IMF POLICIES AND PRACTICES ON CAPACITY DEVELOPMENT

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

- The updated statement on IMF Policies and Practices on Capacity Development, prepared by IMF staff and completed on October 18, 2019 after the Executive Board’s consideration.

The IMF’s transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities’ policy intentions in published staff reports and other documents.


International Monetary Fund
Washington, D.C.
IMF POLICIES AND PRACTICES ON CAPACITY DEVELOPMENT

EXECUTIVE SUMMARY

This statement summarizes the IMF’s policies and practices with regard to the delivery of capacity development (CD) activities. It updates the 2014 Statement on IMF Policies and Practices on Capacity Development and reflects the conclusions of the 2018 Review of the Fund’s Capacity Development Strategy, approved by the Executive Board on November 14, 2018. The purpose of the statement is to consolidate the guiding principles endorsed by the Board with policies and practices that are within the authority of IMF’s management and are followed by staff in carrying out capacity development activities. The statement is expected to be of use to IMF staff, Executive Directors and their staff, country authorities, and donors. It also serves as a point of reference for future reviews of the IMF’s CD activities.
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INTRODUCTION

1. The principles presented in this document focus on areas that govern the Fund’s provision of capacity development (CD), including its objectives, scope, prioritization, partnership with donors, delivery, monitoring and evaluation, and transparency.

2. These principles apply equally to all CD activities. They reflect important changes over the last decade, including a marked rise in CD delivery to around one-third of the Fund’s total annual spending, a sharp expansion of donor financing, increased recognition of the importance of integrating CD with the Fund’s surveillance and lending operations, and tailoring CD strategies to each country’s institutional capacity and specific needs through greater flexibility in delivery modalities, and more explicit attention to the results—improved outcomes in member countries.

3. In the aftermath of the global financial crisis, the Fund ramped up CD to countries with financial arrangements to facilitate the implementation of crisis-resolving measures. Subsequently, the focus shifted toward CD that helps member countries strengthen policies and institutional frameworks to boost resilience to shocks. At the same time, the Fund continues to provide CD that supports the 2030 Sustainable Development Goals (SDGs) by steadily enhancing institutional and policy-making capacity in member countries, in particular low-income countries, fragile, and small states.

MANDATE AND OBJECTIVES

4. The IMF’s Articles of Agreement provide the legal basis for the Fund’s CD efforts. Article V, Section 2(b) allows the IMF to provide, upon request, “financial and technical services” that are consistent with the IMF’s purposes as set forth in Article I. In accordance with the Articles, it is open to any Fund member to request these services. Moreover, these services are voluntary for both the member and the Fund.¹ That is, the services are only provided to the country authorities if requested and the Fund is under no obligation to honor the request.

5. Consistent with its mandate, the main objective of the Fund’s CD activities is to help member countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies. Some of these efforts also aim to deepen the dialogue between Fund and member country experts on specialized aspects of macroeconomic and financial policy issues, complementing policy discussions between member countries and the Fund related to surveillance or Fund-supported programs. Strong institutions with skilled officials help in promoting economic stability and sustainable growth, as envisaged in the Fund’s Articles of Agreement.

¹ Fund CD services can also be provided to non-members and to international organizations, with the prior approval of the Executive Board.
SCOPE AND MODALITIES

6. The Fund’s CD program works to achieve its objectives of strengthening institutional capacity and building individual capability through increasingly flexible delivery modalities.

- Strengthening institutional capacity helps member governments put in place or enhance effective institutions, legal frameworks, and policies to promote economic stability and growth. It also allows experts in member countries and the Fund to have in-depth exchanges of views on particular aspects of policy design and implementation.

- Building individual capability helps strengthen the skills of officials to analyze economic developments, and to formulate and manage effective macroeconomic and financial policies. It also enhances the Fund’s dialogue with authorities on policy issues and facilitates sharing policy experiences of member countries through peer-to-peer learning.

- Efforts to strengthen institutions and to boost skills of officials are often combined in a complementary manner. Increasingly, opportunities are sought to exploit synergies by combining delivery modalities.

7. The Fund provides CD in its core areas of competence. Core areas, such as revenue administration, public financial management, macroeconomic statistics, financial supervision and regulation, macroeconomic frameworks, central bank operations, tax policy, and financial integrity, will continue to account for the bulk of CD delivery. All Fund CD should target high-impact activities.

8. The Fund’s CD activities are driven by demand from its member countries. Their planning and implementation require the full involvement and buy-in of recipient countries to ensure effectiveness and impact. To gauge buy-in, implementation of past recommendations can be one input into the decision to provide additional CD, as can other relevant factors such as important changes in country circumstances. Country ownership can also be enhanced by collaborative evaluation and monitoring efforts of past and current CD activities.

9. In accordance with the 2018 Review of the Fund’s Capacity Development Strategy, approved by the Executive Board in November 2018, the Fund’s CD activities should be integrated with the policy dialogue between member countries and the Fund that take place under surveillance or Fund-supported programs.

- Policy dialogue can inform discussions with country authorities on areas where provision of CD services by the Fund may be most useful or where needs may be pressing. For instance, it may help identify areas where achievement of high-priority policy objectives (e.g., raising domestic revenue, adopting a more robust monetary policy framework, putting in place macroprudential measures to limit financial risk) is being seriously constrained by current institutional capacity.

- Conversely, provision of CD services can help identify capacity constraints that deserve consideration when assessing the attractiveness and feasibility of different policy options. Use of
detailed analysis of a particular issue (e.g., energy subsidy reform, debt management) found in technical assistance (TA) reports for a broad range of countries can also help enrich the Fund’s policy advice under surveillance or Fund-supported programs.

10. The Fund delivers its own CD services, in the form of advice and training. It stands by the services it delivers regardless of the mode of delivery and exercises quality control.2

11. The Fund cooperates closely with other providers of CD. Given a tight focus on core areas of expertise and limited resources, the Fund seeks to avoid duplication in coverage and to enhance complementarity with other CD providers. This coordination is done at various stages and through different modalities. For example, in the case of Regional Capacity Development Centers (RCDCs) and global Thematic Funds (TFs), the Steering Committee structure is helpful to facilitate strategic dialogue, information sharing, and coordination, as it regularly brings together key stakeholders. In deciding on CD provision, the Fund considers whether other providers are engaged in similar efforts.

CD GOVERNANCE AT THE FUND

12. The Executive Board and management exercise distinct but closely related functions in regard to the Fund’s CD activities, in accordance with the Articles of Agreement.

13. The Executive Board provides strategic direction and oversight, including with respect to the overall envelope for externally financed CD and the size of CD relative to other outputs of the Fund, through (i) regular reviews of and policy guidance for the Fund’s CD policies and activities; (ii) the budget process; and (iii) the risk management process, including risk assessment reports and endorsement of risk mitigation directions. Within this framework, management conducts the operations related to the Fund’s CD activities and establishes CD policies in some areas in consultation with the Board.

• In the five-year CD strategy reviews, the Executive Board receives information on the key features of the Fund’s CD activities, analysis on the implementation of existing policies and principles governing CD work, and information on the evaluation of CD activities. The Board then sets strategic direction, takes decisions on policy changes and, respecting the demand-driven nature of CD activities, expresses views on broad priorities for the next five-year period.

• As part of the annual budget process, the Executive Board is provided information on CD outturns, as well as on planned CD financing and CD priorities and delivery.

• The Board will have a regular, dedicated opportunity to discuss implementation of multi-year CD priorities and integration of CD activities with Fund-wide priorities during the period when the overall budget is being formulated.

2 The Fund neither funds other CD providers nor delegates delivery of CD services to independent contractors.
More information sharing will better inform the Executive Board on broad priorities for CD and strengthen the strategic role of the Board. Staff therefore periodically provide information to and engage with the Executive Board on CD activities, strategic directions, and delivery against priorities, including through informal briefings by CD and area departments (ADs).

The conclusions of Executive Board reviews, together with this statement and conclusions of budget discussions, give staff multi-year, top-level guidance that underpins all Fund CD activities. These reviews include broader policy and strategy on core topics which increasingly recognize the need to consider CD as an integral aspect of the Fund’s role.

Consistent with the Guidance Note for Surveillance under Article IV Consultation that calls for discussing CD activities in Article IV consultations as relevant, country level CD is increasingly and systematically being integrated into surveillance, as well as into program reviews, providing a further opportunity for Board advice on CD and its links to overall country engagement.

Management translates the strategic direction and the overall Fund budget set by the Executive Board into procedures and practices that govern CD activities through an integrated Fund-wide process for setting priorities on departmental accountability frameworks and for budget formulation. This includes management approval each year of the medium-term CD priorities and a strategic summary of the medium-term Resource Allocation Plan (RAP).

The interdepartmental Committee on Capacity Building (CCB), chaired by a Deputy Managing Director, is an integral part of the process. Every fall, the CCB reviews CD in light of members’ demand and overall Fund priorities, as reflected in the conclusion of CD strategy and related policy reviews, the Board work programs and discussion of Management’s Key Goals, the International Monetary and Financial Committee (IMFC) communiqués, and the Global Policy Agenda (GPA). Recognizing the need for all CD to be directed to high-impact activities, the CCB monitors delivery against a range of metrics (e.g., core topics, regions, country-groupings, growth areas) and sets areas targeted for growth for the coming three-year period. The CCB allocates space for externally financed CD activities to departments in keeping with CD priorities and the overall envelope set by the Board in the Medium-Term Budget. The CCB’s conclusions then feed into the Fund-wide planning and budget discussions conducted in the context of the departments’ accountability frameworks. This process helps align CD objectives with broader institutional priorities.

The CCB, for which the Institute for Capacity Development (ICD) provides the secretariat, also holds other regular meetings throughout the year to:

- Review delivery of CD activities against plans and, as reflected by progress on results-based management (RBM), against objectives and desired outcomes;
- Consider CD evaluation results, distill lessons learned, and establish the future evaluation agenda;
• Review fundraising activities over the previous year and set objectives for periods ahead, in light of CD priorities; and

• Address any other important issues that flow from Board reviews and other review experience.

17. Guided by the priorities identified by the CCB and deliberations on departments’ accountability frameworks and budgets, area and CD departments agree on medium-term CD delivery plans. This is done in an annual process where:

• Area departments, in consultation with CD departments, prepare medium-term regional strategy notes (RSNs) and, for heavy users of CD, country strategy notes (CSNs). RSNs outline short- and medium-term CD priorities for a specific region.

• On the basis of the RSNs and CSNs, CD and area departments (including RCDCs) then develop a medium-term RAP. The RAP is a detailed plan about delivery of CD activities by region, by country, by funding source, and by CD department.

18. CD departments are responsible for actual CD delivery (including through RCDCs) and CD quality control.

PRIORITIZATION

19. Prioritization is essential because the Fund, even with donor support, does not have the resources to meet all country requests for CD services. A framework, based on country demand and the Fund’s overall strategic priorities, should guide the allocation of scarce resources across regions, countries, and topic areas, as well as between short- and medium-term needs. To maximize the impact and efficiency of its assistance, the Fund needs to have the ability to mobilize quickly adequate resources to respond to short-term, crisis-related CD needs (“curative CD”) and to help countries build sound institutions to boost resilience to shocks (“preventive CD”), while remaining able to sustain efforts to develop capacity in member countries, in particular low-income countries, fragile, and small states (“developmental CD”).

20. The principles underlying the Fund’s prioritization framework include:

• As noted in paragraph 13, the Board provides strategic direction and oversight on CD priorities.

• At the institutional level, decisions need to be made on the size of CD activities in relation to other key output areas of the Fund as well as on the broad composition of CD across regions and topics. This is best done through the Fund’s strategic planning and medium-term budget processes. As noted above, the CCB provides guidance to departments on the institutional priorities and growth areas for CD, and the guidance is then integrated into the process that sets Fund-wide priorities, departmental accountability, and budget formulation.

• At the country level, prioritization should reflect country demand and the country’s own CD strategy. Country authorities play a leading role throughout the CD process, with due
consideration to institutional and capacity constraints. Such a country-centered approach requires area departments to be in the leading role on the Fund’s overall country engagement, including establishing country strategies and priorities for CD, taking into account the country’s own strategy and absorptive capacity, and working in collaboration with CD departments. In this context, area departments, including resident representatives and RCDC directors/ coordinators, play a key role in engaging member countries on their CD needs and conveying information about demand to CD departments. Through their provision of CD activities, CD departments are also in frequent dialogue with member countries about their CD needs. Discussions with country authorities provide crucial inputs into the elaboration of RSNs, CSNs, and the RAP.

21. Overall, the annual CD prioritization exercise is an iterative process overseen by the CCB, which reflects the membership’s views on priorities for Fund work, individual members’ requests for CD services, and Board decisions on the Fund’s budget. Through the RSNs, CSNs, and the RAP, country demand, Fund priorities, and resource constraints are translated into specific deliverables.

DONOR PARTNERSHIPS AND FUNDING

22. CD activities are funded by both the Fund’s own resources and donor financing. The Fund’s overall budget process considers together Fund- and donor-financed CD. The amount of Fund-financed CD is derived from the Fund’s overall budget process, taking into account the demand for other Fund activities.

23. Partnering with donors to fund CD services is mutually beneficial:

- Partnerships allow the Fund to scale-up CD delivery to meet the increasing demands from its members, particularly in low-income and lower-middle-income countries.
- Donors also appreciate the high quality and continuity of Fund CD and value the consistency and complementarity with Fund surveillance and lending.
- Beyond financing, partnerships promote accountability of the Fund for both resources and results. This allows donors to integrate Fund CD with their own planning and resource allocation more directly, which helps increase the overall effectiveness of support to members.

24. Internal and external financing of CD are not perfect substitutes for each other, as external financing is affected by donors’ preferences for CD activities in particular countries or regions, on particular topics, or through particular vehicles.

25. Consequently, the Fund needs to make decisions on whether to finance CD activities using internal or donor financing. These decisions should be guided by the following Board-approved principles:
• **Fund’s role.** Fund financing of CD should be considered in the following cases: (i) in countries or on topics where donor funding is not available, including program cases; (ii) when a quick reaction is required; or (iii) when Fund expertise in particular areas needs to be maintained.

• **Donors’ role.** Donor financing of CD should be considered in the following cases: (i) when donor interests are consistent with Fund priorities and objectives; (ii) when sufficient space is available in the Fund’s budget to cover related indirect costs; and (iii) when sufficient space exists under the overall limit for externally financed CD expenditure set by the Board in the context of the Medium-Term Budget.

• **Additionality.** Donor financing should result in additional delivery of CD to members.

26. The Fund does not charge recipient countries for delivery of CD services except for high-income countries (for CD that is not deemed critical and that costs above a minimum threshold). In some cases, countries make voluntary contributions to finance CD services they receive from the Fund. Depending on the circumstances, a high-income country may receive both Fund-financed CD and CD financed by its own contributions to the Fund.

27. New donor-financed initiatives (e.g., a new thematic fund or a significant increase in a donor’s contribution to a bilateral account) are subject to an interdepartmental review and management clearance process. This process is meant to ensure that, prior to seeking financing from donors, the initiative is aligned with the Fund’s institutional objectives and internal budget constraints. The process is also intended to provide assurances to donors that, if and when external financing is provided for a new CD initiative, the Fund will be ready to use such financing.

28. In light of the significant growth of the Fund’s CD activities in recent years, the sustainability and fungibility of external financing is critical, and related risks need to be closely monitored and managed. The Fund had been moving toward greater flexibility of external financing through broader and more strategic partnerships, promotion of multi-partner and umbrella agreements, and securing financing upfront before carrying out CD activity.

**DELIVERY**

29. CD services are delivered at the request of Fund member countries through various modalities. These modalities are normally part of multi-year CD programs to an individual Fund member country or group of countries (provided either from headquarters or one of the Fund’s RCDCs) and include field assignment of experts for periods ranging from days to years; individual missions from headquarters; online, classroom, and customized training; peer-to-peer learning and technical workshops; and discussions at Fund headquarters or remotely from headquarters. A close integration of all modalities of delivery should be sought when feasible.

30. In general, the following guidelines should apply to the delivery of CD services:
Fund CD activities, regardless of mode of delivery, are planned with the full involvement of recipient countries’ authorities.

Fund CD activities are subject to quality controls. Experts in the field have direct access to the wide expertise embedded in Fund staff. Their work is facilitated by strong quality control processes, including backstopping of experts and regular supervision by the relevant CD department and the review process. Experts also work in consultation with area departments to develop an understanding of countries’ circumstances and offer appropriate advice. These processes also help to integrate CD more fully into the Fund’s analytical activities and policy dialogue.

Fund CD is delivered by either staff or by external experts that are selected, contracted, and backstopped by the Fund. The Fund maintains a roster of experts with a proven track record and familiarity with international best practices in areas specific to the Fund’s CD activities. As the effectiveness of CD delivery depends to a large extent on the quality of the experts, the Fund retains full control on selection of CD experts and content of CD advice, regardless of mode of delivery or source of financing.

Fund CD represents advice or training that is of the highest quality, reflecting international best practices and complemented by the Fund’s analytical work. Fund CD is tailored to the country’s needs and reflective of its absorptive capacity. It also builds in a follow-up process to help ensure implementation and a sustainable impact.

Continued efforts are expected to be made to enhance the impact and efficiency of CD through further strengthening integration with the Fund’s surveillance and lending operations, and by tailoring strategies to each country’s institutional capacity and specific needs, while focusing on implementation and outcomes. Such strategies should inform and be informed by the Fund’s broader country engagement and reporting, particularly for heavy users of CD, including to ensure the volume of Fund CD does not exceed the authorities’ absorptive capacity.

Departments are building on existing strategies to move toward greater modernization and agility in CD delivery, including through RCDCs and continued experimentation with innovative technologies to support more flexible delivery of CD. Staff is expected to use advances in information and communication technology, such as video conferences, online courses, webinars, mobile and cloud-based technology, and big data, in order to expand CD delivery efficiently and sustain the interaction with member countries on CD needs and activities. These activities are expected to complement face-to-face CD.

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3 Close supervision of TA specialists by experts at headquarters (known as “backstopping”) and peer review distinguish Fund TA from that of many other providers, which outsource projects to independent contractors.
COORDINATION, COMMUNICATION, AND DISSEMINATION

33. Effective internal consultation and information sharing on CD activities is critical to support the country-centered model of CD delivery. The Fund is investing in better processes and information systems, including through the Digital Workplace, Knowledge Management Initiatives, and the CD Management and Administration Program (CDMAP) to strengthen access to data, documents and tools across departments and workstreams.

34. Systematizing existing good practices on coordination with other CD providers, notably with the World Bank, regional development banks and key bilateral aid agencies, is critical. Effective coordination supports efficiency gains and helps sustain the impact of CD. It ensures consistency of policy advice, mitigates risks of duplicating efforts, helps better leverage available resources and expertise at both the authorities’ and providers’ ends.

35. Dissemination of CD information and related communication have several benefits: (i) the membership (and the public at large) gains from a better understanding of best practices and the Fund’s experience in the provision of CD services; (ii) coordination with donors and other CD providers is facilitated, which in turn eases the absorption of CD advice by countries and also prioritization of the Fund’s CD delivery; and (iii) governments, legislators, and taxpayers in donor countries can more easily account for the use of their funds. Consequently, Fund policy now provides for wider dissemination of CD information, combined with safeguarding confidential information and the candor of Fund advice, including through pursuing innovative approaches to raise awareness of the Fund’s CD work.

36. The Staff Operational Guidelines on Dissemination of Technical Assistance Information spell out current procedures to enhance dissemination of CD information to various constituencies, including the recipient agency and other agencies within the recipient country, Executive Directors’ offices, Fund staff, World Bank staff, donors and other CD providers, as well as the general public.4

37. In particular, dissemination of final TA advice to Executive Directors’ offices (other than the Executive Director representing the CD recipient country) or to donors and other CD providers with legitimate interest requires consent of the TA recipient. This consent is obtained if the TA recipient explicitly provides it or if it does not object to dissemination within 60 days of the transmission of the final TA advice.

38. The current guidelines also stipulate that publication of TA reports is encouraged.

4 See Staff Operational Guidelines on Dissemination of Technical Assistance Information.
MONITORING AND EVALUATION

39. Monitoring and evaluation is used to review CD activities to ensure accountability; to assess their relevance, efficiency, effectiveness, and impact; and to distill lessons on how to strengthen future activities. It is recognized that monitoring and evaluation is key to ensure quality and effectiveness of CD activities. Regular reviews of CD content are expected to be an integral part of CD-delivering departments’ work processes. All monitoring and evaluation activities should seek input from recipient authorities to ensure that their views are fully taken into account.

40. Staff should continue the process of developing a systematic approach to monitoring and evaluation. One key component of the approach is the RBM framework, which aims to systematize the tracking of outcomes using indicators and is expected to play an increasingly larger role in monitoring and evaluation. The RBM framework applies to all CD activities, whether internally or externally financed. This framework should assist in steering and managing projects, ensure that staff and authorities remain focused on goals, and lay the foundation for evaluation.

41. Evaluation is another key component of the approach, which relies on a number of different instruments including (i) Fund-wide evaluations to assess overall policies and activities; (ii) departmental evaluations to assess the impact of CD activities; (iii) donor-mandated evaluations; and (iv) evaluations by the Fund’s Independent Evaluation Office (IEO). Departmental and donor-mandated evaluations should apply the Fund’s Common Evaluation Framework (CEF), and evaluation results should be used to support learning and accountability.

42. Fund-wide evaluations. The Fund conducts policy review of CD activities every five years, as is done in other main areas of the Fund’s work. Such a review should have backward- and forward-looking components including:

- For the backward-looking component, the review should consider the prioritization, funding, delivery, and monitoring and evaluation of CD as set out in this statement.

- For the forward-looking component, the review should provide the opportunity to outline reforms to increase the impact of CD. Emphasis needs to be on making CD more effective and efficient while building on its strengths.

43. Departmental evaluations. Departments undertake formal and informal evaluations which should be guided by clear criteria for selection of relevant topics and, for project-based evaluations, the CEF. Their focus may be not only on country cases, but also on thematic areas. Different evaluation techniques may be employed, such as the conduct of surveys following CD activities as well as visits to countries that are large recipients of CD services. These evaluations may be conducted by staff and external subject-matter experts.

44. Donor-mandated evaluations. Evaluations of RCDCs and TFs are mandated and conducted by external evaluators usually midway through each arrangement’s five-year funding cycle. In addition, evaluations are conducted on other donor-financed projects.