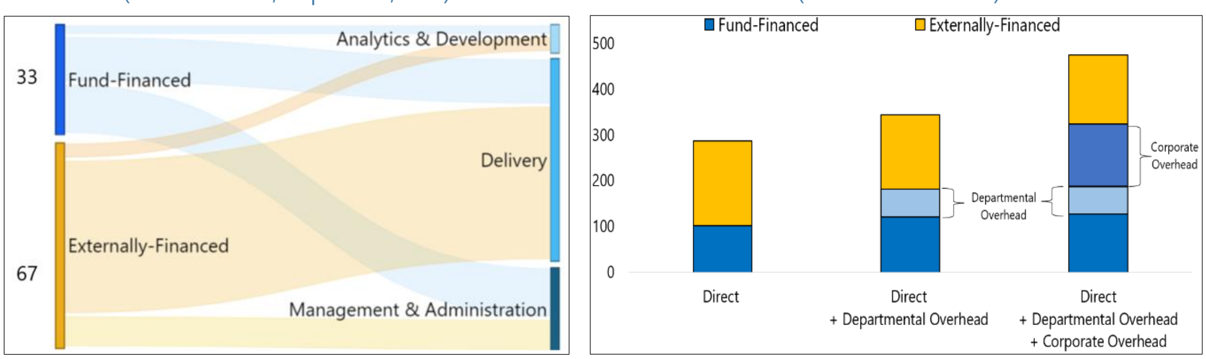
- **Direct spending on CD.** This is the cost of personnel, travel, and other costs of direct delivery, analytics, administration and CD management all captured in the Fund's dedicated CDMAP system. Direct CD spending was around $285 million in FY2023, and around two-thirds of it was externally financed. The annual prioritization exercise allocates spending to regions and workstreams. This is the most appropriate measure when considering impact of funding source on direct delivery composition.

- **Overall spending on CD.** This measure includes the additional spending that the Fund incurs. These extra spending categories are attributed to CD based on its share in total Fund outputs and reflect (i) management and administrative spending in delivering departments; and (ii) CD's share in corporate functions, including the Executive Board, Fund buildings and facilities. Spending including all attributed spending in FY2023 was around $475 million, with Fund financing around 59 percent of the total. This measure is used for overall Fund budget formulation and reporting and is the relevant measure for determining the relative share of CD vis-à-vis other Fund outputs.

Figure 12. Structure of CD Funding

CD Direct Spending by Funding Source and CD Component, FY2023
(Share of total, in percent, LHS)

CD Overall Spending by Source and Category, FY2023[1/]
(In millions of USD)



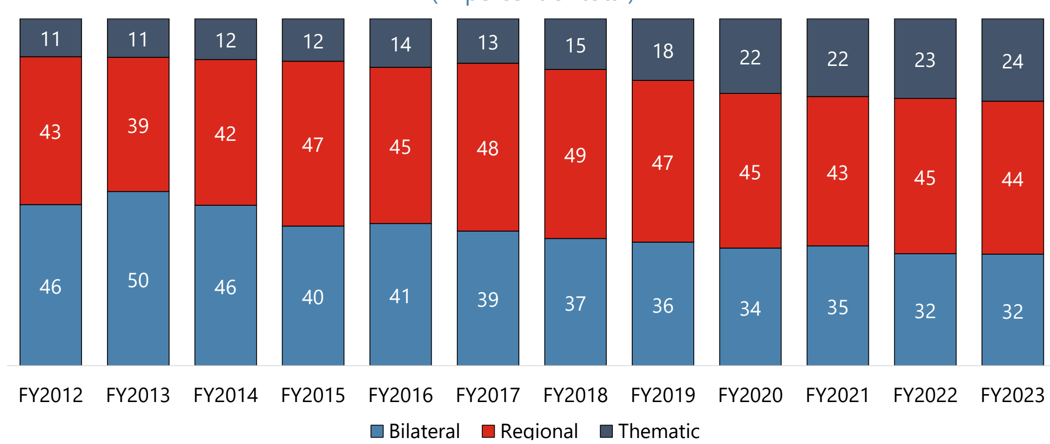
Source: Fund staff estimates.
[1/] Direct spending include spending on CD delivery, CD analytical work, and CD governance and management. Overhead spending reflects CD's share of administrative and other spending.

57. CD relies on both internal and external funding. Within direct spending, the Fund's own budget covers a large share of analytical work and a majority of CD management and administration spending. Some of this oversight represents un-reimbursable spending on managing the external finance portfolio. Internal funding is also the most flexible source of financing for direct delivery as it is not tied to specific regions and can be moved between subject areas, providing scope to opportunistically fill gaps in external funding, although the latter is constrained by staffing commitments and limited fungibility of specialists. For delivery, internal financing tends to be used for urgent needs that do not have external financing and to fill gaps where financing is not available, for instance for many emerging market countries. Fund-financed CD budgets have remained broadly constant in real terms over the past decade, with a pandemic-related dip in spending. The recent augmentation allocated 25 percent of resources to CD, which have funded HQ-based staff and long-term experts (LTX) and RCDC administrative spending, and to specific topical CD areas.

58. External financing has enabled the Fund to meet the growing demand for CD from members despite a flat real budget environment. Around two-thirds of direct spending on CD is financed by partners and RCDC member countries. Almost half of this funding comes from vehicles tied to specific regions, mainly through the RCDC network (Figure 13). This type of funding is quite flexible across subject matters within a given RCDC but cannot be transferred to other regions. Thematic funds, such as the ones focused on statistics or revenue mobilization, have been growing in size, now accounting for around a quarter of external financing. They are very flexible across regions but cannot be used for topics outside of their ambit. Both types of vehicles are multi-partner. Around a third of funding comes from bilateral agreements, which tend to be tied to specific countries/regions and topics and are quite heterogenous.

Figure 13. Externally Funded CD, Share of Drawdowns by Vehicles, FY2012–FY2023

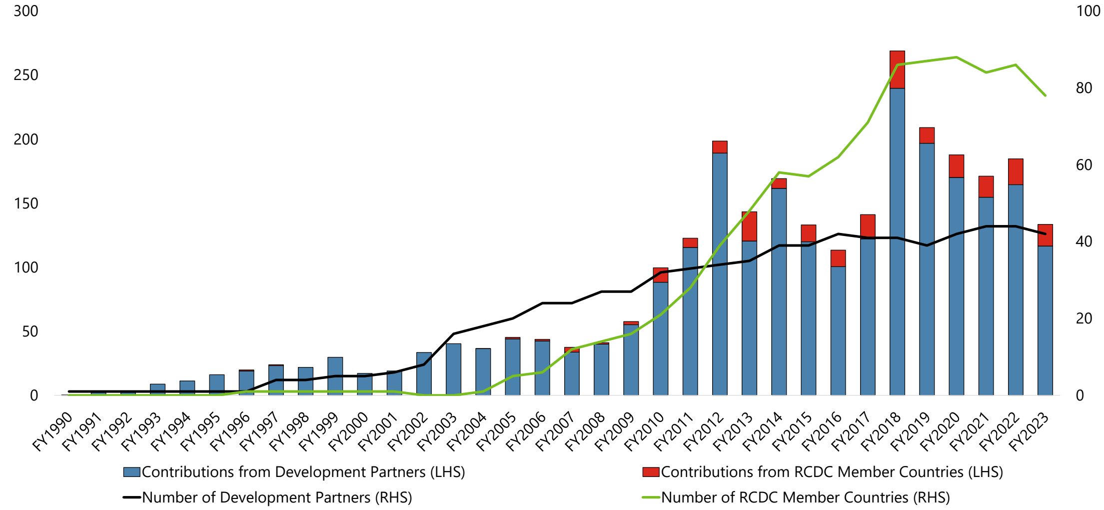
(In percent of total)



Source: Fund staff estimates.

59. Overall, external financing has served the Fund and its membership well. It continues to be a reliable source of funding for CD, allowing for scaling up the delivery significantly with manageable risks to-date (Figure 14). In addition to the sizeable growth, it has also enabled the Fund to develop a significant field presence and enhanced coordination with other delivery partners. Dialogue with these partners has contributed to the modernization of the Fund's CD governance, as prioritized in the previous two CDSRs.

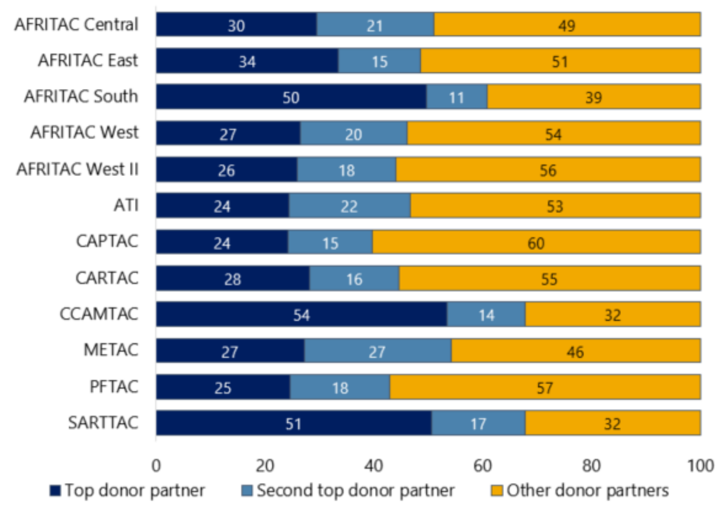
Figure 14. External Funding and CD Partners
(In millions of US dollars; number of partners)



Source: Fund staff analysis.

60. The reliance on external financing for delivery spending is associated with risks. These were highlighted in the IEO report that noted issues related to competition for resources (both internally and externally) and the risks of diverging priorities between members and donors. External finance also brings with it administrative and governance complexity and thus additional costs, and has implications for the personnel structure in CD area. The more limited fungibility of external funding across topics and regions can also lead to financing shortfalls in specific areas. RCDCs are particularly exposed to such risks. Seven of these centers rely on one partner for over a quarter of their funding (Figure 15). This concentration elevates risks to continuity of provision if partner's priorities change markedly. Tied financing can also make it more difficult to adjust spending according to changing circumstances, which may partly explain why budget utilization of internal budgets for CD has generally been higher than for externally financed CD.

Figure 15. Structure of Contributions to RCDCs
(In percent of total; Current funding phase, December 2023)



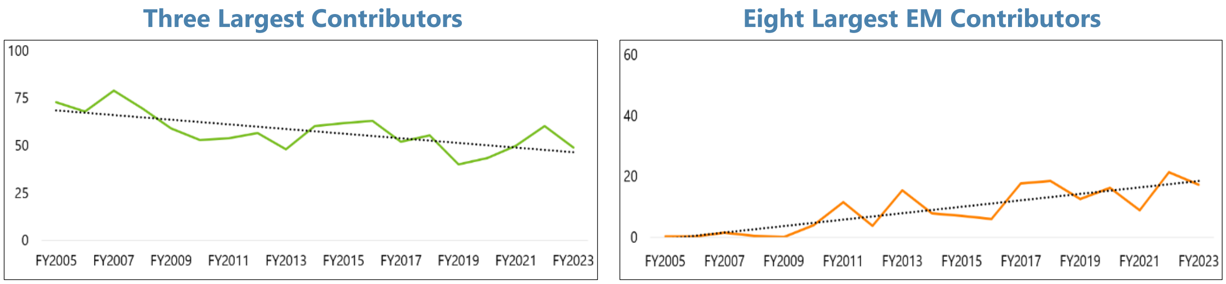
Source: Fund staff analysis.
Note: Donor partners refer to development partners, member countries including host countries.

61. Risks to fundraising have been effectively managed, but the environment is getting more difficult. Funding risks are low in the short term, as the Fund's pre-financing model, on aggregate, has led to having a buffer of more than two years' worth of external CD funding.

Progress has been made in increasing the flexibility of funding vehicles and the number of partners, including a greater share of contributions from emerging economies (Figure 16). Given the relatively small share of Fund-financing of direct delivery and the tight overall Fund budget situation, shifts or decline in donor funding for particular regions or topical areas could impact the Fund's ability to continue to deliver CD at a level consistent with the needs of members and in a way that is aligned with a modern and nimble surveillance framework emphasized in the 2021 CSR.

Figure 16. Share of External Funding by Partner Type

(In percent of total)



Source: Fund staff analysis.

62. The potential for misalignment of priorities is greater the more reliant the Fund is on tied external financing for delivery. Internal and external financing of CD are not perfect substitutes, as external financing reflects donor preferences, which may not always fully align at the aggregate level with Fund priorities. This has the potential to leave some high Fund priorities un- or underfunded. This is more likely when external financing is dominant and there is a large amount of Fund priorities that do not intersect well with donor priorities. This tradeoff has been navigated well so far, including through the top-down prioritization processes overseen by the CCB. Nevertheless, there have been areas where Fund priorities for increased delivery have been difficult to meet given the lack of availability of suitable external financing—for instance meeting the CD demand in the MCD or WHD region. Overall budget constraints limit the ability of Fund-financing to fill these regional/thematic gaps, particularly as it also needs to cover analytical work/tool development and technical/managerial oversight that are necessary to maintain CD quality.

63. Fund CD is generally provided free of charge to members, with a focus on members most in need. As part of a set of streamlining measures associated with the FY16–FY18 Medium term Budget and a subsequent staff working group on cost-recovery for CD, high-income members are requested to self-finance CD if it is not crisis-related, other external finance cannot be accessed, and costs exceed US$250,000. This policy primarily reflected a desire to ensure CD was well-targeted; it was also expected to have a modest budget impact. Other development partners have charging mechanisms that are more focused on revenue generation. For example, the World Bank's Reimbursable Advisory Service arrangements are generated from client requests and are provided in addition to the World Bank's regular work program. As the service provider, the Bank reports directly to the client.

64. Charging for Fund CD has incurred significant administrative costs, generated negligible revenue, and caused reputation difficulties. The annual revenue raised through these charges has been around one million USD on average in the last five years, with 60 percent of total revenue coming from three CD donor countries. The procedures for administering the contributions are burdensome for both the Fund and members, as they broadly replicate those used for larger externally financed vehicles. There are also reputation issues with the policy. Much of the CD in advanced countries has the nature of granular technical advice that supports the traction of surveillance and helps the Fund build its own tools and advice as a by-product of engaging with the authorities. In addition, some of the countries that are subject to charging are already major contributors to external CD financing as donors.

Proposals

65. Significantly increasing Fund-financing for CD would reduce prioritization and fundraising risks but is not possible in the current budget environment. If the Fund were to finance a greater share of the current CD envelope, it would reduce the risks of being unable to raise adequate funding to meet Fund priorities and increase the flexibility and agility of CD resourcing and delivery. However, to have a material impact on the share of direct spending covered by the Fund, the resources needed would be significant and will not be feasible to find in the current flat real budget with multiple competing demands for additional resources. Even increases to support more modest objectives, e.g., increasing further IMF01 coverage of RTACs administrative costs, will be challenging (it would require around US$10 million annually). The review considered options similar to those used in other international financial institutions (Box 9), for instance a notional reserve for CD on the Fund's balance sheet. These were not pursued as they would require a temporary departure from the flat real constraint for the Fund's net administrative budget, which received limited Board support in the mid-point discussion.

66. In order to increase flexibility and decrease risks, the Fund will continue to broaden external funding vehicles and diversify financing sources. Without fundamentally altering the existing funding model, and subject to preferences by partners, this would help lower fundraising risks, provide greater scope for alignment with Fund priorities, and allow the Fund to adjust external financing if necessary to meet the needs of members. To the extent possible, fundraising will focus on multi-partner regional and thematic vehicles with flexible country coverage rather than bilateral donor or single country-designated vehicles—although the latter can have useful roles in circumscribed cases, such as for instance financing scaled-up CD in Ukraine. Thematic vehicles have the most flexibility in terms of country coverage, can help lower administrative costs, and better support a holistic prioritization approach. The new Global Public Finance Partnership (GPFP) Initiative serves as an example of increasing flexibility and minimizing financing risks. To solidify the funding model for RCDCs, regional funding (both from donors and member countries) will more systematically be complemented with thematic funds (see field presence section). This will improve RCDC's funding structure and increase the Fund's ability to match CD delivery with its desired regional composition. It will also require evolution in the RCDC governance model discussed in the field presence section. Staff will also explore the scope for ensuring that the full cost of direct CD delivery that is externally financed is captured; however, the revenue impact of this is likely to be small.

67. This increased flexibility should be supplemented by establishing a CD stabilization mechanism. This would reduce residual risks associated with the current CD funding model. It would entail the establishment of a pool of highly flexible, untied financial resources that would provide insurance against external funding risks and improve the ability of the Fund to ensure adequate CD is directed to its highest institutional priorities. The stabilization mechanism would be established by the Board as an administrative subaccount similar to those used for external funding vehicles. The Board document establishing the account would set out the purposes for which it can be used and the reporting requirements. Options for uses of the stabilization mechanism could include:

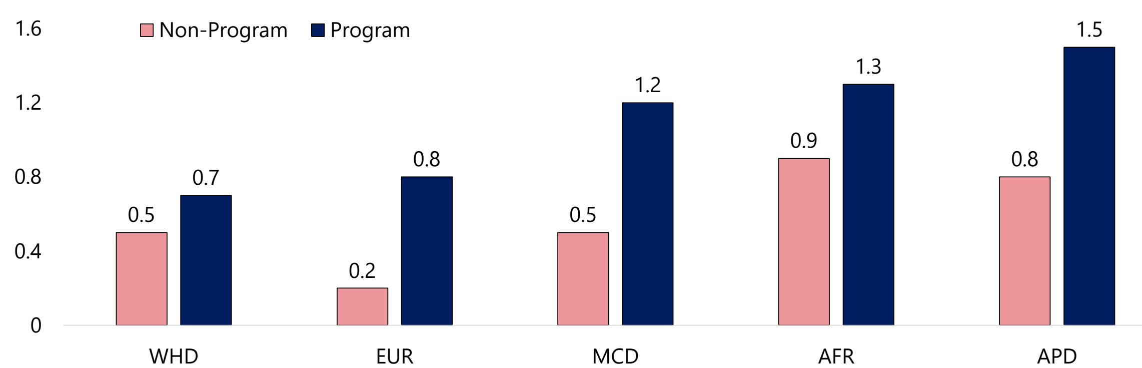
- **Insuring against fundraising shortfalls:** the mechanism could be used to fill short- to medium-term gaps in external financing for specific regional centers/thematic funds.

- **Ensuring adequate CD to support Fund financial arrangements:** the mechanism would provide the ability to rapidly scale up CD in support of rising demand for programs (Figure 17 shows the direct relationship between program status and CD delivery).

- **Financing CD for emerging institutional priorities:** the mechanism could also provide "seed money" that would enable the Fund to scale up CD in new areas of demand before integrating them within the existing envelope and financing structure.

Figure 17. Average Direct CD Spending—Program vs. Non-Program Countries

(In millions of USD, average per country, FY2023)



AFR: Sub-Saharan Africa, **APD:** Asia & Pacific, **EUR:** Europe, **MCD:** Middle East and Central Asia, **WHD:** Western Hemisphere

Sources: CDMAP; Fund staff analysis.

68. The mechanism would be managed within the existing Fund gross budget and CD resource allocation process. While the Board would exercise overall control of the mechanism, operations would be delegated to management, in line with existing CD governance. Like current externally financed CD, expenditures financed by the mechanism would be part of the gross administrative budget of the Fund but would not be part of the net administrative budget. This would help avoid formal earmarking within the net administrative budget which runs counter to best practice. Board decisions on the overall size of the available funding that would be incorporated into the gross budget would be in line with the considerations discussed in the CD size section and take into account the size and potential uses of the stabilization mechanism. Reporting to the Board on plans and execution would take place in the context of the annual budget process, including in the decision on overall expenditures included as part of the annual budget.

Box 9. CD Financing Initiatives in Other International Financial Institutions

International Finance Corporation (IFC)

The International Finance Corporation (IFC) has two internally financed trust funds to support its CD-like activities. The Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS), established in 2004, supports new project initiatives and covers the administrative expenses of the IFC's advisory facilities. It provides IFC with the flexibility to embark on strategic initiatives even when donor funding is not available. Building on its success, the IFC introduced the Creating Markets Advisory Window (CMAW) in 2018 to foster market creation in eligible IDA and FCS countries.

As part of the Budget Paper approval, the IFC Executive Board approves a range of potential designations of net income to the two funds based on a sliding scale formula. After the close of the fiscal year, the formula is applied to income available for designations to determine the actual designations. The transfer of net income/(loss) to retained earnings and any designations of retained earnings is submitted to the Board as resolutions following approval of the year-end financial statements.

The trust funds operate under a system of delegated authority. The Board has the responsibility of determining the overall size of each Trust Fund. Meanwhile, the management of the IFC utilizes the resources to implement work programs. These programs are carefully aligned with the eligibility criteria and strategic direction set by the IFC, ensuring that the funds are used in accordance with the organization's overarching goals and mission. This structure allows for efficient utilization of funds while adhering to the strategic objectives of the IFC.

European Bank for Reconstruction and Development (EBRD)

The Shareholder Special Fund (SSF) was established by the European Bank for Reconstruction and Development (EBRD) in 2008. It is a trust fund established to complement existing funding for projects which do not fit donor priorities. It provides flexibility, predictability, and additional funding. The SSF's key mandate is to complement existing donor funding operations through technical cooperation (TC), investment grants, incentive payments, and equity participation focusing on countries and regions facing significant transition challenges. In other words, the SSF is amongst other thing funding the EBRD's equivalent of capacity development.

The SSF is an internal trust fund that complements donor funding and draws its resources from allocations of EBRD net income. The fund operates under a set of rules and resolutions set by the Board of Governors, focusing on TC and co-investment funds. Its operational mechanism involves a top-down approach through a Country Allocation model and a bottom-up approach through proposals from Regional Managing Directors. The final decision on project funding is taken by the EBRD's Board of Directors or the VP for External Relations and Partnerships, based on the size of the requested funding. Over the years, the SSF has approved 12 Work Programs that supplement crucial donor funding in fulfilling the EBRD's mandate.

69. The mechanism would not be tied to a single funding source. There could be a range of potential financing sources for the stabilization mechanism. For instance, it could receive contributions from donors, potentially facilitated in the future by the use of internal Fund resources, provided such contributions are structured in line with the untied nature of the mechanism. The mechanism could also provide a good opportunity to further exploit synergies between the Fund's fundraising activities. The design and implementation of the mechanism would need to guard against the potential for it to create incentives for donors to reduce ongoing contributions to CD. A steady state level of around $50 million should provide adequate insurance against residual funding risks, which would need to be replenished when utilized.

70. The charging policy for high-income economies should be modified to ensure it creates appropriate incentives. It is important that any charging policy does not hinder technical dialogue between Fund specialist staff and country authorities that is critical for the development of CD advice and tools. The current threshold of projects under $250,000 being exempt from charging performs this role but should be updated to take account of cost increases. Moving to reimbursable services for an income generation objective is not compatible with the CD governance and strategy but retaining the requirement for high-income economies to self-finance substantial projects remains appropriate and may continue to provide small assistance to the Fund budget. However, where high-income economies are already contributors to the Fund's CD, the requirement for them to self-finance should be lifted.

C. Enhancing Impact

Issues

71. CD impact—the degree to which CD advice is implemented and produces intended outcomes—defies an easy objective assessment. Impact is influenced both by design of CD engagements and by their ability to influence recipients' policy priorities and implementation. A combination of a rich survey, evaluations, and RBM evidence provide important pointers to the impact of Fund CD and the scope for improvement and is summarized in the background paper on CD impact and evaluation. As the IEO evaluation pointed out, recipients, donors, and the wider membership strongly value Fund CD as being of the highest technical quality in the Fund's core area of expertise. They also point out that Fund CD has become better tailored to recipient needs and circumstances. Further, the evidence suggests that, overall, Fund CD was relevant, valued, and broadly effective in a very wide range of country circumstances.

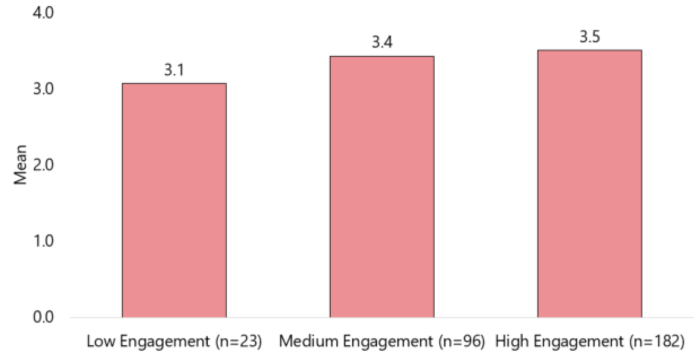
72. Enhancing impact further requires continued refinements in prioritization, deepening of ownership, and improvements in monitoring and evaluation. Despite important progress in recent years through introduction of RBM and CDMAP, there remains considerable room for improvement. The EAG (Annex II) stressed the importance of progress in this area.

Considerations

73. Fund CD has been broadly effective and impactful. Background paper on evaluation and impact provides information and analysis on the effectiveness and impact of Fund CD, drawing on completed evaluations, results information and analytical work. Success and sustainability require ownership, tailoring, and intensive engagement, especially in low-capacity environments.

- **CD results are boosted by more frequent and intensive engagement,** including with more sustained field presence, integration with surveillance and lending, as well as stronger ownership, and better tailoring (Bassanetti, 2021; staff analysis). As some of the successful CD country examples covered in the 2022 IEO evaluation show, continued engagement creates conditions that help make significant progress feasible as and when reform momentum picks up (Box 10). Continued engagement also improves perceived influence and traction of the Fund's advice (Figure 18).

Figure 18. Perceived Positivity of Influence, CY2020



Sources: AidData; IEO staff calculations.
Note: Figures in parenthesis indicate numbers of respondents at each level of engagement. Scale: 4 - Agree, 3 - Agree/Disagree, 2 - Disagree, 1 - Prefer not to say.

- **Tailoring has led to better results,** as supported by external evaluations and staff analysis. This happens when the authorities are involved in CD design (at the minimum, objectives are discussed with the authorities), when field-based experts are part of the team, and with more intensive engagement. The FCS strategy (IMF, 2022) and its guidance note provide lessons learned and recommendations on how to tailor CD in FCS contexts that are applicable across the membership, particularly in environments where absorptive capacity is constrained.

- **Moreover, CD provided consistently over several years is more impactful.** Staff analysis (Bassanetti, 2023, forthcoming) shows that countries that have received intensive TA in tax policy/RA and statistics experienced, on average, a larger and statistically significant increase in the tax-to-GDP ratio and the statistical capacity indicator, respectively, compared to similar countries that received less intensive or no CD. Similarly, external evaluations find that training provided on an on-going basis or in conjunction with TA efforts is more effective than one-off courses or workshops.

Box 10. Dividend from Sustained CD Engagement—Cambodia

This box highlights the lessons from continued, tailored, and impactful CD engagement in Cambodia, one of the heaviest users of Fund CD. Taking a more focused and long view of impact assessment, the box focuses on the impact of fiscal reforms (revenue mobilization).

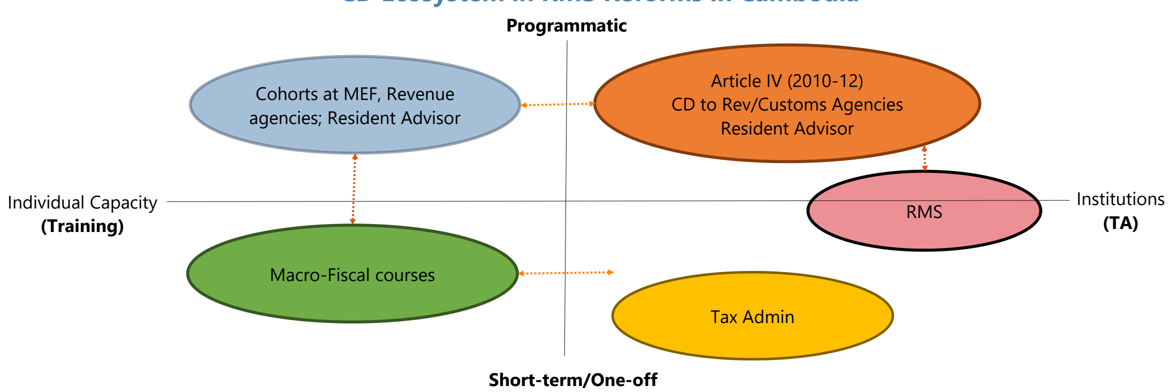
The Fund participated closely in Cambodia's economic transition from a planned to market economy over the last three decades. In a post-conflict environment, the Fund through its surveillance, lending, and CD engagements helped build fiscal and monetary institutions (e.g., customs and tax agencies; central bank laws) and capacities in various government agencies. CD planning, delivery, and implementation also reflected the close engagement of the authorities. This Cambodian case illustrates that the strengthening of institutional and human capacity may entail an extended process.

A long-term approach to institution and capacity building characterized the Fund's CD engagement in Cambodia. Amid the post-conflict realities and acute shortages of skills, CD demand—both TA for formulating and implementing policies and training for building capacity of individuals in relevant ministries—remained strong. A long-term approach was critical, given that generations of policymakers were lost during Cambodia's tragic past. To finance Cambodia's development needs and to reduce dependence on external assistance as Cambodia moved towards lower-middle income country status, domestic revenue mobilization strategy (RMS) was prioritized in the surveillance and CD agenda (see Article IV staff reports 2010–2022).

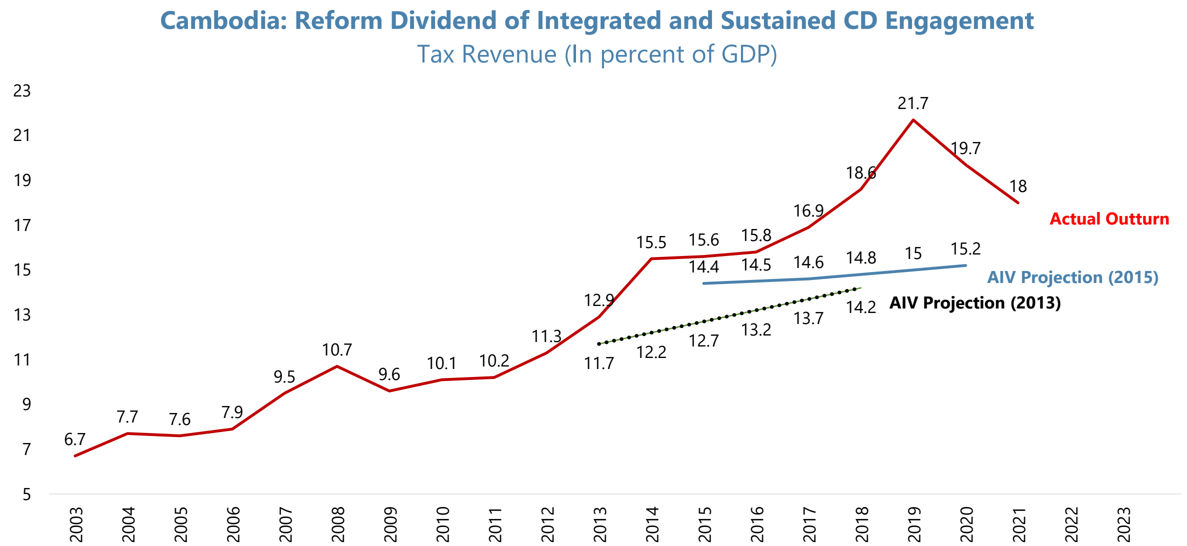
CD engagement in RMS was integrated with surveillance, remained sustained, and leveraged various engagement and delivery modalities as noted in Box 2 on CD Taxonomy. Following the Article IV discussions during 2010-2013, authorities adopted a homegrown and deeply owned RMS in 2014. As noted by the IEO evaluation, 90 percent of the RMS (2014–2018) recommendations under RMS were implemented. The Ministry of Economy and Finance (MEF) recruited cohorts of young staff who were trained by the Fund in Cambodia and in the RCDCs and aided by resident advisors. They gradually rose through the ranks in the MEF and tax and customs agencies to become the main recipients and the key counterparts of Fund CD, increasing tailoring, ownership, traction, and implementation. In short, the Fund's CD ecosystem of various types of TA and training was involved, enabling both CD-surveillance and TA-training integration.

CD impact and institution building are cumulative, may require time, and needs ownership. As the Fund engagement in revenue mobilization in Cambodia shows, surveillance and CD can be mutually reinforcing. Both TA and training can leverage their synergies. Within training, developing cohorts help state capacity. In Cambodia, although tax-to-GDP ratio stagnated below 10 percent of GDP during 2000–2010, it increased by over 5 percentage points of GDP during the first phase of the RMS (2014–2018), far above the Fund's medium-term revenue projections during the adoption of the RMS (Staff Reports 2013, 2015) when the cumulative impact of sustained engagements since the 2000s, tailoring and ownership converged.

CD Ecosystem in RMS Reforms in Cambodia



Box 10. Dividend from Sustained CD Engagement—Cambodia (concluded)



Source: Various IMF Staff Reports (2013-2023).

74. The Fund has made a lot of progress towards establishing a high-quality monitoring framework for its TA. Results frameworks are developed for all projects within CDMAP, a level of coverage of CD that is greater than in many similar organizations, where RBM is generally reserved for investment projects and not applied to stand-alone TA. There is, however, still room for improvement in terms of consistency of result frameworks across workstreams. Results can be aggregated across regions and/or workstreams but remain focused on project level results. Strategic result frameworks that articulate and track results at a higher level, either in terms of economic impact or portfolio performance, are only constructed in an ad hoc manner, mainly to meet requirements for funding vehicles. The IEO also noted some areas where recipients' ownership of the frameworks could be strengthened. Formal agreement to results frameworks has been used in some areas but is not widespread. For instance, intensive engagement funded by the Revenue Mobilization Thematic Fund (RMTF) used formal Memoranda of Partnerships including endorsement of the result framework at project inception. Experience with this process was mixed, and consideration is currently being given to easing the formal documentation in favor of more organic ongoing engagement on results.

75. The effectiveness of training is monitored using a combination of surveys and testing. In line with industry standards, a robust set of evaluation methods are applied for online, virtual, and in-person training delivery. The 2022 IEO evaluations confirmed that the Fund uses an appropriately modified version of the methodology generally used in the training industry. Initial post-course surveys capture reactions to the training, ascertaining participants' perception of training usefulness and effectiveness, while administration of pre- and post-course tests provides information on learning gains. Follow-up surveys are also conducted for ICD training to help assess the degree to which newly acquired knowledge and skills are applied on the job. That said, there is scope for harmonizing evaluation of training across departments and improving the feedback loop between training evaluation and course curriculum.

76. The Common Evaluation Framework updated in 2022 provides a sound basis for conducting evaluations. Informed by the widely accepted OECD Development Assistance Committee methodology, it guides a work program of around 12 evaluations a year, primarily tied to phases of external funding vehicles. Its intention to reinvigorate the program of internal evaluations has been less successful so far, in part due to the resource pressures of the pandemic. On average, since 2018 staff has completed less than one internal evaluation per year. However, momentum is now beginning to pick up with the completion of an evaluation of external sector statistics TA in Africa and the commencement of two fiscal sector TA evaluations.

77. Information from monitoring and evaluation is not used systematically in strategy setting or resource allocation. Although the current RBM framework provides a feedback loop between delivery and impact, better customization of the framework to the various forms of CD can help to better inform prioritization. In this context, the detailed log frame used for programmatic CD is not easy to apply to one-off/shorter-term CD that is more focused on support of surveillance or crisis management goals than on independently identifiable institutional results. This complicates the interpretation of aggregate results information. In turn, evaluation recommendations are often specific to funding vehicles, limiting their broader strategic use. In addition, there is no mechanism for relevant broader recommendations to be fed into CD strategy discussions. The limited resources devoted to internal evaluations and the absence of top-down guidance on topics to be addressed also constrain the strategic value of the evaluation program. Relatedly, the EAG has highlighted the importance of selecting an appropriate time horizon for assessing impacts especially in low-capacity environments where the RBM framework may not adequately capture the diffusion of impact.

Proposals

78. For programmatic CD, require explicit discussion and agreement with the authorities on targeted results before commencing a project. This early buy-in would safeguard appropriate tailoring of CD and help reinforce ownership throughout the project lifecycle. It would also help ensure that resource requirements for both the authorities and the Fund are clear. The proposal will be implemented by CD teams seeking the authorities' explicit endorsement of the RBM log frame for programmatic CD projects. This endorsement will take place as part of the design or initial implementation phase with regular review through the project lifecycle. Country teams along with resident representative offices would need to be involved, including to help gauge and monitor countries' absorption capacity and progress in implementation. This would facilitate an enhanced focus on change management in programmatic CD, ensuring that targeted reforms are achievable and fully owned by the authorities. This country-centered programmatic approach that coordinates support across workstreams and focuses on realistic implementation plans and change management is central to the Fund and the World Bank's Domestic Resource Mobilization initiative (see above).

79. Improve the strategic focus of the monitoring framework. Staff will develop guidance on developing consistent and comparable strategic results frameworks that aggregate results across projects, for instance for a given workstream and group of countries. These will provide a means of articulating higher-level outcomes than currently captured in project-level results frameworks and enable better monitoring of effectiveness and impact, reflected in macroeconomic variables aligned with surveillance objectives. This will help embed RBM in strategic decision making and provide a better framework for monitoring the impact of short-term specialist technical engagements that share attributes of, and reinforce, surveillance.

80. Increase internal evaluation of the impact of Fund CD. Staff will seek to increase the number of internal evaluations within the current overall resource envelope and broaden their scope to include more analytical approaches that yield strategic insights, drawing on macroeconomic and project results data. The focus of evaluations would be on programmatic CD, enabling more in-depth understanding of the longer-term impact of Fund CD in line with the EAG's recommendations. In line with its revised terms of reference, the work program would be developed in a more top-down strategic manner by the CCB. A key early priority for such evaluations could be identifying good practice in assessing institutional capacity and tailoring approaches in line with the assessment. At the same time, efforts should continue to introduce more strategic themes into the externally financed evaluation program, building on the experience of combining evaluations of a number of RCDCs to focus on common themes.

81. Create formal mechanisms to ensure monitoring and evaluation data feeds into strategy development. Greater dissemination of RBM and evaluation information will enhance data quality and facilitate its use in strategy setting. Regular reporting to the CCB of recommendations of recent evaluations and staff's proposed response will help foster an outcome-oriented culture in the CCB's strategic resource allocation discussions, AD prioritization, and project design. It will also facilitate periodic high-level reporting to the Board on evaluation issues. At a more working level, the rich data on training evaluations will be more fully used to evolve the curriculum and adjust delivery modalities. This would require extending the application of the formal approach of evaluating the results of training and learning programs—at present only used for ICD courses—to all training.

82. Continue to enhance CD dissemination and communication. Raising awareness of Fund CD's scope, recommendations and impact will enhance peer learning, in-country traction, partner coordination and also assist in fundraising. The revised CD dissemination guidance (IMF, 2022e) provides a modernized framework for communications around Fund CD. Increased publication of High-Level Summaries that showcase strategic CD recommendations should significantly enhance awareness of Fund CD. Staff will also look to communicate more cross-country material, drawing where possible on artificial intelligence (Box 11) and continue to utilize Annual and Spring Meetings events to demonstrate CD's importance to the Fund's work with members.

Box 11. Potential Implications of AI for Fund CD

Recent advancements in generative AI are likely to have significant implications for the CD activities—both for the Fund as a provider and for the country members as recipients of the Fund CD. The extent of the potential implications is hard to predict, but it is reasonable to expect that AI tools could help increase productivity and scale of CD delivery. Further down the road, adapting AI technology and harnessing its potential could lead to an outright transformation of how the Fund and other providers do their CD work vis-à-vis the recipients, who would in turn also be empowered by AI technology.

The first-order effects on productivity would concern CD-related work functions that the Fund is already doing or would like to do but is unable to for the lack of resources. With the adoption of AI tools, staff CD subject-matter experts would be empowered in their day-to-day work with country officials through a variety of possible applications. Examples may include:

Producing high level TA report summaries for publication;
Producing material for CD presentations and training courses;
Cross-country report synthesis;
Assistance with coordination of CD activities;
Identification of potential duplication of efforts;
Support to desk economists on CD topics requiring specialist expertise;
Improved CD/surveillance integration through analysis of Article IV reports vs CD recommendations;
Underpinning routine knowledge management tasks related to CD work;
Facilitating interactive learning, especially in asynchronous training such as self-paced MOOCs; and
Monitoring and evaluating qualitative learner feedback.

The transformational impact of the AI on CD delivery is harder to predict. This would entail a shift in HR composition with some new staff roles appearing, others shifting in their scope, and yet others disappearing altogether. Furthermore, the transformational impact would concern the functions that are useful but are effectively impossible to perform by human staff members, as has been observed in other fields of knowledge (e.g., in the medical field, AI tools can significantly boost diagnostic efficiency). This shift—while involving upfront costs—could make the organization more agile and adaptable in the face of changing needs and circumstances.

Risks posed by the proliferation of the AI tools and their inherent biases will need to be effectively mitigated. These are related to the potential misuse of data inputs by AI models, data ownership issues, and lack of control over sensitive data storage. In addition, some of risks (e.g., AI tool "hallucination" when faced with insufficient data or inaccurate contextual interpretation) could be mitigated through adequate backstopping by the staff subject-matter experts. Guidelines on the responsible use of data and AI tools, as well as rules related to data ownership, data storage, and data security, will need to be developed.

As the AI product landscape is developing very rapidly, staff has taken steps to embrace the new technology. Internal policy on the use of AI and associated required training for staff have been put in place. The interdepartmental working group on AI has been set up and a sandbox model of the in-house AI tool (nicknamed AIDA) is being tested. These steps precede a full-scale rollout of the AI tools, set to commence in 2024, which would also be accompanied by staff training on effective prompt-writing for AI. A recent Fund-wide internal AI innovation challenge has attracted multiple proposals from across the Fund's departments. Notably, nearly one-quarter of all submissions and the three winning proposals—on ways to use AI in harnessing the wealth of knowledge in CD reports, upgrading the Fund's approach to training, and introducing an AI tutor for enhancing training outcomes—were focused on CD.

Contributor: Roman Didenko.

D. Modernizing Modalities

Issue

83. Modernizing modalities, including by leveraging technology, can further increase the efficiency, tailoring, and impact of CD. Pandemic experience brought about a significant evolution of CD modalities (see background paper on delivery modalities). This experience can be instructive for distilling the lessons of innovations in modernizing deliveries, advancing integration among Fund activities and across geographies (HQ, field). The IEO evaluation highlighted that CD delivery was adapted to COVID-19 about as well as it could have been, and identified some advantages of virtual delivery, while confirming major remaining challenges and constraints. Relatedly, wider use of virtual CD would need support from both technology and translation services, and funding disparities will need to be addressed to ensure all sites are equally equipped to deliver virtual training.

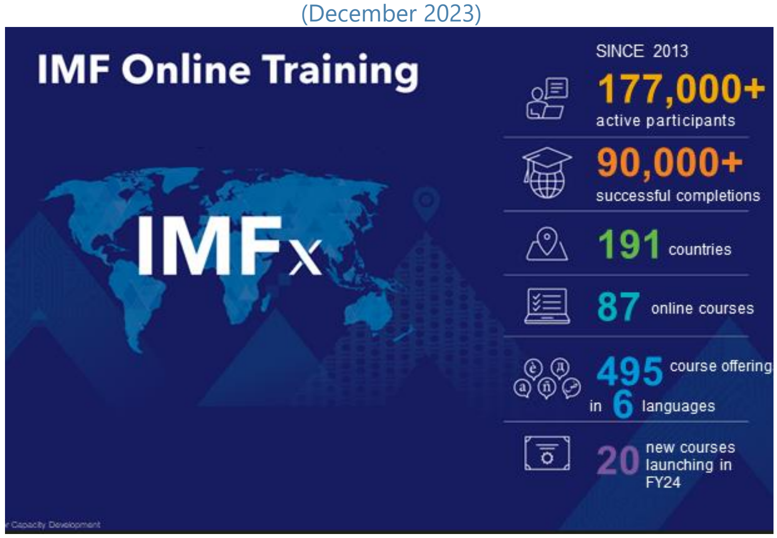
Considerations

84. Technology has helped shrink distances, blend time, and advance CD integration, including by broadening participation within and between CD and surveillance. Technology can be leveraged further to create a continuum of services across time, geographies, and different types of TA and training. The rise of AI is expected to push the frontiers of innovations, enhance CD productivity including through improvements in cross-country analyses, customized training, and CD dissemination (Box 11).

85. Post-pandemic, an opportunity emerged to rebalance delivery modalities to foster agility, deepen CD impact, and its integration with surveillance and lending. The lessons learned during the pandemic highlight the potential for combining CD modalities to increase the impact of both TA and training. The future steady-state model is yet to emerge through ongoing exploration of various approaches, but some building blocks have already been established. Combining virtual and in-person engagements allowed staff to experiment with innovative approaches for delivering CD and reach larger audiences with the online training offerings; and enhanced integration of CD with surveillance and program work through participation of ADs in CD activities and CD experts in surveillance and program missions in a cost-effective manner. Greater use of virtual engagements for TA also allowed more continuous engagement with the authorities, in line with a programmatic approach, and an expanded coverage of some previously under-served countries with travel limitations.

86. Training has evolved to include online and synchronous components. Training to help government officials build up foundational skills has been a mainstay of the Fund course curriculum and has been highly appreciated by members. Increasingly, this comes in the form of a growing number of Massive Open Online Courses (MOOCs) complementing in-person/virtual synchronous training delivered through the network of RTCs or in HQ (Figure 19). Innovative learning modalities, including "microlearning" through a targeted IMF Institute Learning channel on YouTube with interactive short videos targeting key concepts, have been developed in recent years. More specialized training, which includes stand-alone synchronous courses on various policy topics and analytical tools and peer-to-peer learning and workshops delivered through the RCDC network and at headquarters, complements this foundational CD.

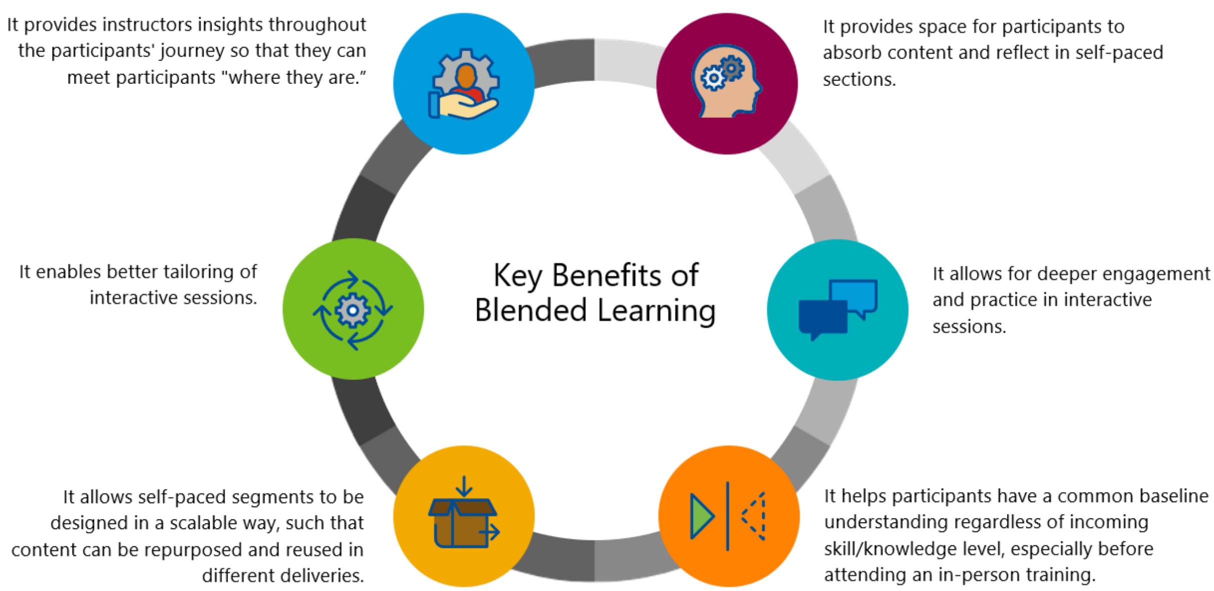
Figure 19. IMF Online Learning—A Global Public Good
(December 2023)



Sources: Fund staff; IMF training participants registration system.

87. **Early experience with blended delivery has been positive** (Figure 20). Blended delivery has been pioneered by all CDDs through a variety of experimental approaches, for instance where foundational training courses are delivered asynchronously to a cohort of participants prior to a more advanced synchronous training and TA (see background paper on delivery modalities). Experience and high satisfaction of target audiences point to the need to continue investing in this approach. TA and training can be made more mutually reinforcing by combining modalities and leveraging shared attributes. For instance, provision of customized training to a select cohort of recipients can improve absorption capacity of a subsequent country-specific TA. Relatedly, TA can also include a component of training to increase its absorption and implementation/impact (Box 12).

Figure 20. Main Benefits of Blended Learning



Source: Fund staff.

Box 12. Singapore Training Institute Experience with a Blended Training Course

Blended courses are a promising evolution of in-person training traditionally delivered by the Fund. The main challenge of in-person courses is classroom heterogeneity: a typical 30-person class brings together participants with decades of operational experience and fresh hires with a more limited background and work experience. A blended course, which may entail, for instance, a two-week compulsory online training prerequisite for in-person training, ensures that all participants start the in-person training with a minimum level of knowledge necessary for the intensive in-depth sessions. In 2023, staff experimented with several blended courses. This box draws on experience with the Model-Based Monetary Policy Analysis and Forecasting (MPAF) course delivered Singapore Training Institute (STI).

How to "blend" in a tailored manner and how to measure success. The trainers recognized that in their region, participants are given limited time off for the asynchronous portion of the course. Hence, the three online segments—short videos, readings, and knowledge checks—averaged only 10 hours, spread over 10 days. The participants were introduced to, and tested on, key concepts related to the course: the monetary transmission mechanism, estimation of long-run trends using multivariate filters, and interpretation of simulation results. The success of the course was measured both objectively, through RBM learning gains, and subjectively, by counselors' assessment of participants during the in-person sessions.

The course targeted participants from institutions benefiting from customized TA, improving TA sustainability. Course participants comprised technical staff from central banks and ministries of finance in 16 countries. To maximize TA-training synergy, participants were chosen with inputs from TA project managers and 85 percent of them are directly engaged with Fund TA on either Forecasting and Policy Analysis Systems (FPAS) (central banks) or macro frameworks or have recently completed implementation of TA recommendations in this area. Over time, this well-tailored approach will increase impact of the ongoing TA projects and improve sustainability of its outcomes.

The course was a great success resulting in substantial learning gains. The course received the highest overall satisfaction score of 4.9 (on a scale from 0 to 5) and record learning gains of 23 percentage points were observed. The share of participants scoring at least 60 percent increased from 12 percent on the pre-course test to 52 percent on the post-test (the highest ever). By staff's subjective assessment, participants performed from Day 1 at a level normally achieved only by the middle of the course. Notably, this was the third MPAF delivery in a row delivered by the same team of Fund staff.

The blending approach achieved its main objective of leveling up participants' knowledge and preparing them for the intensive, hands-on sessions during the in-person portion. All participants completed the virtual part of the course despite the usual work demands in their institutions—a record not achieved in previous attempts at blending that used existing longer online engagements, such as the MOOCs content. The asynchronous material was carefully designed to be usable in other RTCs or as a training material prior to TA missions on FPAS.

Contributor: Aleš Bulíř.

Proposals

88. The choice of CD modalities, whether virtual and/or in-person, should be embedded in a country-tailored approach that connects TA with training, where appropriate. Programmatic CD is best delivered through a well-sequenced approach aligned to surveillance and lending priorities. This implies a multi-year engagement that leverages a blended CD approach to provide the most effective TA or training delivery, or a combination of the two. In this respect, a programmatic approach would make use of both virtual and in-person delivery, as well as synchronous and asynchronous training modalities, which would best fit the recipients' demand.

Having in place the capacity to deliver virtual and blended CD could be particularly useful when CD in certain topics and areas needs to be scaled up quickly and efficiently. The special circumstances of FCS members will need to be taken into account at the project formulation stage, as virtual delivery is often more challenging there. Given the imperative of tailoring modalities to specific country circumstances, it is neither advisable nor possible to specify a universal model for single country CD. Building on the pandemic experience, however, staff have developed models that provide guidance on when specific delivery modalities are likely to be most effective. The choice of modalities is driven by the phase and purpose of the engagement and the available resources.

89. Revisit and modernize the external training curriculum. The growth in online training products and the availability of a wider range of delivery modalities justify a careful reassessment and, where needed, redesign of the curriculum. This should be informed by available course evaluation data and will require a considered institution-wide approach, which could include consideration of emphasizing online courses for foundational training leading to greater focus of in-person methods for specialized (including peer-to-peer) training, along with a review of all online courses, to ensure courses remain relevant and current. More focused selection of participant cohorts will also be considered— in consultation with the recipient authorities and ADs—for instance, to implement a semi-structured curriculum with eventual certification or to prepare the ground, where warranted, for country-specific customized TA engagements.

90. Continue to broaden and deepen access to CD information, including by leveraging technological advances. Considerable progress has been made in increasing access to the knowledge generated as a result of Fund CD. This includes the on-line training and education program, increased publication of cross-country analysis, How-To notes and other summaries of good practice and through increased dissemination of the content of CD engagements with members, including publication of high-level summaries of TA reports. These efforts will continue, and staff will investigate whether tools such as AI can enable production and publication of more summary information and cross-country analysis at relatively low cost.

E. Field Presence

Issue

91. Field presence, in particular through RCDCs, has become fundamental to the Fund's CD model. The IEO evaluation noted the success of the model but stressed the need to leverage further the advantages of RCDCs, and the importance of putting them on a sustainable funding footing. Field presence has grown organically and, as a result, there are a number of longstanding strategic and governance issues that need to be addressed, in particular financing, governance, size, relationship with HQ activities, as well as HR issues.

Considerations

92. The growth of the RCDC network has allowed the Fund to provide much more intensive programmatic support of reform implementation and make training more accessible. There is considerable evidence that this field presence has been instrumental in helping authorities achieve better outcomes and in assisting the Fund coordinate better with development partners (IEO, 2022; Bassanetti, 2021). The background paper on field presence discusses the benefits of this field presence, and the issues that have arisen as the network of RCDCs has become bigger and more heterogeneous. These issues include coverage (geographic and topical), internal coordination, governance, and funding. Key points that require consideration include:

- **Coverage is extensive, albeit with some gaps and overlaps.** Most gaps are intentional and are filled by HQ-provided CD, while overlaps—for instance in training centers in Asia—are managed effectively through existing planning and coordination mechanisms. The key outstanding gap in terms of coverage is in Latin America, particularly with respect to training.

- **RCDCs are almost entirely dependent on external financing for their CD delivery.** They are organized around five-year phases. This creates peaks in funding demand and can lead to funding uncertainty, especially when their cycles are about to renew.

- **There are a variety of governance models in place.** The key distinction remains between RTCs and RTACs, reflecting their different mandates and staffing structure. However, even within these groups, there are idiosyncrasies reflective of an organic growth of the centers, with South Asia Regional Training and Technical Assistance Center (SARTTAC) and Africa Training Institute (ATI), together with AFRITAC South representing a more hybrid TA/training structure. Steering committees are a common feature of all models but operate quite differently according to the local context. Below the formal governance level, there are different internal management processes for management and backstopping of experts across delivery departments.

- **The governance and financing model has evolved rapidly recently.** With adequate funding harder to obtain for some regional vehicles, RCDC delivery is increasingly being supplemented by co-located experts financed by thematic funding vehicles, bilateral donors, and in some cases by the Fund's own budget, as, for example, was in the case of deployment of LTXs following the Fund's FCS strategy. This has enabled continuity of delivery in an ad hoc way. Greater coherence and clarity about governance and accountability would lead to greater efficiency and effectiveness of CD.

93. Field presence is not confined to RCDCs. Before the growth of RCDCs, CD field presence was largely accomplished through single country LTXs located in member institutions such as central banks or ministries of finance. While these are now outnumbered by RCDC-based LTX, bilateral LTXs continue to play part in the delivery model and are particularly impactful when intensive support is needed for major reform programs (for instance implementation of a VAT or risk-based banking supervision) or institution building (for instance, establishing a modern central bank or statistical authority). Further innovations to the model have also taken place recently, including as part of the COVID-19 pandemic response. Regional LTX have been placed in the field to enable strategic advice to be available on a more responsive basis to members (for instance, on public investment management or Anti-Money Laundering and Combating the Financing Terrorism (AML/CFT)). Finally, the Fund's resident representatives are critical to CD effectiveness. While typically not involved in the direct delivery of CD, they provide important contact with authorities, an on-the-ground link with CD missions and other development partners, and crucial prioritization inputs to AD teams and RCDCs.

Proposals

94. Recognize RCDCs as integral part of the Fund, not temporary funding vehicles. This implies that RCDCs need to be managed within mainstream systems to safeguard the Fund's CD field presence, raise its status, and ensure internal coordination. This would explicitly break the center's linkage with a single funding vehicle and its five-year cycle, supporting the funding diversification proposed above and reducing the risks associated with funding cycle transitions. LTXs and other delivery would be funded through a combination of regional and thematic external funds and, if necessary, Fund financing (for instance under the FCS strategy). Reflecting their integral nature, greater coverage of RCDCs' administrative expenses by internal resources may be required to ensure individual centers remain on a secure financial footing. This would require additional targeted reallocation in the context of the Fund's budget process beyond the first step in this direction implemented as part of the recent budget augmentation. The overall external funding of current RTAC and ATI administrative and infrastructure expenses is around $10 million per year.

95. Clarify governance structures for RCDCs to reflect their integral nature. This will involve retaining the distinction between RTACs and RTCs, at least for now, and ensuring that RCDCs are fully integrated into overall CD governance, management, and planning. Reforms would at the same time preserve the strong ownership of RCDC delivery by members. Staff will specify new governance structures for approval by the CCB and then develop new operating guidelines where necessary and embed the new structures in program documents for relevant funding vehicles. In addition to the points noted in the previous paragraph, key elements would include:

- **RTACs would continue to be led by ADs, reflecting their leading role in country and regional engagement.** The director, in consultation with CDDs, would be responsible for ensuring the work programs of all experts in the RTAC—irrespective of funding source—are well coordinated and in line with AD priorities. Experts would continue to be managed by functional departments, who would be fully responsible for developing and driving the content of work programs, integrated with other delivery in the region. Work planning would be part of the broader MTW process to ensure integration and consistency in delivery.

- **RTCs would remain under ICD leadership, with close partnership with ADs and other CDDs.** This reflects their prevailing focus on multi-country training, with its more diffused benefits compared to the single country TA. Multi-country training requires longer-term planning and the implementation of a consistent curriculum and training approach across regions (see Modalities Section).

- **Enhance steering committees, which perform an essential accountability and ownership function.** Their role would focus on reporting on results, discussing regional issues and synergies, consulting on future priorities, and ensuring Fund CD is well coordinated with relevant development partners. Members would be comprised of the IMF, recipient countries, funding partners, and key deliverers in the region.

96. Continue to increase field presence in a targeted manner and in line with budget constraints. Given the strong evidence about its effectiveness, particularly for programmatic engagements, the Fund will continue to look for opportunities to increase its regional CD footprint, by closely assessing the cost/benefit tradeoff of field-based staff. A fundamental shift away from the HQ-centered model is not warranted, however, in view of its benefits for integration of CD with other main activities and the greater financial cost of field staff. That said, further increasing the presence of Fund CD personnel in the field could have significant beneficial impact in terms of continuity of engagement with the authorities, and consequent improvements in tailoring of CD advice. Any additional financial costs stemming from increased field presence will require careful prioritization within a fixed resource envelope. Although there should be no assumption that all field-based employees would be located in RCDCs, there are important benefits of this approach both administratively and to facilitate synergies across departments. Relatedly, improved coordination among all of Fund's field presence, especially among the residential representatives and the RCDCs, would amplify their impact.

97. As part of strengthening field presence, consider broadening the scope of functions located in the field. The availability of much improved communication tools creates scope to locate some HQ functions in the field while maintaining integration with HQ operations, including, for instance, specialist economist positions in HQ that are focused on providing and backstopping CD in one region. However, such a move would have implications for budget, HR model (Section F), and governance challenges related to the division of responsibilities between CD and AD staff in the field as well as implications for RCDC structure and management. There are also policy and operational benefits in keeping backstopping primarily as an HQ function. For these reasons, it will be important to pilot the idea, to ensure that its benefits outweigh potential coordination and operational challenges and additional budgetary costs, and to ensure that it is in line with broader field presence policies and strategies. A proposal for the pilot will be developed by an interdepartmental group with implementation targeted to begin in FY2025. The initial phase is likely to be small (no more than 5 positions) and would take place within existing budget and staffing envelopes. Further implementation would also be contingent on broader HR policy developments (see below).

98. Reflect on RCDC's coverage, relative size, and location every five years as part of the CCB's strategic guidance function. There is a need to consider periodically if the regional makeup continues to meet member needs, and to periodically reconsider relative sizes of RCDCs based on evolving CD demand and shifting institutional priorities. At present, options for locating a new training center covering the WHD region will be explored.

F. HR Model

Issue

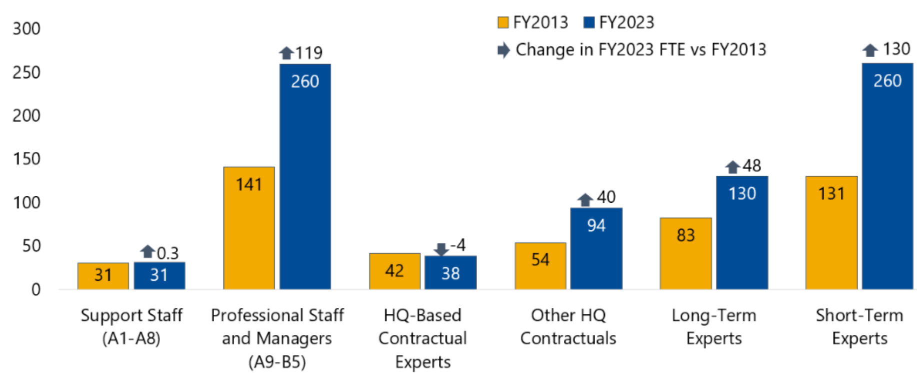
99. The IEO evaluation found that while the Fund has adapted its staffing and continues to deploy high quality expertise for CD delivery, a further recalibration of HR polices would help maintain the quality and continuity of CD expertise. The evaluation noted that the tension between continuity and flexibility in CD delivery remains, and turnover of CD expertise continues to raise risks to the continuity of delivery which is a key element of success in CD projects. It also noted that longstanding budgetary constraints and financing issues result in reliance on contractual employees in the field (experts and local staff) and HQ. In HQ, the IEO noted the persistent perception that staff working on CD are not as valued as those working on other core outputs and highlighted the need for attention to the career paths for specialist economists (SEs) to ensure that the Fund continues to build expertise while maintaining flexibility to respond to evolving needs and resources.

Considerations

100. Growth in CD delivery and field presence has been accompanied by changes in CD staffing. Measured by the time reported directly on CD, staffing has increased by around 70 percent in the last decade in full-time equivalent (FTE) terms reflecting the overall growth of CD (Figure 21). HQ-based staff remain the backbone of the Fund's CD delivery and management. The relative role of field-based long- and short-term experts backstopped by HQ personnel has intensified—they now account for almost half of total CD activity. Locally engaged employees, whose time is not included in the Fund's reporting systems, and therefore not included in these numbers, are also significant and growing—there are now around 135 in RCDCs.

Figure 21. CD Activity by Personnel Type

(In person years, FY2013–FY2023, excluding local employees)



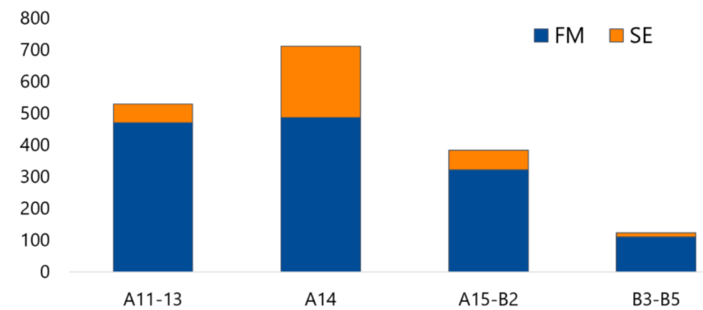
Sources: TIMS; TRACES; Fund staff analysis.

101. The Fund has been successful in attracting the talent needed for the growing CD program, including in competitive new areas. As a result, specialist economists now make up 20 percent of economist staff, mainly at the senior economist/senior financial sector expert level. While this organic growth has changed the composition of the Fund's workforce, it also led to greater demands to support CD personnel. The background paper on HR issues provides more detail on these issues, which are summarized below:

- **The career path for specialist economists (SEs) is somewhat narrower than for fungible macroeconmists (FMs), reflecting their specialization and the structure of CD departments.** For instance, SEs in managerial positions (A15–B4) account for about 21 percent of staff in the A11–B4 grades—compared to 31 percent for FMs (Figure 22). It should be recognized, however, that their specialization naturally narrows career paths and potential for broader interdepartmental mobility, and promotion to managerial levels is highly competitive and job-specific, requiring a range of technical and managerial competencies. Despite a career path more narrowly concentrated in fewer departments, there has been an increase in the share of A15 positions in recent years. A14 SEs do, also, have more opportunities for mission leadership than their fungible counterparts. In addition, given their specialization, mobility and other requirements (such as tenure in LIC/FCS assignments) are not required for SE promotions and SEs do not need to go through the Review Committee list review for promotions to B1. Departments have the ability to hire SEs externally at the A14 level, unlike for fungible economists where there is a hiring freeze at that level. For those who seek it for career development, there are options for mobility across and within departments, but opportunities are limited. There is also the option to apply for the fungible mid-career panel for appropriately qualified SEs. Most specialized field positions are contractual but there are limited number of slots are available to be filled by staff.

Figure 22. Distribution of Specialist Economists and Fungible Macroeconomists

(Number of economists on staff by grade for FY2024)



Sources: Fund staff estimates; IEO staff calculations.

- **HR policies for personnel working on CD in the field reflect the decentralized ownership of CD across ICD, CD providing functional departments, and ADs.** Policies for, and management of, contractual field-based experts (long- and short-term) are largely delegated to the various CDDs, with only a limited role for HR Department (HRD). While decentralization of management of field-based CD staff across departments brings many advantages in terms of flexibility and responsiveness, it carries high administrative costs and potential risks.

- **The decentralized model applied to long term experts creates governance challenges and potential operational risks.** These specialists located both in RCDCs and in member institutions often have long periods of employment by the Fund in different duty station locations on a series of contracts. While HRD has made efforts to improve recruitment and some departments have taken steps to improve performance management, there is still a need to enhance the governance framework so as to fully leverage the skills of the LTX workforce and address inefficiencies.

- **Specialized career stream employees in HQ provide professional support for budget and project management, fundraising, monitoring and evaluation, instructional design, and strategy development.** These employees are a subset of the broader SCS group that face common issues. Across departments, positions are categorized and graded differently (grade ceilings vary across job families), which has impeded opportunities for inter-departmental mobility. Many of these positions related to CD are on a contractual basis reflecting the need for rotational skills and their link to uncertain external financing, resulting in turnover that can cause challenges for continuity and efficiency of operation.

102. The Fund has implemented several policy changes over several years that enhance the environment for CD personnel, and additional fine-tuning of HR policies and practices are in train. Following the 2014 Categories of Employment reform, the Fund created additional SE positions to reduce the reliance on contractual appointments. In 2019 HRD eased movement to the field allowing a limited number of economists (specialized and fungible) to be posted to RCDCs as experts without a change in employment status. In addition, RCDC Director positions are now more consistently opened to SEs. HRD has also helped implement workforce tools and has continued to make progress on talent inventories. Also, some reforms to the local employment framework are underway, which recognize the importance of the harmonization of policies in a number of areas (see background paper on HR issues for further details).

Proposals

103. Further strengthening the Fund's policies and addressing CD-related governance issues would help safeguard the quality and agility of Fund CD. This recalibration of policies and practices will necessarily be a multi-year, Fund-wide effort that will need to be sequenced with other HR and budgetary priorities. The proposals below outline a mechanism and sequencing for tackling the structural issues as recommended by the IEO evaluation that is consistent with the Fund's overall HR strategy and policies and in line with budget constraints. Notwithstanding these constraints, there is room for progress to be made in the short to medium term and for developing a plan to address longer-term strategic issues.

104. In the short to medium term, staff will continue to recalibrate HR policies with a view of enhancing the governance framework for CD. The actions outlined below do not require fundamental changes to the policy framework, but they will encompass fine-tuning of selected HR policies and practices in implementation. They also build on current practices with the aim of increasing flexibility and effectiveness of current policies regarding specialist economists, specialized career staff, and experts on contractual appointments.

- **Further bolster career paths (including mobility) for SEs, which would obviate the need for a separate expert track.** Some progress has already been made in this area (see background paper for details), such as temporary assignments for staff in RCDCs and opening all RCDC director posts to SEs. More could be done, for example, by opening up competitive vacancies for all qualified employees, and not just for fungible macroeconomists, while still acknowledging that their skills might not be interchangeable; temporary mobility assignments to area departments; opening of a limited number of relevant jobs (including in some circumstances residential representative posts) to both specialists and fungible economists; and enabling specialists to have same opportunities as fungible economists for upward mobility for positions that they are qualified for, while recognizing that they would be need to demonstrate the competencies required for higher level roles and responsibilities. The proposed pilot of relocating HQ positions to the field (Section E above) will allow the Fund to assess the budgetary costs and potential career benefits in addition to its influence on CD impact. These measures would allow for enhanced opportunities for SEs and would obviate the need for the separate expert track that was previously envisaged, particularly given the already high managerial spans of control for specialists and many competing demands for limited budget space.

- **Further modernize and harmonize field-based expert recruitment and management practices across functional departments.** Staff will continue to harmonize HR practices related to contracting and assessing performance of LTX, as well as providing this cadre of employees with consistent support on HR areas (e.g., underperformance, contract extensions decisions). This will allow the Fund to address gaps in governance, with a view of reducing inefficiencies and better leveraging the talent in the LTX pool.

- **Create opportunities and tools to promote mobility and enhance career development opportunities for specialized career stream personnel.** Many of the issues facing SCS staff who are focused on the management and operational aspects of the CD program, are common across all SCS staff. Consistent with the feedback from the 2022 Engagement Survey, work has already begun in this area and could in the near-term include establishing an inter-departmental mechanism for talent management and mobility for key SCS job families, and similarly to the recommendations for SEs, mandating that certain managerial positions requiring specialized skills (e.g., budget and resource management) be open to all staff, including SCS. A review of TA job officer family could be part of the broader planned effort to review job families for all SCS staff to ensure grade band harmonization.

105. Over the medium term, staff will undertake a strategic review of CD personnel structures in HQ and the field and the potential implications for HR policies. This will be a business-led task requiring time and resources from both functional departments and HRD, as well as sequencing given other pressing demands, resource and implementation capacity constraints. This will also require a deep understanding of the strategic needs of the CD business and implications for the Fund's HR and budget framework. Issues to be covered could include the division of functions, roles and deliverables between HQ and the field, the appropriate mix of economist and specialized career stream staff and the need for more systematic and modernization of expert recruitment and procedures. This assessment will also consider whether the current CD personnel structure is in line with the needs of members and whether there is a need for amending and calibrating recruitment strategy and HR policies to ensure appropriate flexibility and incentives for the whole CD-related workforce—staff and contractual, both at HQ and in the field (and consideration of locally recruited staff). Proposals will need to take into account the prevailing CD funding model, budgetary implications, and other Fund-wide HR priorities. Staff intend to initiate this strategic review within the five-year period covered by this CDSR (2024–2029).

106. The review of the implications of the strategic needs of the CD business will be coordinated with broader work on IMF field presence. Given the prominence of issues relating to field-based staff, there will be close coordination with work on the Fund's field-based employment. Phase 1 of this work is currently considering policies in the areas of compensation, leave, insurance, employment contracts, training, and performance management for all local employees. This work will aim at reducing uncertainty and streamlining administration, while addressing the governance issues outlined above. Phase one is projected to be finalized in early FY25, with the updated policies and enhancements to be implemented later in FY25. A second phase could consider broader issues, which could overlap with some of the issues envisaged for the CD strategic review.

OVERALL RISK ASSESSMENT

107. This section highlights risks of CDSR proposals and provides an overall risk assessment for the CDSR document. The review addresses existing risks under the current systems and structure of Fund CD and identifies potential risks that could emerge from or be associated with implementing staff proposals related to prioritization, the funding model, impact and evaluation, field presence and HR model. Consistent with the Fund's Enterprise Risk Management framework, a Document Risk Self-Assessment (DRSA) of the CDSR is presented below and in Table 2, highlighting risks under both categories.

- **Prioritization:** The CDSR proposals are intended to reduce the risk of inflexibility in the prioritization process and leverage the various types of activities, given the CD taxonomy outlined in Box 3, to meet member demand. Any adjustments to the overall CD size should be carefully justified to ensure that incentives for prioritization remain strong. This risk falls under the category of 'Member Engagement: Adapting to Changing Needs of Members' in the Fund's risk taxonomy.

- **Funding Model:** Reduced reliance on external financing would lower risks associated with the current CD funding model. Increasing internal financing of CD will be difficult given the wide range of competing demands for resources. Similarly, financing for a stabilization mechanism will face competing demands for resources both within the Fund and from members. Designing the governance framework for the stabilization mechanism will be a complex task and would need to consider a range of risks including to ensure administrative costs are well managed.

  In the absence of additional internal funding or sufficient funding of the stabilization mechanism, the Fund will need to continue to manage substantial risk in terms of continuity of CD provision. This can be partially mitigated by broadening and diversifying external funding sources. However, a potential for unexpected shocks to funding for specific vehicles or topics will remain. In particular, there may be urgent needs for Fund financing or significant downsizing in a given area if fundraising for an RCDC that is central to CD delivery on a Fund priority falls short. This risk falls under the category of 'Adequacy of CD Resources' in the Fund's risk taxonomy.

- **Modalities:** The broader range of modalities available for CD delivery, given the CD taxonomy, places a greater burden on project and budget managers. Budgets will need to be flexible to allow shifts between modalities within project execution according to changing circumstances. For in-person training, shifting towards more cohort-driven attendance for more specialized courses will require evolutions in participant management. This needs to be embedded in the updated IT system currently being designed. It may also require an evolution in the skill set of staff in ICD and in RTCs. Also, with the modernization of CD delivery and the increase in online courses, reliance on services of third-party platform vendors poses risks to online learning. These risks fall under the categories of 'Member Engagement: Adapting to Changing Needs of Members' and 'External: Third Party Risks' in the Fund's risk taxonomy.

- **Field Presence:** Proposed reforms are wide-ranging and need to be carefully designed and implemented to ensure there are no unintended consequences. Financial and governance implications of breaking the link of each RCDC with a single funding source would need to be considered in depth. Implementation would therefore need to be gradual and tied to transition from existing funding phases. Progress will also be dependent on Fund budget availability, its prioritization by the Board and the evolution of HR policies. There will need to be careful monitoring with course correction where necessary. Evolving the identities of the centers could impact authorities' ownership. It will therefore be important to enhance the effectiveness of steering committees and to step up efforts in disseminating information on CD outputs, results, and impact. Further, expansion in field presence could imply greater exposure to security, safety, and employee wellbeing risk events, and calls for security mitigation strategies, especially in higher-risk locations. These risks fall under the categories of 'Process: Financial Operations' and 'Process: Safety and Well-being in the Fund's risk taxonomy.

- **HR Model:** In taking CDSR proposals forward, it will be important to ensure that flexibility in CD staffing is retained, and to actively manage budgetary and financing risks. Any consideration of personnel structure will need to take account of budgetary impacts and constraints stemming from the CD funding model. It will also need to be conscious of the impact on flexibility of staffing, which is an important asset of the current model of CD delivery and administration across departments. Aligning HR processes for CD staff with mainstream Fund practices could decrease speed and agility of hiring. It will be important that the design of reforms ensures the CDD's ability to identify and field appropriate experts is retained, with due consideration given to the challenge of career progression faced by specialist staff within the Fund. This risk falls under the categories of 'Human Capital: Recruitment' and 'Human Capital: Retention' ' in the Fund's risk taxonomy.

Table 2. Document Risk Self-Assessment—Risks to the Fund Without CDSR Policy Proposals

Risk Name	Risk Description	Risk Time Frame	Risk Scale	
			Risk Likelihood	**Risk Impact**
Analytical Accuracy: Program or Project Design: Weakness in integration between CD, surveillance, and lending activities.	Lack of clear guidance on assessing synergies and trade-offs between CD, surveillance, and program work which weakens effectiveness of core Fund activities.	Emerging (1–3 years)	Unlikely	Somewhat Moderate
Member Engagement: Adapting to Changing Needs of Members: Limitation to impact of CD due to inflexibility of delivery.	Inflexibility in the size, resourcing, and delivery modalities of CD activities in response to changes in member needs limits impact of CD activities.	Emerging (1–3 years)	Possible	Moderate
Adequacy of CD Resources: Difficulty securing external financing in response to growing CD needs, and lack of progress increasing internal financing.	Challenging fundraising environment implies increased risk to the continuity of delivery and prioritization of CD activities.	Medium-term (3–5 years)	Possible	Moderate

Table 2. Document Risk Self-Assessment—Risks to the Fund Without CDSR Policy Proposals (concluded)

Risk Name	Risk Description	Risk Time Frame	Risk Scale	
			Risk Likelihood	**Risk Impact**
Human Capital: Recruitment: CD staffing model risks.	Lack of coherent HR framework for CD staffing frustrates recruitment and retention affecting impact.	Medium-term (3–5 years)	Possible	Somewhat Moderate
Member Engagement: Traction of Technical Advice: Weaknesses in ownership and engagements.	Weak ownership by CD recipients and delivery by RCDCs limits effectiveness of CD activities.	Medium-term (3–5 years)	Unlikely	Somewhat Moderate
Process: Internal Governance: Weak and inconsistent governance of RCDCs.	Lack of clarity in the governance of RCDCs limits effectiveness of CD activities.	Medium-term (3–5 years)	Unlikely	Somewhat Moderate

RESOURCE IMPLICATIONS

108. The resources required to implement the proposals in this paper are moderate but subject to a high degree of uncertainty. Proposals in this paper are mainly evolutionary. They will affect governance and resource management, as well as direct CD delivery, surveillance, and lending. Most costs can be absorbed by prioritization within current workstreams That said, structural savings would be required if the Fund were to take on a greater share of administrative costs to firm up RCDCs' financial footing. There may also be a need for transitional resources associated with detailed development of some of the CDSRs proposals. Key resource impacts are:

- **Integration:** Stronger integration of country work and CD, better use of field staff and more consistent coverage of CD in staff reports will require increased area department resources devoted to CD, particularly in teams for FCS and small developing economies. This will be partially compensated by removing the requirement for CD CSNs and by less frequent RSNs. The ease of accessibility of information through CDMAP and a possibility of creating automated data templates will also help moderate the costs of preparing staff report material. Furthermore, during the formulation of the guidance note, coordination with area and functional departments will prioritize minimizing the burdens on the teams. Nevertheless, area department resource availability could affect the consistency of implementation of integration proposals. In some circumstances, area departments may need more resources to coordinate reform implementation.

- **Field Presence:** Covering fully administrative costs of the existing RCDC network would require an additional contribution of up to $10 million USD annually. This would be considered on a case-by-case basis and would require internal reprioritization in the Fund structural budget. Redesigning RCDC governance structures will require staff time across a range of departments, likely aggregating to around 1-2 FTEs that will need to be absorbed into existing work programs through reprioritization, with the highest impact likely to be in ICD.

- **HR Reforms:** The strategic review of CD personnel structures will require staff resources in total of 1–2 FTEs that will need to be absorbed into existing work program with the highest impact in CD departments. The cost of any reforms that may be proposed cannot be estimated at this time. Strengthening HR support for expert recruitment and management would not be possible without some additional resources allocated to HRD. Shorter-term reforms enhancing career prospects and talent retention of CD managers and SEs entail operational changes without additional costs, while a carefully designed pilot is needed to assess efficiency gains from moving a limited number of HQ roles to the field.

- **Evaluation:** Some evaluations are already undertaken by CD departments, and these will continue with strengthened strategic guidance from the CCB. Additional evaluations will be undertaken in line with budget availability. Proposals to strengthen evaluation will build on work already in department work programs, and summarizing these is already part of ICD's work program.

- **Governance:** Drafting a new policy statement and a staff guidance note would involve ICD staff, departmental review, and Board time. No additional costs are envisaged, as this is part of the ongoing work program and reprioritization in ICD.

ISSUES FOR DISCUSSION

109. Staff would particularly welcome Board views on the following questions:

- Do Directors agree with the proposed vision for a flexible, tailored, and integrated CD building on the comparative advantages of the Fund identified in this review?
- Do Directors concur with introducing a scope for flexibility in absolute size of CD spending while aiming to broadly maintain its relative size to other types of country operations (¶s 32–34)?
- Do Directors support strengthening the responsiveness of prioritization and resource allocation to steer compositional shifts to meet evolving membership needs (¶s 42–44)?
- Do Directors favor proposed standardization of reporting on CD in AIV Staff Reports for heavy CD users? (¶s 52–54)?
- Do Directors support proposed approaches to enhancing the CD funding model (¶s 65–70)?
- Do Directors concur with proposed enhancements of the result management framework and increase of internal evaluations (¶s 78–82)?
- Do Directors agree with the proposed focus on increasing and strengthening field presence, including through treating RCDCs as structural elements of the Fund (¶s 94–98)?
- Do Directors support initiating the holistic review to formulate a coherent HR framework for CD staff to complement existing HR initiatives (¶s 103–106)?

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Annex I. IEO Recommendations on Capacity Development

Recommendation	Management Response	Coverage in the CDSR (Select Proposals)
The IMF and Capacity Development		
Further enhance the strategic framework for IMF CD to provide clearer guidance for a more integrated and transparent approach to the prioritization and allocation of IMF CD.	Qualified support	Strategic and Prioritization Framework (strengthening scope for compositional shifts; active CD monitoring and reporting)
Further develop the Executive Board's strategic and oversight role through increased engagement and provision of information.	Support	Strategic and Prioritization Framework (improving visibility and coverage of CD in staff reports)
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.	Support	Strategic and Prioritization Framework; Size, Composition, and Funding of CD; Assessing Effectiveness and Impact (explicit RBM agreement with authorities)
Leverage further the advantages of RCDCs and put them on a sustainable footing.	Support	Field Presence (Recognize RCDCs as integral part of Fund)
Further enhance the M&E system and fully exploit it to drive improvement in CD prioritization, design, and delivery.	Qualified support	Strategic and Prioritization Framework; Assessing Effectiveness and Impact (Increase internal evaluation; strategic results framework)
Consider further steps to enhance the stability and flexibility of CD funding in order to sustain support for the CD needs of member countries.	Qualified support	Size, Composition, and Funding of CD (Broaden funding vehicles; CD stabilization mechanism)
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.	Support	Modernizing CD Delivery(Increase mobility opportunities for specialist economists; a holistic CD HR review)
The IMF Engagement with Small Developing States		
Steps should be taken at the operational level to enhance the focus and traction of the IMF work on small developing states in the areas of surveillance and CD.	Qualified support	Strategic and Prioritization Framework; Modernizing CD Delivery; Assessing Effectiveness and Impact (Increasing field presence and country-tailored blended delivery)
Growth and Adjustment in IMF-supported Programs		
IMF-supported programs should pay greater attention to supporting deep, more growth-oriented structural reforms with more effective CD support and more effective collaboration with partners in areas outside the Fund's core mandate and expertise.	Support	Strategic and Prioritization Framework; Size, Composition, and Funding of CD (Ensure scope for flexibility in CD size; Modernize delivery; deepen coordination and collaboration with CD providers)

Source: IMF 2023.

Annex II. Conclusions and Recommendations of the External Advisory Group—Enhancing Fund CD

1. **We are grateful to ICD management and staff for the effort they made to facilitate our work, answer our questions, and provide us with highly pertinent and useful background material.** We found the Concept Note that the staff had prepared for this quinquennial review of the Fund's CD strategy comprehensive in coverage. It also provides a candid assessment of the progress made, since the 2013 and 2018 Reviews, in enhancing the Fund's capacity to help member countries develop their macroeconomic management capabilities and strengthen their institutions.

2. **It is reassuring that the IEO, while stressing the need to further increase the value of Fund CD to members, has corroborated Fund staff's assessment that considerable progress was made in the Fund's CD program over the past decade.** We agree with the staff that building on that progress would benefit from having the current strategy review focus on the four themes they propose for the review. To those we propose adding a theme centered on how the Fund's own internal work processes and institutional culture may be further adjusted to elevate the importance of its CD function to the level of the other two main functions—namely, surveillance and lending.

3. **Before making the case for the additional theme, and to set the stage for doing so, it may be helpful to first comment on the staff's assessment of the progress made in the implementation of the recommendations of the previous strategic reviews.** Most of our comments and qualifications will focus on the progress made in increasing the impact of CD by achieving greater integration between CD, surveillance, and lending within a country-centered approach.

4. **The changes that have been phased in since the 2018 Review appear to be working well.** For the area departments (ADs) to take the lead in setting CD strategies based on their dialogue with member countries makes sense from an operational standpoint. But, in line with the role envisaged for them under current arrangements, CD departments, including ICD, need to be more involved in shaping CD strategies. This means that they should cease to be largely viewed as merely agents of implementation. If anything, there is a need to ensure that the modes and modalities of coordination between ADs and CDDs, including in the early phases of consultation with member countries on their potential CD needs, are adequate and properly align with the Fund's commitment to enhance the value of CD assistance to member countries.

5. **Such forms of coordination would require, among others, a more active and effective involvement by CDDs in the review and ultimate clearance of area departments' mission briefs.** This would require a greater focus by CDDs in the review process on issues related to institutional capacity, which, in turn, may require some adjustments in their own work processes. Much like other areas where incremental changes are pursued with a view to enhancing the value of CD to member countries, a key source of strength in Fund operations—namely, its strong institutional memory, should be used more for guidance than for duplication of existing procedures and work processes.

6. It is not clear why a point is made of the demand for CD being determined by member countries. Formally speaking, that, by definition, is always the case in the sense of the Fund acting to provide CD support on the basis of a formal request by the country concerned. But that is not to say that member countries always initiate the process; not that there is inherently or necessarily anything wrong with Fund staff taking the initiative to propose the provision of Fund support for CD in instances where such support is available and deemed essential for building up institutional strength and resilience. At a minimum, the Fund could usefully consider paying greater attention in the surveillance exercise and lending operations to the state of institutional capacity, particularly in areas that have a direct bearing on macroeconomic stability. With this in mind, it may be useful to revisit the principle that pertains to this issue in the 2019 IMF Policies and Practices on Capacity Development.

7. It is important to gauge the robustness of the Results-Based Management Framework and the Common Evaluation Framework and to ensure their capacity to inform the effort to assess the effectiveness of CD relative to the overall objective of strengthening institutions. It is equally important to ensure that the scope of evaluation and monitoring encompass the sustainability of CD gains. Doing so would likely require a greater focus in the design of CD strategies on the alignment of incentives and work processes in member countries.

8. More generally, strengthening monitoring and evaluation should be in the nature of an ongoing task for the Fund. Of particular interest in this regard should be the extent to which there are consequences to slippages, delays, and underperformance relative to set and pre-announced goals. The scope for accountability, including to the public at large, must be enhanced. Toward the latter end, gaps and weaknesses in the coverage of CD issues in staff reports on surveillance and on use of Fund resources should be rectified, and key findings and recommendations on CD issues should be included in all means of dissemination of those reports, as well as in the press releases on Executive Board consideration of the reports. In addition, Fund CD missions should engage with civil society and the media on their activities, on the CD objectives and programs, on implementation, and on outcomes. For their part, member country authorities should be encouraged to do the same. Relatedly, rigorous long-term evaluation based on an analytical approach and aided by both internal and external research expertise, including in local think tanks and academia, can better inform and improve CD design and governance.

9. Internally funded evaluations are important to maintain because of constraints that may limit the scope of evaluation in the event of heavy reliance on external funding. What matters more though is the distinction between internal and external evaluations regardless of the sources of funding. Both are necessary, but it may be useful to expand the utilization of external evaluation and have it cover, among others, assessments of long-term impact of CD in selected countries.

10. Donors are to be commended for the generous support they have been providing for CD delivery. However, with their support covering nearly two-thirds of the overall CD delivery funding needs, they should be encouraged to provide the Fund with greater flexibility in the utilization of their contributions. Failing that, the non-fungibility of donor funding across uses and recipients of CD support would require the Fund to increase its own share in overall funding.

11. Two issues related to the change in the landscape since the 2018 Review call for some reflection. The first is related to the experience gained with delivery of CD and other Fund services to member countries during the pandemic years, while the second to the mainstreaming of gender, climate change, and digitalization in Fund activities.

12. In addition to the grounds covered in the Concept Note with respect to the lessons learned from the experience with CD delivery during the pandemic years, it could be useful to consider whether that experience may not add to factors that favor, as a mode of CD delivery, periodic short-term staff visits to the stationing of long-term advisors in member countries. This is not to suggest that long-term advisory missions should be altogether abandoned. Rather, consideration may usefully be given to taking full advantage of opportunities to supplement in-person interaction with virtual maintenance delivery modes to an extent that could make, at least in some instances, the need for long-term staff field presence less compelling. In any event, decisions on the mix of delivery modes should pay due regard to the local context and initial conditions on a case-by-case basis.

13. With regard to the mainstreaming of gender, climate change, and digitalization in Fund activities, the significant strides the Fund has made over the past few years are noteworthy, and the progress made toward that end should be built on in the period ahead. But this is not to necessarily mean that these three issues need to be equally prioritized when it comes to the Fund's direct contribution to CD support in member countries. The macro-criticality test offers a sensible criterion for informing decisions as to the extent to which the Fund itself should be directly involved in the provision of CD support.

14. It would appear prima facie evident that, not only by comparison to gender and climate-change issues, but, by its very nature, digitalization is very germane to the Fund's core responsibility of promoting macroeconomic stability in member countries. Therefore, the Fund should strive to become a primary, if not the primary, producer of knowledge and a key provider of CD support in the sphere of digitization, particularly with respect to the need to ensure the adequacy of regulatory frameworks. If and when the Fund, or other, reputable research establishes that macroeconomic imbalances rooted in gender or climate-change issues are different in nature from the macroeconomic imbalances the IMF usually deals with, the case for Fund direct involvement in the provision of CD support could then become as compelling as it is in the area of digitalization.

15. In the meantime, especially where climate-change consequences are already highly devastating—as they are in several small developing states and in sub-Saharan Africa—the Fund should use its convening power to ensure that the CD needs of these countries in the area of climate change are adequately addressed by multilateral development banks and other providers with the know-how and capacity to do so. It should also continue to strive to have its macroeconomic policy advice informed by the best available information and analytical work on climate change.

16. There is a question as to whether enough has been done internally, since the 2018 Review, to elevate the role of CD to be at par in importance with surveillance and lending. This would require, in the first instance, an internal shift in the way the Fund itself views its CD role relative to its two other key functions. If institutional strength and resilience are absolutely essential to the fulfillment of the Fund's mandate to work toward ensuring sustainable macroeconomic stability in member countries, then there should be no question that the Fund's CD function should be viewed as no less important than its two other key functions. This is precisely the case for having a theme centered on how to elevate and operationalize the importance of the Fund's CD function added to the four themes proposed in the Concept Note. The remainder of this report is devoted to providing some preliminary thoughts on steps that may be useful to consider toward that end.

17. As noted in the Concept Note, unlike surveillance and lending, the Fund's CD function is completely voluntary for both the recipient country and the Fund. It being so, however, does not necessarily make it ineffective or less effective than either. After all, though mandated or provided for in the Fund's Articles of Agreement, neither surveillance nor lending is always or uniformly effective. But to the extent that the mandatory nature of surveillance and the absence of alternatives to Fund lending enhance the prospects of their effectiveness, that would add to an already strong case for making a fully determined effort to attain full integration of the three functions. Toward that end, a holistic approach of the kind discussed below would have the added advantage of enhancing the Fund's overall effectiveness and efficiency in discharging its responsibilities in surveillance, lending, and CD. For seeking to enhance effectiveness in a compartmentalized way is not likely to be adequately productive, with it being clearly understood that the Fund cannot be sustainably effective in discharging its surveillance and lending responsibilities unless enough attention is given to the need to ensure the adequacy of member countries' institutional strength and resilience.

18. An examination of the progress made toward integrating CD with the surveillance and lending functions made since the previous strategy reviews suggests that the focus of the integration effort was on achieving operational integration. Mainly concerned with work processes and procedures, that effort has undoubtedly been useful, and it should be sustained. However, what may be needed in order to move to the next level is to have the need for capacity development articulated in terms of its relevance to the important objective of improving governance. This, in turn, would call for a top-down effort to reinvigorate the Fund's role in promoting good governance in member countries.

19. At its core, good governance is about having state institutions with the strength and competence needed to enable them to discharge their responsibilities effectively, fairly, transparently, and with accountability to the governed. Within the Fund's mandate, the institutions of relevance are those tasked with formulating and implementing macroeconomic policies. And, with the main objective of Fund CD—as rightly defined in the Concept Note—being "to help countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies," not only is the case for functional integration of the Fund's three pillar functions is made, but a roadmap to attaining it begins to take shape.

20. A reinvigoration of the Fund's role in promoting good governance would necessitate that the strength and resilience of institutions be assessed, and that possible remedial measures be identified in country reports on surveillance and use of Fund resources. This, in turn, would require that such issues be internally discussed and adequately covered in ADs' mission briefs with extensive involvement by CDDs in that process. Such a reinvigoration could also help further streamline the internal work processes involved in the provision of Fund CD.

21. To illustrate, with ICD being directly involved, along with other CDDs, in the provision of CD, a reinvigoration of the Fund's role in promoting good governance may provide an opportunity to task it with exclusively specializing in the provision of CD support for strengthening institutions and alleviating implementation capacity constraints. And, with success in elevating the importance of the CD function, the centrality of the role of ICD within the constellation of CD providers within the Fund is likely to be enhanced, which will position it well to eventually assume the lead role in the formulation of CD strategies and review of CD programs. Such an evolution in the role of ICD may well end up taking place, and, if and when it does, the overall effectiveness of Fund CD and the efficiency of its delivery will likely improve. But, what if, for whatever reason, such a desirable evolution falters or ends up being too slow?

22. We believe that, at this juncture, the Fund has a strategic choice to make. If, as it should, CD is genuinely considered as equal in importance to the surveillance and lending functions of the institution, then the Fund may be well advised to continue to build on the progress it has incrementally achieved over the past decade in the light of the recommendations and findings of the two previous quintennial reviews. That could pass for a sensible strategic choice for the next five years. However, it may be time to ask the question of whether the Fund can realistically or soon enough achieve parity in the standing of its three pillar functions and, thus, full functional integration, without explicitly targeting the creation of an institutional home for its CD function. A related question is: Is the IMF Institute currently on a path that could lead to the fulfillment of the aspiration that underlay its name change to ICD some 10 years ago?

23. Fortunately, there is in the Fund's own experience what might lend support for the idea of having a single Fund department vested with a full purview over strategy and policy formulation, programming, coordination, and quality control in the sphere of capacity building. Specifically, when the Fund's Strategy, Policy, & Review (SPR) Department was created in 1978, it did not instantly become the institution's policy czar it has effectively become—even long before it underwent the first of two subsequent name changes of its own. There is no question that the Fund has greatly benefitted from having the overriding responsibility for the policy content of its surveillance and lending functions housed in today's SPR. The question is: If the institutional capacity to formulate and implement sound macroeconomic policies in member countries is truly as important—for the Fund's overall effectiveness in discharging its mandate—as the content of these policies, why not have a single Fund department be to CD what SPR has been to the policy content of the surveillance exercise and lending operations, as well as to its uniform application across the Fund's membership? Provided that it no longer would be involved in CD delivery, ICD is the obvious choice of a Fund department to play such a role. How to get there is the question.

24. Before getting into some specific suggestions, it is important to acknowledge that, should the Fund decide to adopt such a strategic choice, a fundamental reorientation of internal work processes, as well as a shift in the institutional culture, will likely be necessary. This will, in turn, require top Fund management to fully assume the role of the driver of change and various Fund department heads, especially the ICD Director, to effectively shepherd the process of change and see it through.

25. As to specific steps that could be taken to promote and achieve the desired centrality for the role of ICD in the CD function, consideration could be given to having ICD become a clearing house for all ICD comments on all surveillance and use of Fund resources mission briefs and staff country reports. In addition, participation of ICD staff in area department missions, while helping with improving the efficiency of CD work processes, will likely enhance that centrality. In parallel, as part of its effort to continue to incrementally build on the progress achieved over the past decade in elevating the importance of its CD function, the Fund may usefully consider conditioning the promotion of economist staff to Grade A15 on the staff member taking part in a CD mission. Such a requirement could be added to a similar requirement of service on an FCS, or it could be integrated with it.

26. For the next quinquennial review, it may be helpful to have it anchored on case studies on the experience with CD programs in several countries, including at least one FCS. The selection of countries to be reviewed could also be usefully guided by such considerations as geographical and income diversity, as well variance in the initial state of institutional capacity and governance. Specialized think tanks and centers in academic institutions may be tasked with producing the case studies.

Annex III. Recommendations from Previous CD Strategy Reviews

Annex III. Table 1. 2013 CD Strategy Recommendations	
Recommendations	**Actions/Comments**
Enhance the Effectiveness of CD	
Update the Governance Structure	
Prepare a new policy statement for Board approval	CD Policy statement issued August 2014
Draft new terms of reference for the CCB	Completed July 2013; regular meetings since November 2013. Also, established a regular dialogue on CD at heads of departments level starting in 2017.
Enhance Prioritization	
Integrate CD into Fund's strategic planning process	Greater attention to CD in Fund strategic documents (GPA; budget; work program; policy reviews). Medium-term CD priorities discussed annually by CCB based on country needs and broader Fund priorities.
Develop guidance for RSNs	RSN staff-level guidance issued in 2014.
Pilot & assess Capability Assessment Program (CAP)	CAP piloted for Tunisia and Libya. Staff review completed in 2015.
Clarify the Funding Model	
Establish approval process for new donor initiatives	Staff-level guidance issued in May 2014.
Take up CD-related issues in Human Resources (HR) department-led paper on categories of employment	CD issues reflected in October 2014 review on these issues. Further consideration expected in upcoming HR Strategy Review.
Strengthen Monitoring and Evaluation	
Pursue work on RBM to enhance planning and managing of outcomes	RBM in use for all new projects since FY18; catalog (indicators and outcomes) in place.
Develop guidance for a common evaluation standard, based on principles for performance indicators, methodology, and dissemination	Framework in place; guidance issued.
Seize Opportunities for CD Delivery and Outreach	
Greater Integration of TA and Training	
Seek further opportunity to coordinate TA and training, including through enhanced interdepartmental dialogue	Included training in the RSNs and Resource Allocation Plan (RAP)
Offer internal training that complements external training and TA so staff can support CD absorption	Internal Economics Training (IET) curriculum restructured in line with restructured external curriculum. Customized training provided to desks of countries receiving external training. The IET program is being adapted to staff training needs including in emerging areas with a more hands-on, operations-oriented approach.

Annex III. Table 1. 2013 CD Strategy Recommendations (concluded)	
Recommendations	**Actions/Comments**
Monitor Africa Training Institute (ATI) experience with integrating TA and training	Delivered substantial joint ATI-AFRITAC training. SARTTAC opened in 2017.
Exploit New Technologies for Delivery	
Use advances in technology to enhance the effectiveness and expand the delivery of CD	Online learning launched in late 2013.
Experiment with webinars to aid high-level peer-to-peer exchanges and spread Fund institutional knowledge	Several webinars with chief economists in Western Hemisphere region in 2014–2015.
Leverage CD as Outreach	
Monitor impact of CD-related outreach	Created CD platforms on imf.org; active social media use; greater RCDC role.
Enhance communication among departments of CD-related outreach activities	CD communications group created; Fund-wide CD story competition and Postcard series launched.
Track progress on dissemination to various stakeholders of CD findings and evaluations	Initiated major reforms to strengthen information available to staff; mixed progress on increasing information to external stakeholders.

Source: IMF 2013.

Annex III. Table 2. Recommendations of the 2018 CD Strategy Review	
Recommendations	**Actions/Comments**
Clarify Roles and Responsibilities	
Deepen strategic engagement with country authorities throughout the CD process	CD country strategies discussed with the authorities in the context of surveillance and lending.
Area departments to be in the leading role on overall country engagement, including through CD-CSNs for all heavy users (defined by a common metric)	Completed guidelines to CD-CSN, with CD-CSNs reflected in several country reports.
Strengthen efforts to expand and learn from best practices in integrating CD and surveillance	Completed staff guidelines on the integration of CD with surveillance and lending, reflecting best practices.
Explore further how to better integrate CD and surveillance in the context of the 2021 Comprehensive Surveillance Review (CSR), following on the findings of this review and experience from mainstreaming best practices	Covered CD-surveillance integration in the 2021 CSR and the new surveillance guidance note.
Better Prioritization and Monitoring	
Strengthen the focus and monitoring of priorities by narrowing the list of priorities and building on better information systems	Narrowed priorities list and aligned it with overall Fund priorities; prioritization framework built into the CDMAP system.
Take further steps to develop and operationalize a clear governance framework for RBM and the common evaluation framework	Updated policies and guidelines on RBM governance and evaluations; strategic evaluation workplan updated every year.
Enhance Country-Tailored Delivery Focused on Implementation	
CD departments to build on existing departmental strategies to continue moving towards greater modernization, modularity, flexibility, and agility in CD delivery as well as to bring about medium-term shifts in expertise as CD priorities change over time	Developed department-level strategies on CD delivery, refined further and tested during the pandemic.
Continue experimentation with new technologies to support flexible delivery	Developed fully virtual mode of delivery, with ongoing experimentation of blended delivery.
Follow up on the Management Implementation Plan for the 2018 IEO Report on the IMF and Fragile States	CD a key component of the IMF strategy for FCS.
Strengthen operational support for RCDCs	Enhanced harmonization and efficiency in administrative, financial management, and reporting procedures; increased Fund resources for administrative expenditures. Initiated regular retreats of RCDC managers.
More Effective Internal Consultation and Sharing of Information	
Implement ongoing initiatives to enhance knowledge management (KMU project) and improve internal access to data, analytical tools, and productivity tools (Digital Workplace)	TA reports disseminated to staff and Board via Knowledge Exchange countries; CD data available in CDMAP and related dashboards; ongoing progress on modules under the Digital Workplace project.

Annex III. Table 2. Recommendations of the 2018 CD Strategy Review (concluded)

Recommendations	Actions/Comments
Implement CDMAP	Formal close of the CDMAP project in 2022 with ongoing work to strengthen end-user interfaces and train staff to facilitate user adoption.
Continue the practice of informal Board briefings on CD activities and find other opportunities to inform and engage the Executive Board more regularly on CD	Regular informal board meetings on CD priorities (February); occasional briefings by CD departments; CD regularly covered in regional briefings by area departments; topical briefings: evaluation and impact, information dissemination, fundraising.
Improved External Coordination and Communication	
Better leverage existing good practices on coordination in collaboration with other providers	CD partnership forums and dialogues, as well as regular steering committees, have helped to coordinate the overall country engagement across CD providers. Forums such as the Platform for Collaboration on Tax have also been useful for such coordination.
Pursue innovative CD communications approaches to raise awareness of the Fund's CD work	A wide range of initiatives have boosted the impact of CD communications: an expanded social media presence; modernized and harmonized branding; elevated CD events; new campaigns (e.g., #IMFPartners); leveraged wide interest in the online learning program; regular CD stories on internal and external communications vehicles; and more audiovisual content on CD.
Improve the presentation of recommendations in TA reports to senior authorities and other nontechnical users; Engage local stakeholders on key TA recommendations as part of surveillance and outreach	Introduced high-level summaries, as a new publication series, focused on findings and recommendations of TA reports.
Publish more topical notes in specialized areas of interest to policymakers, bringing in cross-country learning	Since 2019, published around 20 policy notes that offer practical advice to policymakers on important issues. Around 100 special series notes on pandemic-related policy responses (COVID-19 notes) were published between April 2020 and March 2022 to help members address the economic effects of the pandemic.
Implement forthcoming recommendations of the working group on TA report publication	Updated the CD information dissemination policy. Enhanced the Partners Connect platform.
Continue to increase the sustainability and fungibility of external financing	The COVID-19 Crisis CD Initiative was an important step in increasing the flexibility and agility of external funding; Ongoing work to develop broader and medium-term agreements with partners are also supporting the sustainability of funding.

Source: IMF 2018a.